Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities referred to herein. This announcement is not, and is not intended to be, an offer of securities of the Company for sale, or the solicitation of an offer to buy securities of the Company, in the United States. The securities referred to herein have not been and will not be registered under the U.S. Securities Act, or any state securities laws of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act) except pursuant to an exemption under, or in a transaction not subject to, the U.S. Securities Act. This announcement and the information contained herein are not for distribution, directly or indirectly, in or into the United States. No public offer of the securities referred to herein is being or will be made in the United States.

瑞安房地產
SHUI ON LAND

Shui On Land Limited
瑞安房地產有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 272)

OVERSEAS REGULATORY ANNOUNCEMENT
COMPLETION OF SECURITIES ISSUE

This overseas regulatory announcement is issued pursuant to Rule 13.09(2) of the Listing Rules.

Reference is made to the announcements of the Company dated 3 December 2012 and 4 December 2012 in relation to the offering of the Securities by Shui On Development which are guaranteed by the Company.

The Board is pleased to announce that on 10 December 2012, all the conditions precedent under the Subscription Agreement have been fulfilled, the Trust Deed was executed and the Securities Issue was completed. The posting of the attached Offering Circular on the website of the Stock Exchange is only for the purpose of facilitating equal dissemination of information to Shareholders and investors in Hong Kong and compliance with Rule 13.09(2) of the Listing Rules, and not for any other purposes.

INTRODUCTION

This overseas regulatory announcement is issued pursuant to Rule 13.09(2) of the Listing Rules.

Reference is made to the announcements of the Company dated 3 December 2012 and 4 December 2012 in relation to the offering of the Securities by Shui On Development which are guaranteed by the Company.

COMPLETION OF SECURITIES ISSUE

The Board is pleased to announce that on 10 December 2012, all the conditions precedent under the Subscription Agreement have been fulfilled, the Trust Deed was executed and the Securities Issue was completed.

Offering Circular

Please refer to the attached Offering Circular which has been published on the website of the SGX-ST on 11 December 2012. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained therein.

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

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

The Offering Circular must not be regarded as an inducement to acquire, subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision (other than those of the intended recipients of the Offering Circular) should be made based on the information contained in the Offering Circular.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following expressions have the following meanings:

"Board"	the board of Directors
"Company"	Shui On Land Limited, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the main board of the Stock Exchange
"Deutsche Bank"	Deutsche Bank AG, Singapore Branch, one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Securities
"Director(s)"	director(s) of the Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"J.P. Morgan"	J.P. Morgan Securities plc, one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Securities
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Offering Circular"	the offering circular dated 3 December 2012 in relation to the Securities Issue
"PRC"	the People's Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan area
"Securities"	the US$500 million perpetual capital securities issued by Shui On Development
"Securities Issue"	the issue of Securities by Shui On Development and guaranteed by the Company
"SGX-ST"	Singapore Exchange Securities Trading Limited
"Share(s)"	the ordinary share(s) with par value of US$0.0025 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares

"Shui On Development"	Shui On Development (Holding) Limited, a company incorporated in the Cayman Islands with limited liability, and a wholly-owned subsidiary of the Company
"Standard Chartered Bank"	Standard Chartered Bank, one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Securities
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	the agreement dated 3 December 2012 entered into between, among others, the Company, Shui On Development, Deutsche Bank, J.P. Morgan, Standard Chartered Bank and UBS in relation to the Securities Issue
"Trust Deed"	the written agreement between the Company as guarantor, Shui On Development as issuer of the Securities and DB Trustees (Hong Kong) Limited as trustee of the Securities, pursuant to which the Securities were issued
"UBS"	UBS AG, Hong Kong Branch, one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Securities
"U.S." or "United States"	the United States of America, its territories and possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	the United States Securities Act of 1933, as amended
"US$"	United States dollar, the lawful currency of the United States
"%"	per cent.

By order of the Board
Shui On Land Limited
Vincent H. S. LO
Chairman

Hong Kong, 11 December 2012

As at the date of this announcement, the executive Directors are Mr. Vincent H. S. LO (Chairman), Mr. Freddy C. K. LEE (Chief Executive Officer) and Mr. Daniel Y. K. WAN; the non-executive Director is Mr. Frankie Y. L. WONG; and the independent non-executive Directors are Sir John R. H. BOND, Dr. William K. L. FUNG, Professor Gary C. BIDDLE, Dr. Roger L. McCARTHY and Mr. David J. SHAW.

** For identification purpose only*

IMPORTANT NOTICE

(NOT FOR DISTRIBUTION IN THE UNITED STATES OR TO U.S. PERSONS)

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the offering circular (the "Offering Circular") attached to this e-mail. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. You acknowledge that the access to the Offering Circular is intended for use by you only and you agree you will not forward or otherwise provide access to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of Your Representation: You have accessed the attached document on the basis that you have confirmed to Shui On Development (Holding) Limited (the "**Issuer**"), Shui On Land Limited (the "**Guarantor**") and Deutsche Bank AG, Singapore Branch, J.P. Morgan Securities plc, Standard Chartered Bank and UBS AG, Hong Kong Branch (the "**Joint Lead Managers**") that: (1) you are a non-U.S. person outside the United States; AND (2) you consent to delivery of this document by electronic transmission. To the extent you purchase the securities described in the attached document, you will be doing so in an offshore transaction as defined in regulations under the Securities Act in compliance with Regulation S under the Securities Act.

The Offering Circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Issuer, the Joint Lead Managers, DB Trustees (Hong Kong) Limited (the "**Trustee**"), the Agents (as defined in the "*Terms and Conditions of the Securities*") or any of their respective affiliates accept any liability or responsibility whatsoever in respect of any such alteration or change to the Offering Circular distributed to you in electronic format or any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

Restrictions: Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of any of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee and the Agents (as defined in the "*Terms and Conditions of the Securities*") to subscribe or purchase any of the securities described therein. Any securities to be issued will not be registered under the Securities Act and may not be offered or sold in the United States unless registered under the Securities Act or pursuant to an exemption from such registration. Access has been limited so that it shall not constitute a general solicitation in the United States or elsewhere. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

You are reminded that you have accessed the Offering Circular on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by laws.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

瑞安房地產
SHUI ON LAND

Shui On Development (Holding) Limited

(incorporated in the Cayman Islands with limited liability)

Shui On Land Limited
瑞安房地產有限公司

(incorporated in the Cayman Islands with limited liability)

US$500,000,000 10.125% Senior Perpetual Capital Securities Callable 2017 guaranteed by Shui On Land Limited
Issue Price: 100%

Shui On Development (Holding) Limited (the "**Issuer**"), incorporated in the Cayman Islands with limited liability, is issuing senior perpetual capital securities in the initial aggregate principal amount of US$500 million (the "**Securities**") and the due and punctual payment of all sums payable by the Issuer in respect of the Securities will be unconditionally and irrevocably guaranteed by Shui On Land Limited (the "**Guarantor**," and such guarantee, the "**Guarantee**").

The Securities confer a right to receive distributions (each a "**Distribution**") at the applicable rate described below from and including the Closing Date. Subject to the provisions of the Securities relating to deferral of Distributions, Distributions are payable semi-annually in arrear on the Distribution Payment Dates of each year. "**Distribution Payment Date**" shall mean 10 June and 10 December in each year, commencing on 10 June 2013. The rate of distribution applicable to the Securities shall be 10.125% in respect of the period from, and including, the Closing Date to, but excluding, 10 December 2017, and thereafter shall be the Relevant Reset Distribution Rate (as defined in the "*Terms and Conditions of the Securities*").

If (a) the Issuer fails to comply with any of the covenants set out in Condition 5 of the "*Terms and Conditions of the Securities*" and such breach continues for a period of 30 consecutive days after written notice by the Trustee to the Holders or (b) the Issuer does not redeem the Securities following the occurrence of a Change of Control (as defined in the "*Terms and Conditions of the Securities*") or fails to make or consummate an Offer to Purchase, the then-prevailing Distribution Rate shall be increased by 3.00 per cent. per annum with effect from (and including) the date on which such Change of Control occurs, provided that the maximum aggregate increase in the Distribution Rate shall be 3.00 per cent. per annum. Any such increase in the Distribution Rate is separate from and in addition to any increase in the Distribution Rate effected on each Reset Date.

The Issuer may, unless a Compulsory Distribution Payment Event (as defined in the "*Terms and Conditions of the Securities*") has occurred, at its sole discretion, elect to defer payment of Distributions, in whole but not in part, which are otherwise scheduled to be paid on a Distribution Payment Date, to the next Distribution Payment Date by giving notice of not more than 10 nor less than 5 business days prior to a scheduled Distribution Payment Date. Any Distribution so deferred shall bear interest at the rate specified in Condition 6E of the "*Terms and Conditions of the Securities*".

The Securities are perpetual securities and have no fixed final redemption date. On 10 December 2017 and on each Distribution Payment Date thereafter, the Issuer may redeem the Securities, in whole but not in part, upon not less 30 nor more than 60 days' notice, at a redemption price equal to the principal amount thereof plus any Distributions accrued to, but excluding, the date fixed for redemption (including any Arrears of Distribution (as defined in the "*Terms and Conditions of the Securities*") and any Additional Distribution Amount (as defined in the "*Terms and Conditions of the Securities*")). The Securities may also be redeemed at the option of the Issuer in whole, but not in part, at any time, at their principal amount together with all outstanding Arrears of Distribution and Additional Distribution Amount (if any) and any Distribution accrued to the date fixed for redemption, upon the occurrence of certain changes in the Cayman Islands and Hong Kong requiring the payment of Additional Tax Amounts (as defined in the "*Terms and Conditions of the Securities*"). In addition, the Securities may be redeemed at the option of the Issuer in whole, but not in part, at a redemption price equal to (i) the applicable Early Redemption Amount (as defined in the "*Terms and Conditions of the Securities*") if such redemption occurs prior to 10 December 2017 or (ii) the principal amount thereof together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and Additional Distribution Amount) if such redemption occurs on or after 10 December 2017, (A) in the case that prior to the date of the notice of redemption, at least 90 per cent. in principal amount of the Securities originally issued has already been redeemed or purchased and cancelled; or (B) upon the occurrence and continuation of an Equity Disqualification Event (as defined in the "*Terms and Conditions of the Securities*"); or (C) upon the occurrence and continuation of a Change of Control (as defined in the "*Terms and Conditions of the Securities*"); or (D) upon the occurrence and continuation of a Breach (as defined in the "*Terms and Conditions of the Securities*").

The Securities constitute direct, unsecured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Securities shall, save for limited exceptions, at all times rank at least equally with all of its other present and future direct, unsubordinated, unconditional and unsecured obligations. The payment obligations of the Guarantor under the Guarantee shall, save limited exceptions, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

Approval in-principle has been received for the listing of the Securities on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). See "*General Information*". The SGX-ST takes no responsibility for the correctness of any statement made, opinion expressed or reports contained herein. Admission to the Official List of the SGX-ST and quotation of the Securities on the SGX-ST is not to be taken as an indication on the merits of the Issuer, the Guarantor or the Securities.

The Securities have not been rated. The denomination of the Securities shall be US$200,000 each and integral multiples of US$1,000 in excess thereof.

Investing in the Securities involves significant risks. See "*Risk Factors*" beginning on page 28 for a discussion of factors that you should consider carefully before investing in the Securities.

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

The Securities will be evidenced by a global certificate (the "**Global Certificate**') in registered form, which will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, the records maintained by Euroclear and Clearstream and their respective accountholders. Except in the limited circumstances set out herein, individual certificates for Securities will not be issued in exchange for beneficial interests in the Global Certificate. It is expected that delivery of the Global Certificate will be made on 10 December 2012 or such later date as may be agreed by the Issuer and the Joint Lead Managers (the "**Closing Date**").

Joint Lead Managers and Bookrunners

Deutsche Bank **J.P. Morgan** **Standard Chartered Bank** **UBS**

3 December 2012

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

Table of Contents

	Page
Forward-Looking Statements	6
Glossary	8
Summary	11
The Offering	18
Summary Consolidated Financial and Other Data	22
Risk Factors	28
Use of Proceeds	65
Exchange Rate Information	66
Capitalisation	67
Management's Discussion and Analysis of Financial Condition and Results of Operations	69
Industry Overview	107
Corporate Structure	123
Business	125
Management	176
Regulation	183
Substantial Shareholders	226
Related Party Transactions	227
The Issuer	235
Description of Other Material Indebtedness	236
Terms and Conditions of the Securities	243
Summary of Provisions Relating to the Securities While in Global Form	290
Taxation	293
Subscription and Sale	295
General Information	300
Index to Consolidated Financial Statements	F-1

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this Offering 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 at any time after that date.

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

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

Notwithstanding anything to the contrary contained herein, a prospective investor (and each employee, representative, or other agent of a prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this Offering

Circular and all materials of any kind that are provided to the prospective investor relating to such tax treatment and tax structure. This authorisation of tax disclosure is retroactively effective to the commencement of discussions with prospective investors regarding the transactions contemplated herein.

The Guarantor and the Issuer have prepared this Offering Circular, and they are solely responsible for its contents. Each person receiving this Offering Circular acknowledges that such person has not relied on Deutsche Bank AG, Singapore Branch, J.P. Morgan Securities plc, Standard Chartered Bank and UBS AG, Hong Kong Branch (each a "**Joint Lead Manager**"), DB Trustees (Hong Kong) Limited (the "**Trustee**"), the Agents (as defined in the "*Terms and Conditions of the Securities*") or any other person affiliated with the Joint Lead Managers, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision. By purchasing the Securities, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section entitled "*Subscription and Sale*" below.

No representation or warranty, express or implied, is made by the Joint Lead Managers, the Trustee, the Agents or any of their affiliates or advisers 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 Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers have independently verified any of the information contained in this Offering Circular and assume no responsibility for its accuracy or completeness. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers accept any responsibility for the contents of this Offering Circular or for any statement made or purported to be

made by the Joint Lead Managers, the Trustee or the Agents or on their behalf in connection with the Issuer or the Guarantor or the issue and offering of the Securities. The Joint Lead Managers, the Trustee and the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Securities of any information coming to the attention of the Joint Lead Managers, the Trustee or the Agents.

Each person receiving this Offering Circular acknowledges that: (i) such person has been afforded an opportunity to request from the Guarantor and the Issuer and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Joint Lead Managers, the Trustee or the Agents or any person affiliated with the Joint Lead Managers, the Trustee or the Agents in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorised to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Securities or the Guarantee (other than as contained herein and information given by our duly authorised officers and employees in connection with investors' examination of us and the terms of the offering of the Securities) and, if given or made, any such other information or representation should not be relied upon as having been authorised by us or the Joint Lead Managers.

The Guarantor and the Issuer are not, and the Joint Lead Managers, the Trustee and the Agents are not, making an offer to sell the Securities in any jurisdiction except where an offer or sale is permitted. The distribution of this Offering Circular and the offering of the Securities may in certain jurisdictions be restricted by law. Persons into whose possession this Offering Circular comes are required by the Guarantor and the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Securities and distribution of this Offering Circular, see the section entitled "*Subscription and Sale*" below.

This Offering Circular summarises certain material documents and other information, and the Guarantor and the Issuer 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 Securities 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 Securities.

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

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

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

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, the Issuer or the Joint Lead Managers or their directors and advisers nor by the Trustee or the Agents, and neither we, the Joint Lead Managers or our or their respective directors and advisers nor the Trustee or the Agents make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

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

In this Offering Circular, all references to "**S$**" and "**Singapore dollars**" are to Singapore dollars, the official currency of the Republic of Singapore ("**Singapore**"); all references to "**US$**" and "**U.S. dollars**" are to United States dollars, the official currency of the United States of America (the "**United States**" or "**U.S.**"); all references to "**HK$**" and "**H.K. dollars**" are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC ("**Hong Kong**" or "**HK**"); and all references to "**RMB**" or "**Renminbi**" are to Renminbi, the official currency of the People's Republic of China (the "**PRC**").

We record and publish our financial statements in Renminbi. Unless otherwise stated in this Offering Circular, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.3530 to US$1.00, the noon buying rate indicated in the Federal Reserve H.10 Statistical Release on 30 June 2012. All such translations in this Offering Circular are provided solely for the investors' convenience and no representation is made that Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars, or vice versa, at any particular rate or at all. For further information relating to exchange rates, see "*Exchange Rate Information*."

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

GLOSSARY

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

6.875% Senior Notes	RMB3,000 million in aggregate principal amount of US$ settled 6.875% senior notes due 2013 issued by the Issuer on 23 December 2010
7.625% Senior Notes	RMB3,500 million in aggregate principal amount of US$ settled 7.625% senior notes due 2015 issued by the Issuer on 26 January 2011
8% Senior Notes	S$250 million in aggregate principal amount of 8% Senior Notes due 2015 issued by Shui On Development (Singapore) Pte. Ltd. on 26 January 2012
9.75% Senior Notes	US$875 million 9.75% Senior Notes due 2015 of the Issuer, of which US$400 million were issued on 16 February 2012, an additional US$75 million were issued on 29 February 2012 and a further US$400 million were issued on 6 August 2012
average rental	average rental on a gross basis, unless otherwise stated
average selling price (ASP)	average selling price on a gross basis, unless otherwise stated
CBD	Central Business District
completed property developments	completed property developments represent properties for which construction of all constituent buildings has been completed and which are available for lease or for sale
Dalian Entities	means Innovate Zone Group Limited, Richcoast Group Limited, Teamachieve Holdings Limited, Tennick Holdings Limited, Timeglobe Holdings Limited, Hopeful Zone Investments Limited, Asia Great Investment Limited, Charmful Investment Limited, Garco Investment Limited, Sinoco Investment Limited, Many Praises Dalian Limited, 大連乾通科技發展有限公司 (Dalian Qiantong Science & Technology Development Co. Ltd.), 大連瑞聖軟件發展有限公司 (Dalian Ruisheng Software Development Co. Ltd.), 大連德蘭軟件發展有限公司 (Dalian Delan Software Development Co. Ltd.), 大連嘉道科技發展有限公司 (Dalian Jiadao Science & Technology Development Co. Ltd.), 大連軟件園瑞安發展有限公司 (Dalian Software Park Shui On Fazhan Co., Ltd.), 大連軟件園瑞安開發有限公司 (Dalian Software Park Shui On Kaifa Co., Ltd.), 大連軟件園中興開發有限公司 (Dalian Software Park Zhong Xing Kaifa Co., Ltd.), 大連軟件園榮泰開發有限公司 (Dalian Software Park Rong Tai Kaifa Co., Ltd.), 大連軟件園榮源開發有限公司 (Dalian Software Park Rong Yuan Kaifa Co., Ltd.) and 大連軟件園榮達開發有限公司 (Dalian Software Park Rong Da Kaifa Co., Ltd.). The English names in parentheses for the Chinese companies are provided for identification purposes only

estimated leasable GFA	in relation to projects where our Group has obtained planning and/or construction permits for the project, the leasable GFA information with respect to these projects is estimated based on our Group's current development plans in accordance with the planning and/or construction permits issued by the relevant authorities in relation to projects where our Group has not yet obtained any of the above permits, the leasable GFA information with respect to these projects is estimated based on our Group's current development plans with references to the plot ratio in the land grant contracts
estimated saleable GFA	in relation to projects where our Group has not yet obtained pre-sale permits but has obtained planning and/or construction permits for the project, the saleable GFA information with respect to these projects is estimated based on our Group's current development plans in accordance with the planning and/or construction permits issued by the relevant authorities in relation to projects where our Group has not yet obtained any of the above permits, the saleable GFA information with respect to these projects is estimated based on our Group's current development plans with references to the plot ratio in the land grant contracts
GFA	gross floor area
KIC	Knowledge and Innovation Community
landbank	landbank represents our completed property developments, properties under development and properties held for future development and properties to which we have the rights to develop, in each case excluding properties sold and delivered to purchasers
LAT	PRC land appreciation tax
leasable GFA	in relation to completed property projects for lease, the total GFA shown in the relevant completion and inspection certificates
mu	one mu equals approximately 666.67 sq.m.
properties under development	properties under development represent incomplete property projects that are under construction or design and are in the delivery phase
property held for future development	properties held for future development represent projects that are in the planning stage or for which the site is under relocation, and, in each case, are not expected to be completed within three years
SAFE	State Administration of Foreign Exchange

saleable GFA	in relation to completed property projects for sale, the total GFA shown in the relevant completion and inspection certificates in relation to projects where we have obtained pre-sale permits, the saleable GFA information refers to the saleable GFA as shown in the pre-sale permits
sq.m.	square metres
Three-Year Plan	plan launched by Shui On Land in mid-2009, which aims at providing accelerated but sustainable growth and maintaining a balance between value creation for the long term and cash generation in the short to medium term. The Three-Year Plan for 2010-2012 aims to achieve a balance between standardisation of product design while maintaining customisation of certain high-end projects, maintaining strong cash flow and relatively low gearing ratio, decentralisation of decision-making and project-based management, maintaining geographic and earnings based diversity and forging strategic partnerships, in order to expedite project development and to increase the Guarantor's project completion rate consistently and continuously. A second Three-Year Plan for 2013-2015 is currently under consideration
total GFA or total gross floor area	the above-ground and underground saleable and/or leasable GFA contained within the external walls of any building at each floor level and the whole thickness of the external walls, and includes GFA attributable to non-controlling interest holders, if any, of the relevant project together with other non-leasable and non-saleable GFA
WTO	World Trade Organisation

SUMMARY

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

OVERVIEW

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

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

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

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

In mid-2009, we launched our Three-Year Plan which is designed to accelerate sustainable growth and maintain a closer balance between value creation for the longer term and cash generation in the short-to-medium term. The cornerstone of our Three-Year Plan is to expedite the development completion of our landbank portfolio. A second Three-Year Plan for 2013-2015 is currently under consideration.

As at 30 June 2012, we have obtained land use rights certificates, or have entered into land grant contracts or legally binding master agreements with district governments for approximately 13.3 million sq.m. of landbank. These land parcels fall under our eight major multi-phase projects with an aggregate estimated leasable and saleable GFA of approximately 11.1 million sq.m. (of which approximately 8.2 million sq.m. is attributable to us) and approximately 2.2 million sq.m. of car parks and other public facilities. We have a controlling interest in all of these projects, except for the Dalian Tiandi project. In order to develop the Dalian Tiandi project, we entered into a joint venture agreement with SOCAM Development Limited ("**SOCAM**") and the Yida Group Company Limited ("**Yida**") and its subsidiaries (together with Yida, the "**Yida Group**"). This project in Dalian city is expected to have approximately 3.6 million sq.m. of aggregate GFA, of which 48.0% will be attributable to us. Among such 3.6 million sq.m. of aggregate GFA, we have obtained land use rights certificates of two plots of land with an aggregate GFA of 3.3 million sq.m. For the remaining plots of land, we plan to participate in the bidding or public auction, once they are ready for sale. We expect that the aggregate GFA on such remaining plots of land for the Dalian Tiandi project will be approximately 0.3 million sq.m.

As at 30 June 2012, we have eight major multi-phase projects in various stages of development located in the Chinese cities of Shanghai, Wuhan, Chongqing, Foshan and Dalian. Shanghai is located in the economically vibrant Yangtze River Delta, Wuhan is a major transportation hub located in central China and Chongqing is a major commercial and industrial centre in southwestern China. Foshan, located in the Pearl River Delta, one of the major economic regions and manufacturing centres in China, is a major city in Guangdong Province and is close to Guangzhou city. Dalian, located on the coast of Bohai Bay, is a major city in Liaoning Province and a regional economic centre in northeast China.

Current projects

- ***The Shanghai Taipingqiao project*** is a city-core development project consisting of office, residential, commercial, retail, hotel, entertainment and cultural properties in the heart of Shanghai. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 1.3 million sq.m., of which approximately 252,000 sq.m. had been sold as at 30 June 2012. This project comprises:

  - A historic restoration zone (Lot 109 and Lot 112, or Shanghai Xintiandi), which has been open since 2001 and was fully completed in 2002 and a new shopping mall (Lot 113, or Xintiandi Style), which was also completed in 2010;

  - A corporate headquarters zone (known as Corporate Avenue), of which Lot 110, or phase 1 of Corporate Avenue, consisting of retail and office properties, was completed in 2004;

  - An up-market residential zone, of which the first phase (Lot 117, or Lakeville) was completed in 2003, the second phase (Lot 114, or Lakeville Regency) was completed in 2006 and the third phase (Lot 113, or Casa Lakeville) was completed in 2010; and

  - A commercial zone, construction of which will commence following the completion of the relocation of existing residents.

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

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

- ***The Shanghai Rui Hong Xin Cheng project***, also known as Shanghai Rainbow City, has been enlarged through our successful purchase of all the equity interests in Shanghai Baili Property Development Company Limited and the obtaining of the title with respect to the land use rights of Lot 167A and Lot 167B, Xingang, Hongkou District, Shanghai in June 2010. Upon completion, we expect this entire project to have a total leasable and saleable GFA of approximately 1.7 million sq.m. according to the newly approved master plan, of which approximately 451,000 sq.m. had been sold as at 30 June 2012. Shanghai Rui Hong Xin Cheng will redevelop the existing residential neighbourhoods into a mixed-use large-scale community. Shanghai Rui Hong Xin Cheng is located within the Inner Ring Viaduct of Shanghai with public transportation links including its own dedicated metro station and major roads. Upon completion, we expect the project will comprise high rise residential buildings, commercial shopping complexes, offices and schools.

- ***The Shanghai KIC project***, also known as the Shanghai Chuangzhi Tiandi project, comprises retail, entertainment and sports facilities, office buildings and residential properties. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 0.5 million sq.m., of which approximately 149,000 sq.m. had been sold as at 30 June 2012. This project is intended to inspire innovation and entrepreneurship in a "Lifestyle of Health and Sustainability" (LOHAS), supported by retail, entertainment and sporting facilities to create a "Live-Work-Play-Learn" lifestyle. The project is located close to 14 major universities and colleges in the northeast of downtown Shanghai, including some of China's leading universities such as Fudan University and Tongji University. The project will provide a "plaza area" comprising office buildings, learning centres, exhibition halls, conference and convention facilities, and commercial outlets. These are integrated and designed to function as facilities and spaces for recreation, leisure, education, training, culture, as well as, a "Live and Work" area and a mixed-use area comprising office buildings, retail shops and residential accommodations.

- ***THE HUB*** is an important development project comprising commercial, retail, exhibition and performance facilities leveraging on the traffic and convenience of the Hongqiao Transportation Hub. Upon completion, we expect to have a total leasable and saleable GFA of approximately 277,000 sq.m. The project is situated adjacent to Hongqiao Transportation Hub which we expect will become an important economic centre of the Yangtze River Delta, and will link Shanghai to the rest of the PRC. Based on the latest proposed development plan of the Shanghai government, the Hongqiao Transportation Hub is expected to be supported by a strong transportation network of an international airport, high speed inter-city trains, maglev train, subway lines and a highway network, which extends the one hour catchment population to 75 million people.

- ***The Wuhan Tiandi project*** is a city-core development project comprising retail, food and beverage and entertainment facilities, office buildings and residential properties. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 1.4 million sq.m., of which approximately 264,000 sq.m. had been sold as at 30 June 2012. Located between Shanghai and Chongqing at the confluence of the Han River and the Yangtze River, Wuhan is a major transportation hub in inland China and is the capital of Hubei Province. The project comprises two main sites, Site A and Site B, which will include Grade A office buildings, retail facilities, hotel and residential properties.

- ***The Chongqing Tiandi project*** is a city-core development project comprising office buildings, exhibition and conference facilities, retail and entertainment outlets, hotels and residential properties. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 2.8 million sq.m., of which approximately 284,000 sq.m. had been sold as at 30 June 2012. The Chongqing Tiandi project is situated on a hillside on the south bank of the Jialing River, just upstream of the confluence of the Yangtze and Jialing Rivers. We expect this project will help support and service Chongqing's extensive manufacturing and service industries.

Chongqing Tiandi will be integrated with Chongqing's nearby central business district via a light rail system and major roads. The main features, in addition to modern high-quality office buildings, are expected to include a commercial core comprising business facilities such as an exhibition centre and luxury hotels, a large residential area, entertainment and cultural properties, as well as a man-made lake.

- ***The Foshan Lingnan Tiandi project*** is a city-core development project comprising office, retail, hotel, cultural facilities and residential properties. The project is expected to have nearly 1.5 million sq.m. of leasable and saleable GFA, of which approximately 51,000 sq.m. had been sold as at 30 June 2012. The project is planned for development in five phases over a period of ten years. Besides our recent strategic partnership with Mitsui (see the section entitled "*Business — Forging strategic partnerships with developers, contractors, consultants and investors")*, we may also invite other strategic partners to co-invest in this Foshan Lingnan Tiandi project if, and when, suitable opportunities arise, but no definite plans or terms have been fixed.

- ***The Dalian Tiandi project*** is a development project consisting of software offices, residential and commercial properties, training centres, hotels and an area of a Shanghai Xintiandi type development. Upon completion, we expect this project to have an aggregate leasable and saleable GFA of approximately 3.2 million sq.m., subject to our success in acquiring the land with an expected GFA of 0.3 million sq.m. through competitive bidding process. As at 30 June 2012, approximately 52,000 sq.m. had been sold. We have a 48% interest in the Dalian Tiandi project. Our joint venture partners are the Yida Group with a 30% interest and SOCAM with a 22% interest. Dalian, located on the coast of Bohai Bay, is a major city of Liaoning Province and a regional economic centre in northeast China.

The projects described above are multi-phase projects at various stages of development. While none of these projects are completed in their entirety, certain developments within these multi-phase projects have been completed. As at 30 June 2012, our completed developments included Shanghai Xintiandi, Lakeville, Corporate Avenue, Lakeville Regency, Casa Lakeville, Xintiandi Style and Shui On Plaza, which form a part of the Shanghai Taipingqiao project; Phase 1, Phase 2, Phase 3 and Phase 4 of the Shanghai Rui Hong Xin Cheng project; KIC Village R1 and R2, KIC Plaza Phase 1 and Phase 2, and KIC C2 of the Shanghai KIC project; Phase 1, Phase 2 and a portion of Phase 3 of The Riviera and the commercial part (Chongqing Tiandi) of Chongqing Tiandi project; Phase 1, Phase 2 and Phase 3 of The Riverview, Lot A5 and the retail and entertainment area, Wuhan Tiandi, of the Wuhan Tiandi project; The Regency Phase 1, The Legendary Phase 1, Lot D and the retail and entertainment area, a portion of Foshan Lingnan Tiandi of the Foshan Lingnan Tiandi project and a portion of Phase 1 of the Dalian Tiandi project.

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

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

OUR COMPETITIVE STRENGTHS

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

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

STRATEGY

In response to the need for balancing value creation and cash flow in a volatile global business environment, together with our vision to be the premier and most innovative property developer in China, in mid-2009, we introduced and are now implementing our Three-Year Plan to maintain a closer balance between value creation for the long term and cash generation in the short-to-medium term in order to achieve sustainable growth. The cornerstone of our Three-Year Plan is to expedite the development and to increase the completion rate consistently and continuously, by which we target to stay ahead of the market and generate sufficient cash flow for our accelerated programme and expansion. A second three-year plan is currently under consideration.

Our strategies to achieve our vision are as follows:

- Standardisation and customisation to achieve efficiency
- Strong and steady cash flow from investment properties
- Decentralised decision-making and project-based management
- Achieving and maintaining geographic diversity and a well-diversified business mix between properties for sale and investment properties to minimise development risk
- Forging strategic partnerships with developers, contractors, consultants and investors

RECENT DEVELOPMENTS

During the five months ended 30 November 2012, the Group repaid a total of RMB890 million of its bank borrowings and incurred a total of RMB3,131 million of additional bank borrowings.

On 22 August 2012, the Group and Mitsui Fudosan Residential Co., Ltd ("**Mitsui**") entered into a sale and purchase agreement, pursuant to which the Group agreed conditionally to sell and Mitsui agreed conditionally to purchase a 49% equity interest in the entire issued share capital of Glory Land Investment Limited ("**Glory Land**") and the related shareholder's loans for total cash consideration of approximately RMB224 million. Glory Land holds all the class A shares of Billion China Investments Limited, which wholly owns Crown Fame Limited, which in turn owns 90% of Foshan Shui On Property Development Company Limited ("**Foshan Shui On**") which owns the land known as Lots 6 and 16 of the Foshan Lingnan Tiandi project. Upon acquisition of a 49% equity interest in Glory Land, Mitsui will hold a 44.1% attributable interest in Foshan Shui On. The transaction was completed on 9 November 2012. For further details, please refer to the announcement made by the Group on 22 August 2012, which was published and is available on the website of the Hong Kong Stock Exchange.

On 6 August 2012, the Issuer successfully completed an additional issuance of the 9.75% Senior Notes in an aggregate principal amount of US$400,000,000. The 9.75% Senior Notes are guaranteed by Shui On Land. See "*Description of Other Material Indebtedness — 9.75% Senior Notes due 2015.*" We intend to use the net proceeds from the additional issuance of 9.75% Senior Notes to fund capital expenditures related to the Group's real estate operations and/or acquire, develop, construct or improve assets, real or personal property or equipment or repay existing indebtedness, in each case to the extent permitted under the terms of the 6.875% Senior Notes, 7.625% Senior Notes, 8% Senior Notes and the existing 9.75% Senior Notes.

On 29 November 2011, the Group and Mitsui entered into a sale and purchase agreement, pursuant to which the Group agreed conditionally to sell and Mitsui agreed conditionally to purchase a 49% equity interest in the entire issued share capital of Value Land Investment Limited ("**Value Land**") and the related shareholder's loans, in two tranches for total cash consideration of approximately RMB391 million. Value Land holds all the class A shares of Magic Bright Investments Limited, which wholly owns Regal Victory Limited, which in turn owns 92% of Foshan Yong Rui Tiandi Property Development Company Limited ("**Foshan Yong Rui**") which owns the land known as Lot 18 of the Foshan Lingnan Tiandi project. Upon acquisition of a 49% equity interest in Value Land, Mitsui will hold a 45.08% attributable interest in Foshan Yong Rui. The first closing of this transaction took place on 12 December 2011 pursuant to which 44.1% of the issued share capital of Value Land as at 12 December 2011 was transferred to Mitsui. Subject to completion of the second closing, an additional 4.9% of the issued share capital of Value Land will be transferred to Mitsui. Under the terms of the relevant transaction agreements, because the second closing has not been completed within six months of the first closing, Mitsui has the option to sell back the equity interests in Value Land it has acquired in the first closing to the Group. For further details, please refer to the announcement made by the Group on 29 November 2011, which was published and is available on the website of the Hong Kong Stock Exchange.

PROPOSED SPIN-OFF OF CHINA XINTIANDI

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

China Xintiandi is positioned to be the premier commercial property company of the Group, focusing principally on managing, designing, leasing, marketing, enhancing and redeveloping premium retail, office, entertainment and hotel properties in affluent urban areas in the PRC. It is expected that, following the completion of the Proposed China Xintiandi Spin-off, Shui On Land will likely hold 30% or more equity interest of China Xintiandi.

There is no assurance that the Proposed China Xintiandi Spin-off will occur at all or, if it occurs, when it may occur. The Proposed China Xintiandi Spin-off is subject to, among other things, the approval by the Listing Committee of the Hong Kong Stock Exchange, the final decisions of the board of directors of Shui On Land, of the board of directors of China Xintiandi, the approval of the shareholders of Shui On Land and consents from certain of our lenders and joint venture partners and holders of our outstanding senior notes (including holders of the Securities).

CURRENT TRADING AND PROSPECTS

Since 30 June 2012, the PRC government has implemented further macroeconomic controls on the real estate property market in the PRC, including imposing restrictions on the number of properties which can be owned by families, which may adversely impact on the demand for our properties. See "*Risk Factors*" and "*Regulation*" for further details. Nevertheless, we do not expect our performance will be materially adversely affected by these policies.

GENERAL INFORMATION

Shui On Land was incorporated in the Cayman Islands on 12 February 2004 as an exempted company with limited liability, with a registration number of WK-132754. Its principal place of business in the PRC is at 26/F Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, 200021, PRC. Its place of business in Hong Kong is at 34/F, Shui On Centre 6-8 Harbour Road, Wan Chai, Hong Kong. Its registered office is located at 87 Mary Street, George Town, Grand Cayman KY1-9005, Cayman Islands.

It completed its initial public offering and listing on the Hong Kong Stock Exchange on 4 October 2006. Its ordinary shares are listed under the code "272". As at 30 November 2012, it had an authorised share capital of US$30,000,000 divided into 12,000,000,000 ordinary shares of US$0.0025 each and an issued and fully paid up share capital of US$15,003,236 consisting of 6,001,294,642 ordinary shares of US$0.0025 each.

The Issuer was incorporated in the Cayman Islands on 27 July 2005 as an exempted company with limited liability, with a registration number of WK-152519. Its principal place of business in the PRC is at 26/F Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, 200021, PRC. Its principal place of business in Hong Kong is at 34/F, Shui On Centre, 6-8 Harbour Road, Wan Chai, Hong Kong. Its registered office is located at 87 Mary Street, George Town, Grand Cayman KY1-9005, Cayman Islands.

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

THE OFFERING

Terms used in this summary and not otherwise defined have the meanings given to them in the section entitled "*Terms and Conditions of the Securities*."

Issuer	Shui On Development (Holding) Limited.
Guarantor	Shui On Land Limited.
Securities Offered	US$500,000,000 senior perpetual capital securities. The Securities are being offered outside the United States in reliance on Regulation S under the Securities Act. See "*Subscription and Sale*".
Issue Price	100% of principal amount.
Guarantee	The Guarantor will fully and unconditionally guarantee the due payment of all sums expressed to be payable by the Issuer under the Trust Deed (as defined in the "*Terms and Conditions of the Securities*") and the Securities.
Status of Securities and Guarantee	The Securities constitute direct, unsecured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Securities shall, save for limited exceptions, at all times rank at least equally with all of its other present and future direct, unsubordinated, unconditional and unsecured obligations. The payment obligations of the Guarantor under the Guarantee shall, save limited exceptions, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.
Distributions	The Securities confer a right to receive Distributions at the applicable rate described below for the period from and including the Closing Date. Subject to the provisions of the Securities relating to deferral of Distributions, Distributions shall be payable on the Securities semi-annually in arrear on each Distribution Payment Date in U.S. dollars. If any Distribution is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of incomplete month, the number of days elapsed.
Distribution Rate	The Distribution Rate (as defined in the "*Terms and Conditions of the Securities*") applicable to the Securities shall be: (a) in respect of the period from, and including, the Closing Date to, but excluding, 10 December 2017; and (b) in respect of the periods (i) from, and including, 10 December 2017 to, but excluding, the immediately following Reset Date (as defined in the "*Terms and Conditions of the Securities*") and (ii) from, and including, each Reset Date falling after 10 December 2017 to, but excluding, the immediately following Reset Date, the Treasury Rate (as defined in the "*Terms and Conditions of the Securities*") with respect to the relevant Reset Date plus the Initial Spread (as defined in the "*Terms and Conditions of the Securities*") plus the Step-up Margin (as defined in the "*Terms and Conditions of the Securities*") per annum.

Step up of Distribution after Breach of Covenant or Change of Control	If (a) the Issuer fails to comply with any of the covenants set out in Condition 5 of the "*Terms and Conditions of the Securities*" and such breach continues for a period of 30 consecutive days after written notice by the Trustee to the Holders or (b) the Issuer does not redeem the Securities following the occurrence of a Change of Control (as defined in the "*Terms and Conditions of the Securities*") or fails to make or consummate an Offer to Purchase, the then-prevailing Distribution Rate shall be increased by 3.00 per cent. per annum with effect from (and including) the date on which such Change of Control occurs, provided that the maximum aggregate increase in the Distribution Rate shall be 3.00 per cent. per annum. Any such increase in the Distribution Rate is separate from and in addition to any increase in the Distribution Rate effected on each Reset Date.
Distribution Payment Date	10 June and 10 December in each year, commencing on 10 June 2013.
Distribution Deferral	The Issuer may, at its sole discretion, elect to defer a Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Date by giving notice of not more than ten nor less than five Business Days prior to the relevant Distribution Payment Date, unless a Compulsory Distribution Payment Event (as defined in the "*Terms and Conditions of the Securities*") has occurred. Any such deferred Distribution shall constitute Arrears of Distribution. The Issuer may, at its sole discretion, elect to further defer any Arrears of Distribution and is not subject to any limits as to the number of times Distributions and Arrears of Distribution can be deferred. Any Distribution so deferred shall bear interest at the rate specified in Condition 6E of the "*Terms and Conditions of the Securities*". If on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of Distribution being deferred, each of the Issuer and the Guarantor shall not, and the Guarantor shall procure that (in relation to any Parity Security) any other person which is the issuer thereof shall not (a) declare or pay any dividends, distributions or make any other payment on, and will procure that no dividend or other payment is made on any Junior Securities (as defined in the "*Terms and Conditions of the Securities*"), preference shares or Parity Securities; or (b) redeem, reduce, cancel, buy-back or acquire for any consideration any Junior Securities, preference shares or Parity Securities, unless and until (a) the Issuer or the Guarantor, as the case may be, satisfies in full all outstanding Arrears of Distribution and any Additional Distribution Amounts; or (b) it is permitted to do so by an Extraordinary Resolution of the Holders.

Redemption of Securities	The Securities are perpetual securities and have no fixed redemption date. On 10 December 2017 and on each Distribution Payment Date thereafter, the Issuer may redeem the Securities, in whole but not in part, upon not less 30 nor more than 60 days' notice, at a redemption price equal to the principal amount thereof plus any Distributions accrued to, but excluding, the date fixed for redemption (including any Arrears of Distribution (as defined in the "*Terms and Conditions of the Securities*") and any Additional Distribution Amount (as defined in the "*Terms and Conditions of the Securities*")). The Securities may also be redeemed at the option of the Issuer in whole, but not in part, at any time, at their principal amount together with all outstanding Arrears of Distribution and Additional Distribution Amount (if any) and any Distribution accrued to the date fixed for redemption, upon the occurrence of certain changes in the Cayman Islands or Hong Kong requiring the payment of Additional Tax Amounts (as defined in the "*Terms and Conditions of the Securities*"). In addition, the Securities may be redeemed at the option of the Issuer in whole, but not in part, at a redemption price equal to (i) the Early Redemption Amount (as defined in the "*Terms and Conditions of the Securities*") if such redemption occurs prior to 10 December 2017 or (ii) the principal amount thereof together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and Additional Distribution Amount) if such redemption occurs on or after 10 December 2017, (A) in the case that prior to the date of the notice of redemption, at least 90 per cent. in principal amount of the Securities originally issued has already been redeemed or purchased and cancelled; or (B) upon the occurrence and continuation of an Equity Disqualification Event (as defined in the "*Terms and Conditions of the Securities*"); or (C) upon the occurrence and continuation of an Change of Control (as defined in the "*Terms and Conditions of the Securities*"); or (D) upon the occurrence and continuation of a Breach (as defined in the "*Terms and Conditions of the Securities*").
Covenants	The Securities, the Trust Deed and the Guarantee will limit the ability of the Issuer, the Guarantor and their respective Restricted Subsidiaries to, among other things: • incur additional indebtedness and issue preferred stock; • create liens; • sell assets; • enter into transactions with shareholders and affiliates; and • enter into sale and leaseback transactions. These covenants are subject to a number of important qualifications and exceptions described in "*Terms and Conditions of the Securities — Restrictive Covenants.*"

Use of Proceeds	The net proceeds of the sale of the Securities is intended to be used to fund capital expenditures related to the Group's real estate operations and/or acquire, develop, construct or improve assets, real or personal property or equipment or repay existing indebtedness, in each case subject only to the extent permitted under the 6.875% Senior Notes, the 7.625% Senior Notes, the 8% Senior Notes and the 9.75% Senior Notes.
Form, Denomination and Registration	The Securities will be issued in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The Securities will be offered only to non-U.S. persons outside the United States in reliance on Regulation S and will be represented by a global certificate in registered form deposited with Deutsche Bank AG, London Branch as custodian for, and registered in the name of, a nominee of Deutsche Bank AG, London Branch for the respective accounts of Euroclear and Clearstream.
Trustee	DB Trustees (Hong Kong) Limited.
Principal Agent, Calculation Agent and Transfer Agent	Deutsche Bank AG, Hong Kong Branch.
Registrar	Deutsche Bank Luxembourg S.A.
Listing	Approval in-principle has been received for the listing of the Securities on the SGX-ST. The Securities will be traded on the SGX-ST in a minimum board lot size of US$200,000 for as long as the Securities are listed on the SGX-ST.
Governing Law	The Securities and the Trust Deed and any non-contractual obligations arising out of or in connection with them will be governed by and will be construed in accordance with English law.
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Securities, see "*Risk Factors*."

ISIN/Common Code	ISIN	Common Code
	XS0855853718	085585371

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary financial data as at and for each of the fiscal years ended 31 December 2009, 2010 and 2011 is derived from our audited consolidated financial statements, included elsewhere in this Offering Circular. The summary financial data as of and for the six months ended 30 June 2011 and 2012 is derived from our unaudited, condensed consolidated financial statements, included elsewhere in this Offering Circular. Our consolidated financial statements have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants. Our unaudited, condensed consolidated financial statements have been reviewed by Deloitte Touche Tohmatsu, Certified Public Accountants. The consolidated financial statements for the fiscal years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2011 and 2012 have been prepared and presented in accordance with International Financial Reporting Standards ("**IFRS**"). The summary financial data below should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the consolidated financial statements and the notes to those statements included elsewhere in this Offering Circular. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Basis of Preparation."*

The consolidated financial statements, included elsewhere in this Offering Circular, incorporate the financial statements of Shui On Land and entities controlled by Shui On Land. Control is achieved where Shui On Land has the power to govern the financial and operating policy of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group. All intra-group transactions, balances, incomes and expenses are eliminated on consolidation. The financial data as at and for the six months ended 30 June 2012 are not indicative of our financial results for the fiscal year ending 31 December 2012.

SUMMARY CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December				Six months ended 30 June		
	2009 Audited	2010 Audited	2011 Audited		2011 Unaudited	2012 Unaudited	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Turnover	6,758	4,879	8,484	1,336	1,788	1,643	259
Cost of sales	(3,229)	(2,869)	(4,783)	(753)	(961)	(906)	(143)
Gross profit	3,529	2,010	3,701	583	827	737	116
Other income	170	226	244	38	151	110	17
Selling and marketing expenses	(151)	(142)	(195)	(31)	(68)	(64)	(10)
General and administrative expenses	(543)	(561)	(634)	(100)	(291)	(379)	(60)
Operating profit	3,005	1,533	3,116	490	619	404	63
Increase in fair value of investment properties	536	2,711	2,696	424	661	1,268	200
Gain on acquisition of subsidiaries	—	—	—	—	—	50	8
Gain on acquisition of additional equity interests in subsidiaries	6	—	—	—	—	—	—
Gain on disposal of investment properties	—	23	17	3	—	—	—
Share of results of associates	436	58	137	22	97	2	—
Finance costs, net of exchange difference	(89)	42	94	15	(51)	(244)	(38)
Profit before taxation	3,894	4,367	6,060	954	1,326	1,480	233
Taxation	(1,301)	(1,357)	(2,062)	(325)	(447)	(512)	(81)
Profit for the year/period	2,593	3,010	3,998	629	879	968	152
Attributable to:							
Shareholders of the Company	2,673	2,809	3,428	540	784	825	130
Non-controlling interests	(80)	201	570	89	95	143	22
	2,593	3,010	3,998	629	879	968	152
OTHER FINANCIAL DATA							
EBITDA[1]	3,352	1,531	3,187	502	674	417	66
EBITDA margin[2]	50%	31%	38%	38%	38%	25%	25%
Dividends							
- Interim dividend	44	270	107	17	107	122	19
- Final dividend	530	220	473	75	—	—	—

Notes:

(1) EBITDA for any period consists of profit for the period less interest income, increase in fair value of investment properties, plus finance costs, net of exchange difference, taxation, depreciation and release of prepaid lease payments. EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Interest expense excludes amounts capitalised. See "*Terms and Conditions of the Securities*" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Trust Deed which is different from the EBITDA described above.

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

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

	Year ended 31 December				Six months ended 30 June		
	2009 Audited	**2010 Audited**	**2011 Audited**		**2011 Unaudited**	**2012 Unaudited**	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Profit for the year/period	2,593	3,010	3,998	629	879	968	152
Interest income	(149)	(150)	(152)	(24)	(74)	(99)	(15)
Finance costs, net of exchange difference	89	(42)	(94)	(15)	51	244	38
Taxation	1,301	1,357	2,062	325	447	512	81
Depreciation and release of prepaid lease payments	54	67	69	11	32	60	10
Increase in fair value of investment properties	(536)	(2,711)	(2,696)	(424)	(661)	(1,268)	(200)
EBITDA[1]	3,352	1,531	3,187	502	674	417	66

Notes:

(1) See note (1) on page 23 of this Offering Circular.

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				30 June	
	2009 Audited	2010 Audited	2011 Audited		2012 Unaudited	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*	*(RMB in millions)*	*(US$ in millions)*
Non-current assets						
Investment properties	21,206	26,893	36,395	5,729	42,655	6,714
Property, plant and equipment	356	540	1,079	170	3,648	574
Prepaid lease payments	43	73	500	79	495	78
Interests in associates	862	920	1,057	166	1,059	167
Loans to associates	1,273	1,270	1,366	215	1,533	241
Accounts receivable	59	64	86	14	95	15
Pledged bank deposits	1,222	1,569	1,143	180	1,010	159
Deferred tax assets	139	162	154	24	136	21
	25,160	31,491	41,780	6,577	50,631	7,969
Current assets						
Properties under development for sale	11,532	14,308	17,247	2,715	20,014	3,150
Properties held for sale	627	627	987	155	1,038	163
Accounts receivable, deposits and prepayments	933	3,604	2,503	394	2,157	339
Loans receivable	378	597	152	24	—	—
Amounts due from associates	147	318	446	70	519	82
Amounts due from related companies	73	49	212	33	226	36
Amounts due from non-controlling shareholders of subsidiaries	17	38	50	8	65	10
Pledged bank deposits	797	316	1,369	215	982	155
Restricted bank deposits	—	243	335	53	303	48
Bank balances and cash	2,928	4,662	3,523	555	2,901	457
	17,432	24,762	26,824	4,222	28,205	4,440
Current liabilities						
Accounts payable, deposits received and accrued charges	4,305	4,987	5,068	798	6,904	1,087
Amounts due to related companies	69	95	368	58	734	115
Amounts due to associates	45	29	5	1	9	1
Amounts due to non-controlling shareholders of subsidiaries	475	462	404	63	495	79
Loan from a non-controlling shareholder of a subsidiary	442	300	—	—	—	—
Dividend payable	—	—	—	—	473	74
Tax liabilities	1,404	1,230	1,855	292	1,097	173
Bank borrowings — due within one year	2,098	1,644	8,774	1,381	6,385	1,005
	8,838	8,747	16,474	2,593	16,097	2,534
Net current assets	8,594	16,015	10,350	1,629	12,108	1,906
Total assets less current liabilities	33,754	47,506	52,130	8,206	62,739	9,875
Capital and reserves						
Share capital	99	102	102	16	112	18
Reserves	21,480	24,718	27,843	4,383	29,771	4,686
Equity attributable to shareholders of the Company	21,579	24,820	27,945	4,399	29,883	4,704
Non-controlling interests	995	1,208	1,526	240	2,531	398
Total equity	22,574	26,028	29,471	4,639	32,414	5,102
Non-current liabilities						
Bank and other borrowings — due after one year	8,105	11,539	7,969	1,254	9,981	1,571
Convertible bonds	—	2,117	2,225	350	2,284	360
Notes	—	2,945	6,520	1,026	10,857	1,709
Derivative financial instruments designated as hedging instruments	211	218	150	24	59	9
Loans from non-controlling shareholders of subsidiaries	670	1,653	2,078	327	2,390	376
Deferred tax liabilities	2,192	3,001	3,710	584	4,747	747
Defined benefit liabilities	2	5	7	1	7	1
	11,180	21,478	22,659	3,566	30,325	4,773
Total equity and non-current liabilities	33,754	47,506	52,130	8,205	62,739	9,875

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December				Six months ended 30 June		
	2009 Audited	2010 Audited	2011 Audited		2011 Unaudited	2012 Unaudited	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Operating activities							
Profit before taxation	3,894	4,367	6,060	954	1,326	1,480	233
Adjustments for:							
Depreciation of property, plant and equipment	53	66	67	11	32	59	9
Release of prepaid lease payments	1	1	2	—	—	1	—
Loss on disposal of property, plant and equipment	—	1	—	—	1	—	—
Net foreign exchange loss (gain)	22	(46)	(125)	(19)	(309)	69	11
Share of results of associates	(436)	(58)	(137)	(21)	(97)	(2)	—
Gain on disposal of investment properties	—	(23)	(17)	(3)	—	—	—
Gain on acquisition of additional equity interests in subsidiaries	(6)	—	—	—	—	(50)	(8)
Finance costs, net of exchange gain	89	(42)	(94)	(15)	51	244	38
Interest income	(149)	(150)	(152)	(24)	(74)	(99)	(15)
Increase in fair value of investment properties	(536)	(2,711)	(2,696)	(424)	(661)	(1,268)	(200)
Increase in defined benefit liabilities	6	3	2	—	—	—	—
Equity-settled share-based payment expenses	47	19	15	2	13	8	1
Release of special reserve	296	30	40	6	(94)	—	—
Operating cash flows before movements in working capital	3,281	1,457	2,965	467	188	442	69
(Increase) decrease in accounts receivable, deposits and prepayments	(44)	(2,672)	1,079	170	(372)	369	58
Increase in properties under development for sale	(4,148)	(4,448)	(7,010)	(1,103)	(2,991)	(3,031)	(477)
Decrease in properties held for sale	2,906	2,619	4,485	706	844	712	112
(Increase) decrease in amounts due from related companies	(11)	24	(163)	(26)	(1)	159	25
Increase (decrease) in amounts due to related companies	36	26	273	43	83	(347)	(54)
Increase (decrease) in amounts due to associates	45	(16)	(24)	(4)	(13)	4	1
(Decrease) increase in accounts payable, deposits received and accrued charges	(113)	675	(265)	(42)	2,315	1,508	237
(Increase) decrease in restricted bank deposits	—	(243)	(92)	(14)	(150)	32	5
Cash generated from (used in) operations	1,952	(2,578)	1,248	197	(97)	(152)	(24)
Tax paid	(339)	(745)	(720)	(114)	(359)	(988)	(155)
Net cash generated from (used in) operating activities	1,613	(3,323)	528	83	(456)	(1,140)	(179)
Investing activities							
Interest received	77	114	119	19	57	67	10
Purchase of property, plant and equipment	(47)	(33)	(237)	(37)	(22)	(219)	(34)
Additions to investment properties	(2,973)	(3,426)	(7,280)	(1,146)	(5,100)	(1,617)	(254)
Proceeds from disposal of investment properties	—	185	613	97	36	—	—
Additions to prepaid lease payments	—	—	(434)	(68)	—	—	—

	Year ended 31 December				Six months ended 30 June		
	2009 Audited	2010 Audited	2011 Audited		2011 Unaudited	2012 Unaudited	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Increase in loans to associates	(20)	—	—	—	(120)	(138)	(22)
Decrease (increase) in amounts due from associates	303	(171)	(120)	(19)	(16)	—	—
Cash inflow from acquisition of subsidiaries	—	(109)	—	—	—	111	18
Acquisition of additional equity interests in subsidiaries	(100)	—	—	—	—	—	—
Net cash inflow from disposal of subsidiaries	—	—	342	54	342	—	—
Proceeds from partial disposals of equity interests in subsidiaries	339	—	—	—	—	—	—
Withdrawal of pledged bank deposits	821	954	645	101	215	1,571	247
Placement of pledged bank deposits	(1,131)	(820)	(1,272)	(200)	(1,612)	(1,051)	(166)
Decrease (increase) in loans receivable	36	(219)	445	70	450	152	24
Net cash used in investing activities	(2,695)	(3,525)	(7,179)	(1,129)	(5,770)	(1,124)	(177)
Financing activities							
Net proceeds on issuance of shares	1,759	—	—	—	—	—	—
Advance from (repayment to) non-controlling shareholders of subsidiaries	174	807	(323)	(51)	(76)	59	9
Capital injected by non-controlling shareholders of subsidiaries	13	50	26	4	25	22	3
Deposit received in respect of partial disposal of equity interests in subsidiaries	—	—	352	56	—	—	—
New bank and other loans raised	4,182	6,761	6,106	961	4,312	4,241	668
Repayment of bank loans	(2,168)	(3,483)	(2,082)	(328)	(1,486)	(5,796)	(912)
Decrease in loan from a director	(567)	—	—	—	—	—	—
Issue of convertible bonds	—	2,720	—	—	—	—	—
Expenses on issue of convertible bonds	—	(54)	—	—	—	—	—
Issue of notes	—	3,000	3,500	551	3,500	4,233	666
Expenses on issue of notes	—	(60)	(70)	(11)	(70)	(85)	(13)
Settlement of interest rate swaps designated as cash flow hedges	—	—	—	—	—	(73)	(12)
Interest and bank charges paid	(766)	(827)	(1,547)	(244)	(692)	(956)	(151)
Payment of dividends	(81)	(245)	(327)	(51)	(220)	—	—
Dividend payment to non-controlling shareholders of subsidiaries	(204)	(4)	(4)	—	(4)	(9)	(1)
Net cash generated from financing activities	2,342	8,665	5,631	887	5,289	1,636	257
Net increase (decrease) in cash and cash equivalents	1,260	1,817	(1,020)	(159)	(937)	(628)	(99)
Cash and cash equivalents at the beginning of the year/period	1,671	2,928	4,662	734	4,662	3,523	555
Effect of foreign exchange rate changes	(3)	(83)	(119)	(20)	(66)	6	1
Cash and cash equivalents at the end of the year/period	2,928	4,662	3,523	555	3,659	2,901	457
Analysis of the balances of cash and cash equivalents							
Bank balances and cash	2,928	4,662	3,523	555	3,659	2,901	457

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

RISKS RELATING TO OUR BUSINESS

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

We are subject to the conditions of the real estate market in the PRC generally and Shanghai, Chongqing, Wuhan and Foshan in particular. As at 30 June 2012, approximately 9.7 million sq.m., or approximately 99.9% of the total GFA of our projects (excluding our project in Dalian city, in which we have a non-controlling interest), were located in Shanghai, Chongqing, Wuhan and Foshan. Although we are pursuing, and will continue to pursue, opportunities in other cities in the PRC, our projects in such other cities are comparatively in earlier stages of development than our projects in Shanghai, Chongqing, Wuhan and Foshan. We expect that in the short-to-medium term, our business will continue to be significantly affected by the state of the property market in the PRC, particularly in Shanghai, Chongqing, Wuhan and Foshan. Any adverse developments in the supply and demand or in property prices in the PRC, particularly in Shanghai, Chongqing, Wuhan and Foshan, would have a material adverse effect on our financial condition and results of operations. In addition, the future demand for different types of properties is uncertain. If we do not respond to changes in market conditions or customer preferences in a timely manner, our results of operations may be adversely affected. There can be no assurance that our property development and investment activities will continue at past levels or that we will be able to benefit from the future growth, if any, of the property markets in Shanghai, Chongqing, Wuhan, Foshan or other parts of the PRC.

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

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

We may not be able to achieve our Three-Year Plan.

In mid-2009, we launched our Three-Year Plan, which is aimed at providing accelerated but sustainable growth and maintaining balance between value creation for the long term and cash generation in the short-to-medium term. The Three-Year Plan, which includes balance between standardisation of product design while maintaining customisation of certain high-end projects, maintaining strong cash flow and relatively low gearing ratio, decentralisation of decision-making and

project-based management, maintaining geographic and earnings based diversity and forging strategic partnerships with other developers, is aimed at expediting project development and increasing project completion rate consistently and continuously. See "*Business — Strategy*." A second Three-Year Plan for 2013-2015 is currently under consideration. However, factors that are beyond our control, such as economic slowdown, change in government policy or change in market dynamics in the PRC property market, may affect the implementation of the Three-Year Plan and any new plan that is adopted and may adversely affect our business, financial condition and results of operations. There can be no assurance that we will be able to achieve the objectives as planned or at all.

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

Our core strategy is to develop city-core and integrated residential development projects. The success of our strategy and future growth depends upon, among other things, our ability to expand our land portfolio and to identify and acquire land plots in suitable locations at affordable prices. We may incur significant costs in identifying and evaluating suitable sites for development. Major Chinese cities such as Shanghai have experienced rapid land price increases in recent years and there is a limited supply of suitable plots available for development in such cities. As a result, we may not be able to acquire large plots of land in urban locations suitable for our development at affordable prices, or at all, in the future. We also face strong competition from other property developers for these sites.

Our ability to acquire sites depends upon PRC laws and regulations. In the PRC, the relevant authorities control the supply of substantially all land, and both our ability to acquire land use rights for future development projects and the acquisition costs of these land use rights will be affected by PRC government policies toward land supply. Our ability to acquire sites will depend on the receipt of required approvals from relevant authorities in the PRC. In addition, various local governments (including those in Shanghai, Chongqing, Wuhan and Foshan) and the central government have introduced regulations requiring that land use rights for commercial, cultural, entertainment, residential and office property developments be sold by public tender or auction. This requirement may increase our costs of acquiring sites. The PRC central and local governments may also regulate the type of development projects that property developers, including us, may pursue. In recent years, the PRC government has promulgated policies that restrict banks from granting loans to finance the construction of luxury residential properties and limit or prohibit the supply of land available for projects such as villa-style developments, low-density housing developments and golf courses. For example, on 21 September 2010, the Ministry of Land and Resources ("**MLR**") and the Ministry of Housing and Urban-Rural Development ("**MOHURD**"), formerly the Ministry of Construction, issued a notice that requires more than 70% of land used for construction of urban housing to be designated for low-income housing, housing for resettlement of shanty towns and small-to-medium-sized ordinary commercial housing, and the plot ratio of the planned GFA to the total site area of residential projects must be more than 1 to 1. If we are not able to acquire suitable sites at affordable prices, or at all, or if we are restricted in the types of projects we may pursue at specific sites, our business and growth prospects may be materially and adversely affected.

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

We require substantial capital resources to acquire land and develop our existing and future projects. To date, we have relied on internally-generated funds, bank and other borrowings and the issuance of debt and equity securities. We expect that we will continue to rely on these sources of funds to finance our future projects. There can be no assurance that we will have sufficient cash flow (including through pre-sales and sales of our properties and gains on disposal of equity interest in subsidiaries)

or other resources to fund land acquisitions and property developments, among other things because our cash flow may vary significantly from period to period. Furthermore, there can be no assurance that we will be able to obtain additional third-party financing on satisfactory terms or at all. As at 30 June 2012, our outstanding bank borrowings were RMB16,366 million (US$2,576 million). If we are unable to obtain additional third-party financing, we may not be able to undertake our future development projects or develop additional projects and our business development, if any, will be curtailed until such time when we are able to obtain additional capital resources.

Our ability to arrange adequate financing for land acquisitions or property developments on terms that will allow us to earn reasonable returns depends on a number of factors, many of which are outside of our control, including general economic conditions, credit available from financial institutions and monetary policy in the PRC. For example, since 2008, the People's Bank of China ("**PBOC**"), in response to changing economic conditions, has increased or decreased its reserve requirement ratio for commercial banks several times, with such ratio being at 17.5% in June 2008, 15.5% in December 2008, 17% in May 2010, 17.5% from 16 November 2010, 18% from 29 November 2010, 18.5%effective from 20 December 2010, 19% effective from 20 January 2011, 21% effective from 18 May 2011, 21.5% effective from 20 June 2011, 21% effective from 5 December 2011, 20.5% effective from 24 February 2012 and 20% effective from 18 May 2012. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. Increases of the bank reserve requirement ratio may negatively impact the amount of funds available to lend to businesses, including ours, by commercial banks in China. On 29 September 2010, the PBOC and The China Banking Regulatory Commission ("**CBRC**") promulgated the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy (關於完善差別化住房信貸政策有關問題的通知), which provides that all property companies with records of having idle land, changing the land use purpose and nature, delaying the project commencement or completion time and hoarding properties or other acts of non-compliance with applicable laws or regulations shall be restricted from obtaining bank loans or credit facilities for new projects.

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

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

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

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

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

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

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

In certain cases where we are interested in acquiring land, we may assist local governments in clearing the land and relocating the original residents so that the land is ready for tender, auction and listing-for-sale. In such cases, we enter into land clearance agreements with the relevant land authorities, under which we are reimbursed for expenses we incur for land clearance and relocation and we are entitled to a portion of the profit realised by the local government on the land sale. However, such land clearance arrangements do not give us exclusive rights to acquire the land use rights for the relevant land, and we do not control the timing of the sale of the land use rights in the

land that we have cleared nor do we have any influence on the price for which such land use rights are sold. Sales of the land use rights are conducted by the relevant local government land authorities, through a bidding, auction or listing-for-sale process. There can be no assurance that we will win any such bid on land that we have cleared under the land clearance agreements in a timely manner or at all nor can there be any assurance that the relevant land authority will achieve an optimal price for the sale of such land use rights. There can be no assurance that we will be reimbursed for the expenses that we incur in connection with such land clearance, or that we will receive any profit from such land use right sales. Further, the PRC State Council on 3 January 2008 issued the Notice to Enhance the Economical and Intensive Use of Land (關於促進節約集約用地的通知), which requires the use of a public bidding process in selecting companies to assist the local governments with land clearance work. The PRC State Council promulgated the Regulation on the Expropriation of Buildings on State-owned Land and Compensation (國有土地上房屋徵收與補償條例) on 21 January 2011. According to these regulations, construction units shall not participate in the relocation work in connection with the land clearance. The units responsible for the execution of expropriation and compensation shall not benefit from the execution work, and the value of the buildings should be based on a valuation report issued by a certified valuation institution. Therefore, with the implementation of this new policy, we may not participate in such land clearance work anymore. The MOHURD promulgated Valuation Rules on Expropriation of Buildings on State-owned Land (國有土地上房屋徵收評估辦法) on 3 June 2011, which sets forth rules for choosing a valuation institution and determining a valuation.

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

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

Our financing costs are affected by changes in interest rates.

Our financing costs and our results of operations are affected by changes in interest rates. A substantial portion of our borrowings are linked to benchmark lending rates such as those published by the PBOC or the Hong Kong Interbank Offer Rate ("**HIBOR**"). The PBOC benchmark lending rates and HIBOR are subject to market movement. The PBOC raised the benchmark one-year lending rate several times from 5.31% in October 2004 to 7.47% in December 2007. While the PBOC, in view of the global economic downturn, has lowered such rate several times to 5.31% as at 23 December 2008, on 26 December 2010, 9 February 2011, 6 April 2011 and 7 July 2011, such rate was further raised to 5.81%, 6.06%, 6.31% and 6.56%, respectively. In view of the risk of a downward trend in the economy, the PBOC then lowered such rate to 6.31% on 8 June 2012 and to 6.00% on 6 July 2012. However, the PBOC may continue to raise lending rates in the future, which could adversely affect our business, financial condition and results of operations. There can be no assurance that the lending rates published by PBOC or the HIBOR rate will not be increased in the future or that our business, financial condition and results of operations will not be adversely affected as a result of these increases. As at 30 June 2012, the effective interest rate on our aggregate bank and other borrowings was 5% and we had consolidated bank and other borrowings of RMB16,366 million (US$2,576 million) with maturity ranging from one to ten years. Our interest expense on bank loans and overdrafts wholly repayable within five years for 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012 was RMB507 million, RMB573 million, RMB790 million (US$124 million), RMB378 million and RMB476 million (US$75 million) respectively.

We depend on key management personnel.

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

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

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

As at 30 November 2012, Shui On Properties Limited and Shui On Investment Company Limited ("**SOI**") (each being a wholly owned subsidiary of SOCL) and New Rainbow Investments Limited (being a wholly owned subsidiary of SOCAM), collectively referred to as the "**Principal Shareholders**," together own approximately 56.91% of the issued share capital of Shui On Land Limited. Subject to compliance with applicable laws, by maintaining such ownership, the Principal Shareholders are able to exercise substantial influence over our corporate policies, appoint our directors and officers and vote on corporate actions requiring shareholders' approval. In addition, our

chairman, Mr. Lo, is a controlling owner of the Principal Shareholders and is able to exercise substantial control over our business. The strategic goals and interests of the Principal Shareholders may not be aligned with our strategy and interests and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base. In circumstances involving a conflict of interests between the Principal Shareholders, and the holders of the Securities, there can be no assurance that the Principal Shareholders would not exercise their power to control us in a manner that would benefit them to the detriment of the holders of the Securities, despite the fact that any connected transactions between and among the Principal Shareholders and us are subject to the rules and regulations of the Hong Kong Stock Exchange.

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

Our turnover, cash-flow and results of operations for each period depend primarily on the number of properties that become available for sale or pre-sale in such period. Turnover from sales of completed properties is recognised when the legally binding sales contracts are signed and exchanged and the condition precedents contained in such contracts are satisfied, while turnover from pre-sales of properties under development is recognised upon the delivery of properties to the purchasers pursuant to sale and purchase agreements. As a result of our turnover recognition policy, we recognise the majority of our turnover after a significant passage of time from the date of the pre-sale. In addition, while the pre-sale of our property generates positive cash flow for us in the period in which it takes place, we must place a portion of the proceeds in restricted bank accounts and may only use such proceeds for specified purposes until the completion of the property development. We cannot predict with certainty the time of the completion and delivery of a property, and hence the time of the turnover recognition from any pre-sale and our ability to use all the proceeds for such pre-sale, as the completion of any property development will vary according to its construction timetable and the time required to obtain the occupation permit.

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

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

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

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

Our use of joint ventures may limit our flexibility with respect to our joint investments.

We frequently develop properties in cooperation with local district governments and third parties. As at 30 November 2012, our equity interest in these joint ventures was between 49.98% and 99%. As at 30 November 2012, we owned 99.0% and 49.98%, respectively, of the joint venture companies that develop Casa Lakeville and Lot 116 of the Shanghai Taipingqiao Project and had a 79.01% interest in our joint venture for the development of the Shanghai Rui Hong Xin Cheng project, except we had a 79.81% interest in Phase 1, Lot 167A and Lot 167B of Shanghai Rui Hong Xin Cheng project and a 99.0% interest in the non-retail portion of Lot 6 (phase 5). As at 30 November 2012, we owned an 86.8% interest in our joint venture for the Shanghai KIC project, except for Shanghai KIC North Parcel, in which we had a 99% interest, and had a 75% interest in our joint venture for the development of the Wuhan Tiandi project. As at 30 November 2012, we had a 79.4% interest in our joint venture for the development of the Chongqing Tiandi project, except for Lot B11-1/02, in which we had a 59.5% interest, and had a 48% interest in our joint venture for the development of the Dalian Tiandi project except for Lots C01, C03, B08, B09, E02A and D06 in which we had a 33.6% effective interest, and hence we do not control the management of the joint venture for the Dalian Tiandi project. As at 30 November 2012, we had a 55.9% internest in our joint venture for the development of Foshan Lots 6 and 16. If Mitsui completes its acquisition of shares in Value Land, we will own a 54.92% attributable interest in Foshan Yong Rui, our joint venture for the development of Foshan Lot 18. Although we have control over the management of the joint ventures in which we have a majority equity interest, the adoption of certain important board decisions requires the unanimous resolution of all the directors of these companies, some of whom are appointed by the relevant joint venture partner. As a result, our participation in these joint venture arrangements is subject to the risks, amongst others, that:

- we may not be able to pass certain important board resolutions requiring unanimous consent of all the directors of our PRC subsidiaries if there is a disagreement between us and our joint venture partner;

- a disagreement with any of our joint venture partners in connection with the scope or performance of our respective obligations under the project or joint venture arrangement might affect our ability to develop or operate a property;

- our joint venture partners may have different economic or business objectives;

- our joint venture partners may be unable or unwilling to perform their obligations under the joint venture arrangements with us, including their obligation to make required capital contributions and shareholder loans, whether as a result of financial difficulties or otherwise;

- our joint venture partners may take actions contrary to our instructions or requests or contrary to our policies or objectives; and

- our joint venture partners may have financial difficulties.

A serious dispute with our joint venture partners or project development partners or the early termination of our joint venture or cooperation arrangements could adversely affect our business, financial condition and results of operations. Should a situation arise in which we cannot complete a project being jointly developed with our joint venture partners or property development partners, due to one of the above reasons or for any other reason, the rights and obligations of each party with

respect to the uncompleted project will be determined as specified under the relevant joint venture or cooperation agreements. To the extent that such agreements are silent or inconclusive with regard to such rights and obligations, the resolution of any dispute may require arbitration or, failing that, litigation, which could have an adverse effect on our business, results of operations and financial condition.

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

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

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

The Dalian Tiandi project is being developed by entities that are not controlled by us and are not restricted subsidiaries under the Securities.

The Dalian Tiandi project is being developed by the Dalian Entities that are not controlled by us and are not restricted subsidiaries under the Securities. As a result, the Dalian Entities will not be subject to the restrictions under the Securities, including without limitation, restrictions to sell assets, incur additional indebtedness, and create liens, which the Dalian Entities would have been subject to had they been restricted subsidiaries. The Dalian Tiandi project had a landbank of 3.6 million sq.m. as at 30 June 2012. The Dalian Entities had combined total assets of RMB6,716 million, RMB8,822 million, RMB10,868 million (US$1,711 million) as at 31 December 2009, 2010 and 2011, respectively, and net profit of RMB708 million, RMB94 million and RMB224 million (US$35 million) for the years ended 31 December 2009, 2010 and 2011.

Our results of operations for each of the years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2011 and 2012 included increases in fair value of our investment properties, which were unrealised.

For the years ended 2009, 2010 and 2011 and for the six months ended 30 June 2011 and 2012, we had an increase in the fair value of our investment properties representing respectively, 13.8%, 62.1%, 44.5%, 49.8% and 85.7% of our profit before tax. Upward revaluation adjustments reflect unrealised capital gains on our investment properties at the relevant balance sheet dates and are not profit generated from sales or rentals of our investment properties, and do not generate any actual cash inflow to us for potential dividend distribution to our shareholders until such investment properties are disposed of at similarly revalued amounts. The amount of revaluation adjustments have been, and may

continue to be significantly affected by, the prevailing property markets and also may be subject to market fluctuations. There can be no assurance that we will continue to record similar levels of increase in the fair value of our investment properties in the future. Moreover, the fair value of our investment properties could decrease in the event that the market for comparable properties in the PRC experiences a downturn as a result of PRC government policies aimed at "cooling-off" the PRC property market, or otherwise. Any such decrease in the fair value of our investment properties may materially and adversely affect our profitability.

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

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

We may suffer losses that are not covered by insurance.

We may not have maintained sufficient insurance coverage against potential losses or damages with respect to our properties. Our business may be adversely affected due to the occurrence of typhoons, severe storms, earthquakes, floods, fires or other natural disasters or similar events in the areas of our property developments. Although we carry insurance on our properties with respect to specified catastrophic events, of types and in amounts and with deductibles and limitations that we believe are in line with coverage customarily obtained by owners of similar properties, there are other types of losses, such as from war and acts of terrorism, for which we cannot obtain insurance at a reasonable cost, or at all. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital invested in a property, as well as the anticipated future turnover from the property. Nevertheless, we might remain liable for any project construction loans, mortgage loans or other financial obligations related to the property. It is also possible that third-party insurance carriers will not be able to maintain reinsurance sufficient to cover any losses that may be incurred. Any material uninsured loss could materially and adversely affect our business, financial condition and results of operations.

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

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

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

On 5 August 2005, the PBOC issued a report entitled "2004 Real Estate Financing Report" in which it recommended that the practice of pre-selling uncompleted properties be discontinued, on the grounds that it creates significant market risks and generates transactional irregularities. At the plenary session of the National People's Congress and that of the Chinese People's Political Consultative Conference held in March 2006, a total of 33 delegates to the National People Congress put forward a motion to abolish the system for sale of forward delivery housing. In May 2006, Cheng Jiansheng, head of the Real Estate Finance Division of the Financial Market Department of PBOC, published an article pointing out that the way to improve the system for commodity housing pre-sale in China is to abolish the financing function of pre-sale. On 26 April 2007, an economy research group under the National Development and Reform Commission ("**NDRC**") proposed to change the existing system for sale of forward delivery housing into one for sale of completed housing. These recommendations have not been adopted by any PRC governmental authority and have no mandatory effect. On 5 March 2010, a government work report delivered by Chinese Premiere Wen Jiabao at the Third Session of the 11th National People's Congress pointed out that the PRC government will improve the pre-sale system of commodity housing. For example, the Shanghai local government has adjusted the completion progress level for pre-sale of commodity residential housing projects that obtained the "Permit for Construction Work" after 1 July 2010. Those residential housing projects must have completed the main structural works and passed examination before they can be available for pre-sale, and thus raising the standard for pre-sale. There can be no assurance that the PRC governmental authority will not ban the practice of pre-selling uncompleted properties or implement further restrictions on the pre-sale of properties, such as imposing additional conditions for a pre-sale permit or further restrictions on the use of pre-sale proceeds. Proceeds from the pre-sale of our properties are an important source of financing for our property developments. Consequently, any restriction on our ability to pre-sell our properties, including any increase in the amount of up-front expenditure we must incur prior to obtaining the pre-sale permit, would extend the time period required for recovery of our capital outlay and would result in our needing to seek alternative means to finance the various stages of our property developments. This, in turn, could have an adverse effect on our business, cash flow, results of operations and financial condition.

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

Property developments typically require substantial capital outlay during the construction period and may take months or years before positive cash flows can be generated by pre-sales or sales of completed property developments, or at all. The time and costs required in completing a property development may be subject to substantial increases due to many factors, including shortages of materials, equipment, technical skills and labour, adverse weather conditions, natural disasters, labour

disputes, disputes with contractors, accidents, changes in government priorities and policies, changes in market conditions, delays in obtaining the requisite licenses, permits and approvals from the relevant authorities and other unforeseeable problems and circumstances. Any of these factors may lead to delays in, or prevent, the completion of a property development and result in costs substantially exceeding those originally budgeted. In addition, failure to complete a property development according to its original specifications or schedule, or at all, may give rise to potential liabilities and, as a result, our returns on investments may be lower than originally expected. There can be no assurance that we will be able to complete our development projects on time or at all.

The global economic slowdown, turmoil in the global financial markets and volatility of the property prices since 2008 have negatively impacted, and may continue to negatively impact, our business and our ability to obtain necessary financing for our operations.

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

- slow economic growth and tightened credit have resulted in lower demand for residential and commercial properties and declining property prices, which in turn have affected our turnover and profit margin;

- weak economic conditions have also affected the ability and speed of property developers in commencing new development projects or expanding existing ones; and

- the tightening of credit has negatively impacted the ability of property developers and potential property purchasers to obtain financings.

The outlook for financial markets and general economy around the world remains uncertain. In Europe, several countries are facing difficulties in refinancing sovereign debt. In the United States, the unemployment rate remains high and recovery in the housing market remains subdued. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow or both. In the Middle East, political unrest in various countries has resulted in economic instability and uncertainty.

These and other issues resulting from the global economic slowdown and financial market turmoil have adversely impacted, and may continue adversely impacting, home owners and potential property purchasers, which may lead to a decline in the general demand for our products and erosion of their selling prices. In addition, any further tightening of liquidity in the global financial markets may in the future negatively affect our liquidity. Therefore, if the global economic slowdown and turmoil in the financial markets crisis continue, our business, financial condition and results of operations may be negatively impacted.

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

According to the Notice to Further Strengthen the Supervision of Commodity Property Sales (關於進一步加强本市商品房銷售監管工作的通知) issued by the Shanghai Municipal Real Estate and Land Resources Administrative Bureau on 10 August 2007 and the Interim Regulations on the Administration of the Pre-Sale of Commodity Property in Wuhan (武漢市商品房預售方案管理暫行規定) issued by Wuhan Housing Security and Administration Bureau on 30 June 2010, real

estate companies in Shanghai and Wuhan must, with respect to any project, launch a one-time pre-sale event for all the properties in such project, or if multiple launches are necessary, a portion of the properties with a GFA of no less than 30,000 sq.m. We generally pre-sell properties before they are completed and ready for delivery. See "*Business — Overview of our Principal Activities — Pre-sales, sales and marketing*." We currently have four projects in Shanghai and one in Wuhan, and the sale of properties in Shanghai and Wuhan accounted for the majority of our turnover as at 2009, 2010 and 2011. Such a local requirement restricts our ability to adopt certain sales strategies such as testing the market by launching a small portion of our properties in order to determine the price for pre-sales of the remaining properties. Moreover, such a requirement for a minimum GFA to be launched each time may create an oversupply of properties in certain areas within a certain period of time, which in turn, may result in lower-than-market price for presold properties. There can be no assurance that we will be able to adopt a proper sales strategy in that situation and if we fail to do so, our business, financial condition and results of operations may be materially and adversely affected.

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

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

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

Property developers in the PRC must also produce a valid qualification certificate when they apply for a pre-sale permit. If any one of our project companies is unable to meet the relevant requirements, and is therefore unable to obtain or renew its qualification certificate, that project company will typically be given a grace period to rectify any insufficiency or non-compliance issue, subject to a penalty of between RMB50,000 and RMB100,000. Failure to meet the requirements within the specified timeframe could result in the revocation of the qualification certificate and the business license of such project company. As at 30 June 2012, none of our project companies is in the process of applying for a pre-sales permit. However, there can be no assurance that the qualification certificates of any of our project companies will continue to be renewed or that formal qualification certificates will be obtained in a timely manner, or at all, as and when they expire. If our project or project management companies are unable to obtain or renew their qualification certificates, they may not be permitted to continue their businesses with respect to property development and management, which could materially and adversely affect our business, results of operations and financial condition.

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

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

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

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

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

The real estate industry in the PRC is heavily regulated by the PRC government. PRC property developers must comply with various requirements mandated by national and local laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property development, a property developer must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of the property development, including land use rights documents, planning permits, construction permits, pre-sale permits and certificates or confirmation of completion and acceptance. Each approval is dependent on the satisfaction of certain conditions. There can be no assurance that we will not encounter material delays or other impediments in fulfilling the conditions precedent to the approvals, or that we will be able to adapt ourselves to new laws, regulations or policies that may come into effect from time to time with respect to the real estate industry in general or the particular processes with respect to the granting of the approvals. There may also be delays on the part of the administrative bodies in reviewing our applications and granting approvals. If we fail to obtain, or encounter material delays in obtaining, the requisite governmental approvals, the schedule of development and sale of our developments could be substantially disrupted which would materially and adversely affect our business, results of operations and financial condition. In addition, we are required to fully pay up the registered capital of our PRC subsidiaries within a stipulated timeframe, or otherwise obtain timely extension from the relevant authorities. Certain of our PRC subsidiaries are currently seeking such extensions. Any failure to obtain timely extensions may materially and adversely affect the operations of the relevant PRC subsidiary and, in turn, our business, results of operations and financial condition.

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

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

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

A portion of our turnover is derived from rental income from our office, retail, entertainment and cultural properties held as investment properties. Turnover from property investment contributed approximately 9.5%, 14.5%, 10.0%, 22.7% and 34.3% of our total turnover for the years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2011 and 2012, respectively. Our financial performance may be materially and adversely affected in the event of a decline in rental or occupancy levels, or difficulties in securing lease renewals or obtaining new tenants, or if existing tenants reduce the amount of space that they occupy for any reason. Currently, a majority of the tenancy agreements will expire within five years. There can be no assurance that tenants will renew their leases upon expiration or that we will be able to find replacement tenants at rental rates equal to or higher than those of the expiring tenancies. Moreover, we may be unable to obtain replacement tenants in time so as to minimise vacancy periods in between tenancies or to obtain rental rates equal to or above the current rental rates. Furthermore, if vacant space cannot be leased out for a significant period of time, the market value of our investment properties may be adversely affected. Any such situation may materially and adversely affect our business, financial condition and results of operations.

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

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

We may not be successful in expanding into new cities.

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

RISKS RELATING TO OUR INDUSTRY

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

As a property developer, we are subject to extensive governmental regulations in virtually every aspect of our operations and are highly susceptible to changes in the regulatory measures and policy initiatives implemented by the PRC government. In particular, the PRC government exerts considerable direct and indirect influence on the development of the PRC property sector by imposing industry policies and other economic measures, such as control over the supply of land for property development, control of foreign exchange, property financing, taxation and foreign investment. Through these policies and measures, the PRC government may restrict or reduce land available for property development, raise benchmark interest rates of commercial banks, place additional limitations on the ability of commercial banks to make loans to property developers and property purchasers, impose additional taxes and levies on property sales and restrict foreign investment in the PRC property sector. Policies that the PRC government has introduced to restrict development in the property sector mainly include:

- requiring that at least 70% of the land supply approved by a local government for residential property development for any given year must be used for developing low-to-medium-cost and small-to-medium-sized units and low-cost rental properties;

- the 90 sq.m. rule, requiring that at least 70% of residential projects approved or constructed on or after 1 June 2006 must consist of units with a GFA of less than 90 sq.m. per unit and that projects which have received project approvals prior to this date but have not obtained construction permits must adjust their planning in order to be in conformity with this new requirement, with the exception that municipalities under direct administration of the PRC central government, cities with independent planning, and provincial capitals may deviate from such ratio under special circumstances upon approval from the Ministry of Construction (the "**90 sq.m. Rule**");

- increasing the minimum amount of down payment from 20% to 30% of the purchase price of the underlying property if the underlying property has a GFA of 90 sq.m. or more, effective from 1 June 2006; increasing the minimum amount of down payment to 40% of the purchase price of the second or subsequent residential property and the interest rate of mortgage loans to 1.1 times the then benchmark rate promulgated by the PBOC for residential property purchasers who already have outstanding residential mortgage loans, effective from 27 September 2007; increasing the minimum amount of down payment to 50% of the purchase price for the multiple

residential properties bought with a loan, effective from 17 April 2010, and increasing the minimum amount of down payment to 60% of the purchase price for the second residential property bought with a bank loan or housing provident fund, effective from 26 January 2011. Chinese banks are also required to significantly increase, at their discretion, the down payment and interest rate requirement for those who purchase multiple residential properties. Effective from 29 September 2010, Chinese banks are also required to stop providing mortgage loans for the third or subsequent residential property temporarily and refuse to provide mortgage loans to non-local mortgage loan applicants who cannot provide proof of one year or above of local tax payment record or social security payment record;

- restricting the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties and prohibiting the commercial banks from granting new project loans to property developers that hold idle land or that have participated in speculative land dealing; prohibiting commercial banks from taking commodity properties that have been vacant for more than three years as security for mortgage loans; and prohibiting commercial banks from making additional loans based on the increased value of the underlying property prior to the full repayment of an existing loan;

- requiring that at least 50% of the total project investment must be in the form of registered capital for newly established foreign-invested property development companies with total investments of US$10 million or more, effective 11 July 2006;

- prohibiting foreign-invested property development companies that obtained approval certificates from and registered with the PRC Ministry of Commerce ("**MOFCOM**") on or after 1 June 2007 from incurring any overseas loans, promulgated on 10 July 2007;

- imposing a business tax levy on the entire sales proceeds from resale of properties if the holding period is shorter than five years, effective from 1 June 2006, as opposed to two years as such levy was initially implemented in 2005; such business tax was reduced during the period from 1 January 2009 to 31 December 2009; if the holding period is more than two years, business tax for transfer of ordinary residences will not be imposed, whereas if the holding period is shorter than two years, business tax based on the basis of price difference between the transfer income and original price for transfer of ordinary residences shall be paid;

- increasing the annual tax rate on urban land use rights from RMB0.5-10 to RMB1.5-30 per sq.m. for metropolitan areas depending on the location and type of use, and requiring foreign investment enterprises using urban land, for the first time, to pay the tax on urban land use from 1 January 2007;

- regulating the settlement of LAT by property development enterprises more stringently;

- effective 1 November 2007, requiring property developers to pay the land premium for the entire parcel of land under the land grant contract in full before they earn land use rights certificates and commence development of the land;

- effective 1 July 2008, delegation by the MOFCOM of its authority to its provincial branches to review the registration materials submitted by foreign-invested real estate enterprises;

- effective 18 November 2009, requiring that the minimum down payment for land premium to be 50% and requiring the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions;

- effective 28 January 2011, on a trial basis, introducing property tax in Shanghai and Chongqing;

- effective 1 May 2011, requiring the sale of commodity houses to mark prices on a per unit basis, and publicly disclose the relevant fees which will be charged and other details relating to the sale price of such unit; and

- effective 14 July 2011, requiring the second or third tier cities where housing prices are rising rapidly to adopt purchase restrictions. A more detailed set of standards on such cities was issued on 17 August 2011.

- the recent purchase restriction policy in some cities from January 2011, which is described below.

For further details, see "*Regulation.*"

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

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

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

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

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

Pursuant to the Circular of the General Office of the State Council on Issues concerning Further Works of Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作的有關問題的通知) dated 26 January 2011 (the "**26 January 2011 Circular**"), as a general rule, municipalities, provincial capitals and cities with high housing prices will implement purchase restrictions for a specified period. In principle, (a) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for a required period is limited to purchasing one house (including the new commodity

residential house or a second hand one); and (b) a local residential family that holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family that cannot provide the local payment of tax and/or social insurance for a required period shall be suspended from purchasing any other commodity residential houses.

For the purpose of implementing the 26 January 2011 Circular, the Shanghai Municipal Government promulgated the Notice on Further Strengthening the Macroeconomic Control over Shanghai Real Estate Market (上海市人民政府辦公廳印發關於本市貫徹《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》實施意見的通知) dated 31 January 2011. This notice provides that (i) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for more than one year (on a cumulative basis) within the most recent two years is limited to purchasing one house (including the new commodity residential house or a second hand one); and (ii) a local residential family that holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family that cannot provide evidence of local tax and/or social insurance payment for more than one year (on cumulative basis) within the most recent two years shall be suspended from purchasing any other commodity residential houses in Shanghai, otherwise, these newly-purchased houses cannot be registered with relevant real estate authorities. Furthermore, according to the Notice on Further Implementation of the Macroeconomic Control Policies over Shanghai Real Estate Market (上海市人民政府辦公廳關於進一步嚴格執行房地產市場各項調控政策的通知), promulgated by Shanghai Municipal Government on 26 July 2012, Shanghai shall continue implementing the differential housing loan policy, property tax reform and purchase restriction strictly. In addition to Shanghai, other main cities, including Wuhan, Foshan and Dalian, have also announced their new purchase limit polices which are similar to the requirements in the 26 January 2011 Circular.

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

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

Historically, the PRC property market has been cyclical. The rapid expansion of the property market in certain major provinces and cities in China in the early 1990s culminated in an oversupply in the mid-1990s and a corresponding fall in property values and rentals in the second half of the decade. Since the late 1990s, private residential property prices and the number of residential property development projects have gradually increased in major cities as a result of an increase in demand driven by domestic economic growth. In particular, prices of residential properties in certain major PRC provinces and cities such as Shanghai have experienced rapid and significant growth. However, there can be no assurance that the problems of oversupply and falling property prices that occurred in the mid-1990s will not recur in the PRC property market and the recurrence of such problems could adversely affect our business and financial condition.

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

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

Mortgages are becoming increasingly popular as a means of financing property purchases in the PRC. Most of the prospective buyers of our residential properties are expected to finance a substantial portion of the purchase price with mortgage loans. Because of the need for mortgages, demand for residential properties is likely to be adversely affected by increases in interest rates, which would make residential properties less affordable for prospective purchasers. Further, the Shanghai local government has introduced a ban on residential bridge loans, as a result of which homeowners will have to pay off the balance of their existing mortgage before they can sell to the next buyer if the transfer takes place within one year from the date of the original purchase. In addition, amongst the recent PRC government measures designed to stabilise housing prices, as at 1 June 2006 the minimum down payment for individual residential properties mortgage was set at 30% of the total purchase price, except for low-income purchasers purchasing residential units of less than 90 sq.m. In addition, the PRC government and commercial banks may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. The CBRC issued a regulation on 2 September 2004 to limit mortgage loans on properties to 80% of the sale price of the underlying properties. On 17 March 2005, the PBOC set forth the minimum property mortgage loan rates which is 0.9 times the corresponding benchmark lending rates. As a result, for example, the minimum rate for property mortgages with a term of more than five years was increased to 5.51%, 0.2 percentage points higher than the then existing minimum mortgage loan rate. In May 2006, the PRC government increased the minimum amount of down payment to 30% of the purchase price of the underlying property if such property had a GFA of 90 sq.m. or more. In addition, in September 2007 the PBOC and CBRC jointly promulgated a regulation to increase the minimum amount of down payment to 40% of the purchase price of the second or subsequent residential property and the interest rate of mortgage loans to 1.1 times the then benchmark rate promulgated by the PBOC for residential property purchasers who already have outstanding residential mortgage loans. Chinese banks are also required to significantly increase, at their discretion, the down payment and interest rate requirement for those who purchase multiple residential properties and are prohibited to make additional loans based on the increased value of the underlying property prior to the full repayment of existing loans. Such policy was emphasised on the Notice of the CBRC on Further Strengthening the Risk Management of Mortgage Loans in June 2009. On 17 April 2010, the State Council issued the Notice on Resolutely Curbing the Rapid Rising of the Property Price in Certain Cities (Guofa (2010) No. 10), required the minimum amount of down payment of the first residential property with an area of more than 90 sq.m. to be 30%; the down payment of multiple residential properties bought with a loan shall be no less than 50%, and the interest rate of mortgage loans be 1.1 times the then benchmark rate promulgated by the PBOC; Chinese banks are also required to significantly increase, at their discretion, the down payment and interest rate requirement for those who have purchased multiple residential properties or more residential properties with loans. On 29 September 2010, the PBOC and CBRC promulgated the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy, which stipulated that commercial banks should stop providing housing mortgage to any member of a family unit purchasing the third or the subsequent residential housing temporarily. If the availability or attractiveness of mortgage financing is reduced or limited, many of our prospective customers may not be able to purchase our properties and, as a result, our business, liquidity and results of operations could be adversely affected. According to media reports, since October 2011, several PRC commercial banks have tightened their loan policies for real estate by raising their lending rates. For example, some branches of China Construction Bank have increased the interest rate for mortgage loans to 1.05 times the lending rate published by PBOC during the same period for residential property purchasers who purchase their first residential units. This policy may adversely affect prospective buyers from obtaining their mortgage financing.

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

Under PRC tax laws and regulations, our PRC subsidiaries are subject to LAT, which is collected by local tax authorities. All income from the sale or transfer of land use rights relating to state-owned land, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value as defined by the relevant tax laws. Certain exemptions are available for the sale of ordinary standard residential houses if the appreciation values do not exceed 20% of the total deductible items as defined in the relevant tax laws. Sales of commercial properties are not eligible for such exemption.

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

- for completed property development projects, the transferred GFA represents more than 85% of total saleable GFA, or the proportion represented is less than 85%, but the remaining saleable GFA has been leased out or used by the developer;

- the project has not been sold out for more than three years after obtaining the sale or pre-sale permit;

- the developer applies for cancellation of tax registration without having settled the relevant LAT; or

- other conditions stipulated by the provincial tax authorities.

For each of the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012, we made LAT payments in the amount of RMB95 million, RMB260 million, RMB284 million (US$45 million), RMB137 million and RMB413 million (US$65 million) respectively. The LAT paid by us was not based on the progressive rates specified in the relevant PRC laws and regulations but at a provisional rate which depends on the types and specifications of the relevant property development project.

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

There can be no assurance that the tax authorities will agree with the basis on which we calculate our LAT obligations. In the event that LAT eventually collected by the tax authorities upon completion of the tax assessment exceeds the amount that we have provided for, our net profits after tax will be adversely affected. With respect to property development projects that have not met the tax assessment eligibility criteria, we have paid and will continue to pay provisional LAT as required by the tax authorities. The LAT that is ultimately payable upon completion of the tax assessment of such projects in the future may be different to the provisional LAT paid by us.

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

Under the EIT Law, an enterprise established outside of China with "*de facto* management organisation" located within China will be considered a "resident enterprise," and consequently will be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. However, it is still unclear how the PRC tax authorities will determine whether an entity such as the Issuer or a Guarantor will be classified as a "resident enterprise." If the PRC tax authorities determine that we are a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavourable PRC tax consequences could follow. We may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest from any investment of any portion of the offering proceeds and other income sourced from outside the PRC would be subject to PRC enterprise income tax at a rate of 25%. Furthermore, as described in "*Regulation*", if we are considered a "resident enterprise," interest payable to certain "non-resident enterprise" holders on the Securities may be treated as income derived from sources within China and be subject to PRC withholding tax at a rate of 10%, or a lower rate for holders who qualify for the benefits of a double-taxation treaty with China, and capital gains realised by holders of Securities may be treated as income derived from sources within China and be subject to a 10% PRC tax. If we are deemed to be a PRC tax resident enterprise, interest paid by us to holders of the Securities may be subject to withholding tax at the rate of 20% (subject to the provisions of any applicable double-taxation treaty). If we are required under the EIT Law to withhold PRC tax on our interest payable to our non-resident noteholders who are "non-resident enterprises", we will be required (subject to certain exceptions) to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Securities, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Securities, as well as our profitability and cash flow. In addition to the uncertainty as to the application of the new "resident enterprise" classification, the PRC government could amend or revise the taxation laws, rules and regulations to impose stricter tax requirements, higher tax rates or apply the EIT Law, or any subsequent changes in PRC tax laws, rules or regulations retroactively. As there may be different applications of the EIT Law and any amendments or revisions, comparisons between our past financial results may not be meaningful and should not be relied upon as indicators of our future performance. If such changes occur or are applied retroactively, they could have a material adverse effect on our results of operations and financial condition.

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

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

Under the Shanghai Provisional Rules on the Trial in Collection of Property Tax on Certain Individual Residential Houses (上海市開展對部分個人住房徵收房產税試點的暫行辦法), (i) starting on 28 January 2011, Shanghai shall, on a trial basis, levy a property tax on a newly bought second or succeeding house in Shanghai which is purchased by a local resident family and each newly bought house in Shanghai which is purchased by a non-local resident family; (ii) the applicable rate

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

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

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

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

Under PRC law, if a developer fails to develop land according to the terms of the land grant contract (including those relating to payment of fees, land use or the time for commencement and completion of the development of the land), the relevant land authorities may issue a warning to, or impose a penalty on, the developer or require the developer to forfeit the land use rights. Such requirement has been further prescribed in the recent PRC government measures aimed at stabilising the real property sector. Furthermore, on 3 January 2008, the State Council issued a Circular on the Promotion of Economising and Intensifying the Land Use, which emphasises the enforcement of the current rules

on idle land fees. The notice requires an additional land premium to be levied on the idle land, especially those used for property development, and the relevant governmental authorities will formulate and issue further rules and regulations on such requirements. Specifically, if we fail to commence development for more than one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice on us and impose an idle land fee of up to 20% of the land premium. If we fail to commence development for more than two years from the commencement date stipulated in the land grant contract, the land use rights are subject to forfeiture by the PRC government unless the delay in development is caused by government actions or force majeure. On 21 September 2010, the MLR and the MOHURD issued a notice that prohibits real estate developers from participating in bidding for land if they fail to commence development of land held by them as required by original land grant contracts for more than one year due to their own reasons or do not comply with land development requirements specified in land grant contracts. There can be no assurance that circumstances leading to possible forfeiture of land or delays in the completion of a property development may not occur in the future.

In this regard, our land grant contracts with relevant land authorities typically specify the dates for us to complete the relocation process and to commence or complete construction and specify the amount of land grant fees and relocation expenses and when they should be paid. For a variety of reasons, including delays in the relocation process and delays in the delivery of project sites to us by the relevant PRC governmental authorities, we have experienced delays in the dates specified in these contracts for construction of some of our development projects, including the Shanghai Taipingqiao, Shanghai Rui Hong Xin Cheng, Chongqing Tiandi and Wuhan Tiandi projects, with the result of delays in the payment of required land grant fees and relocation expenses and therefore the availability of the site for our use. In the past, we have been required to pay late penalties, which are required under certain of the land grant contracts, to the relevant land authority with respect to delays in the payment of land grant fees. We may also be required to pay such late penalties in the future. In this regard, we note that although it has not done so in the past, the relevant land authority has the right under the land grant contracts for the Phases 1 and 2 of the Chongqing Tiandi project to require us to pay penalties for late payment of land grant fees.

Potential liability for environmental problems could result in substantial costs.

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

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

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

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

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

RISKS RELATING TO THE PEOPLE'S REPUBLIC OF CHINA

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

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

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

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

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

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

The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other factors, changes in international and national political and economic conditions and the foreign exchange policy adopted by the PRC government. On 21 July 2005, the PRC government changed its policy of attaching the value of Renminbi to the U.S. dollar. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Following the removal of the U.S. dollar peg, Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Since July 2008, Renminbi has traded at a relatively stable level within a narrow range against the U.S. dollar, but RMB has again begun gradual further appreciation against the U.S. dollar since the middle of 2010. It is unclear, however, whether this trend will continue.

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

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

As substantially all of our business is conducted, and substantially all of our assets are located, in the PRC, our operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes. Unlike those of common law systems, decided legal cases have little value as precedents in subsequent legal proceedings. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular. These laws, regulations and legal requirements are relatively new and are often changing, and their interpretation and enforcement involve significant uncertainties that could limit the reliability of the

legal protections available to us. We cannot predict the effects of future developments in the PRC legal system. We may be required in the future to procure additional permits, authorisations and approvals for our existing and future operations, which may not be obtainable in a timely fashion or at all. An inability to obtain such permits or authorisations may have an adverse effect on our financial condition and results of operations. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

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

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

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

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics such as the human swine flu, also known as Influenza A (H1N1), H5N1 avian flu or severe acute respiratory syndrome ("**SARS**"), and other natural disasters which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC, including certain cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought or epidemics.

For instance, a serious earthquake and its successive aftershocks hit Sichuan province in May 2008, resulting in tremendous loss of life and injury, as well as destruction of assets in the region. Furthermore, the PRC reported a number of cases of SARS in 2003. Since its outbreak in 2004, there have been reports on occurrences of avian flu in various parts of the PRC, including several confirmed human cases and deaths. In particular, any future outbreak of SARS, avian flu or other similar adverse public developments may, among other things, significantly disrupt our business, including limiting our ability to travel or ship our products within the PRC. An outbreak may also severely restrict the level of economic activity in affected areas, which may in turn have a material and adverse effect on our results of operations, financial condition and business. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of swine flu, avian flu, SARS or any other epidemic.

Acts of war and terrorist attacks may cause damage or disruption to us, our employees and our markets, any of which could materially impact our sales, cost of sales, overall results of operations and financial condition. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that currently we cannot predict.

RISKS RELATING TO THE SECURITIES

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

The Issuer and the Guarantor are holding companies with no material operations or assets of their own. We conduct our operations through our subsidiaries. The Issuer's primary assets consist of its direct and indirect ownership interests in our subsidiaries, and the Guarantor's primary assets consist of its 100% equity interest in the Issuer. None of the subsidiaries will guarantee the Securities on the issue date, and the subsidiaries will not be required to guarantee the Securities after the issue date unless they have also guaranteed other indebtedness of the Issuer after the issue date.

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

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

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

The Securities are perpetual securities and investors have no right to require redemption.

The Securities are perpetual and have no fixed final maturity date. Holders of the Securities have no right to require the Issuer to redeem the Securities at any time and they can only be disposed of by sale. Holders of the Securities who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities. Therefore, holders of the Securities should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time.

Holders of the Securities may not receive Distribution payments if the Issuer elects to defer Distribution payments.

The Issuer may, unless a Compulsory Distribution Payment Event (as defined in the "*Terms and Conditions of the Securities*") has occurred, at its sole discretion, elect to defer any scheduled Distributions on the Securities for any period of time. The Issuer is not subject to any limits as to the number of times Distributions can be deferred. Although Distributions are cumulative, the Issuer may defer their payment for an indefinite period of time by delivering the relevant deferral notices to holders of the Securities.

The Securities may be redeemed at the Issuer's option at any time on or after 5 years from the date of issue of the Securities or the occurrence of certain other events.

The Securities are redeemable at the option of the Issuer on 10 December 2017 or on any Distribution Payment Date thereafter.

In addition, the Securities may also be redeemed at the option of the Issuer in whole, but not in part, at any time, at their principal amount together with all outstanding Arrears of Distribution (as defined in the "*Terms and Conditions of the Securities*") and Additional Distribution Amount (as defined in the "*Terms and Conditions of the Securities*") (if any) and any Distribution accrued to the date fixed for redemption, upon the occurrence of certain changes in the Cayman Islands or Hong Kong requiring the payment of Additional Tax Amounts (as defined in the "*Terms and Conditions of the Securities*"). In addition, the Securities may be redeemed at the option of the Issuer in whole, but not in part, at a redemption price equal to (i) the Early Redemption Amount (as defined in the "*Terms and Conditions of the Securities*") if such redemption occurs prior to 10 December 2017 or (ii) the principal amount thereof together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and Additional Distribution Amount) if such redemption occurs on or after 10 December 2017, (A) in the case that prior to the date of the notice of redemption, at least 90 per cent. in principal amount of the Securities originally issued has already been redeemed or purchased and cancelled; or (B) upon the occurrence and continuation of an Equity Disqualification Event (as defined in the "*Terms and Conditions of the Securities*"); or (C) upon the occurrence and continuation of an Change of Control (as defined in the "*Terms and Conditions of the Securities*"); or (D) upon the occurrence and continuation of a Breach (as defined in the "*Terms and Conditions of the Securities*"). This may be disadvantageous to holders of the Securities in light of market conditions or the holders' individual circumstances. In addition, any investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

In addition, upon occurrence of certain events, the Distribution Rate (as defined in the *"Terms and Conditions of the Securities"*) of the Securities will be increased, which may affect the Issuer's ability to pay such increased Distributions or redeem the Securities.

Our operations are restricted by the terms of our outstanding 6.875% Senior Notes, 7.625% Senior Notes, 8% Senior Notes, 9.75% Senior Notes and the Securities.

The indentures relating to our outstanding 6.875% Senior Notes, 7.625% Senior Notes, 8% Senior Notes and 9.75% Senior Notes and the Trust Deed relating to the Securities include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our subsidiaries, to incur or guarantee additional indebtedness and issue disqualified or preferred stock, declare dividends on capital stock or purchase or redeem capital stock or make investments or other specified restricted payments. These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs or our ability to redeem the Securities.

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

Although substantially all of our turnover is generated by our PRC operating subsidiaries and is denominated in Renminbi, we are required to settle all amounts due under the Securities in U.S. dollars at the prevailing exchange rate between Renminbi and the U.S. dollars at the time of payment. Pursuant to reforms of the exchange rate system announced by the PBOC on 21 July 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 18 May 2007, PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on 21 May 2007. This allows Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On 19 June 2010, the PBOC announced its intention to proceed with the reform of Renminbi exchange rate regime to increase the Chinese currency's exchange rate flexibility. The Renminbi has appreciated 7.49% against the U.S. dollar from 1 January 2009 to 30 June 2012, according to rates published by Bloomberg.

The PRC government may adopt further reforms of its exchange rate system, including making Renminbi freely convertible in the future. If such reforms were implemented, it is possible that they may result in a devaluation of Renminbi against the U.S. dollar, in which case our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar and H.K. dollar denominated indebtedness and other obligations. Such devaluation could also adversely affect the value, translated or converted to U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Securities.

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

There are limited remedies for default under the Securities and the Guarantee.

Any scheduled Distribution will not be due if the Issuer elects to defer that Distribution. The Securities do not contain any provisions to remedy a default on payment or other obligations of the Issuer. Holders can look to the Guarantor upon the winding-up of the Issuer, and the right to institute winding-up proceedings is limited to circumstances provided by applicable law.

The Securities are unsecured obligations and will be effectively subordinated to all indebtedness and other liabilities of subsidiaries of the Issuer.

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

- we enter into bankruptcy, liquidation, reorganisation or other winding-up proceeding;
- there is a default in payment under our future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of our indebtedness. If any of these events occur, our assets may not be sufficient to pay amounts due on the Securities.

None of the subsidiaries of the Issuer will guarantee the Securities on the Issue Date, and the subsidiaries of the Issuer will not be required to guarantee the Securities after the Issue Date. Creditors (including trade creditors) and preferred shareholders of our subsidiaries will therefore generally be entitled to payment from our subsidiaries' assets before such assets can be distributed to the Issuer and made available to holders of the Securities. As a result, the Issuer's and the Guarantor's payment obligations under the Securities will be effectively subordinated to all existing and future obligations of our subsidiaries, including obligations to trade creditors, and all claims of creditors and preferred shareholders of our subsidiaries will have to be satisfied before assets of those subsidiaries would be available for distribution to the Issuer, the Guarantor or their creditors, including holders of the Securities.

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

We have made, and in the future may continue to make, significant investments in entities engaged in permitted business in which we have a non-controlling interest. We may use a significant portion of the proceeds of the offering to make these types of investments. We cannot assure you that such non-controlling investments will contribute to our income or cash flow and we may suffer partial or complete loss with respect to such investments.

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

We now have, and will continue to have after the offering of the Securities, a substantial amount of indebtedness. Our total bank and other borrowings, including both current and non-current portions, at 31 December 2009, 2010 and 2011 and at 30 June 2011 and 2012 was RMB10,203 million, RMB13,183 million, RMB16,743 million (US$2,635 million), RMB15,802 million and RMB16,366 million (US$2,576 million), respectively. We and our subsidiaries may incur substantial additional indebtedness in the future.

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

- making it more difficult for us to satisfy our obligations under the Securities and our other indebtedness;
- increasing our vulnerability to adverse general economic and industry conditions;

- requiring us to dedicate a substantial portion of our cash flow from operations to pay our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate requirements;

- limiting our flexibility in planning for, or reacting to, changes in our businesses and the industry in which we operate;

- placing us at a competitive disadvantage compared to our competitors that have less debt;

- limiting our ability to obtain additional financing; and

- increasing the cost of additional financing.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. There can be no assurance that we will be able to generate sufficient cash flow to meet our anticipated operating expenses or to service our debt obligations as they become due. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012, our net cash flow from operating activities was an inflow of RMB1,613 million, an outflow of RMB3,323 million, an inflow of RMB528 million (US$83 million), an outflow of RMB456 million and an outflow of RMB1,140 million (US$179 million), respectively. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing existing indebtedness or seeking equity capital. These strategies, if implemented, may not be instituted on satisfactory terms.

In addition, our existing financing arrangements impose operating and financial restrictions on our business (including, under several existing bank loan agreements of the Issuer, the Guarantor and our subsidiaries, the maintenance of certain financial ratios). Our ability to meet such financial ratios may be affected by events beyond our control. There can be no assurance that we will be able to meet these ratios. These provisions may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund necessary capital expenditures, or withstand a continuing or future downturn in our business. Any of these constraints upon us could materially and adversely affect our ability to satisfy our obligations under the Securities.

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

From time to time, the Group has been required to seek amendments, waivers and consents in connection with financial and other covenants under the Group's debt facilities. Such amendments, waivers and consents have all been granted by the applicable creditors and such incidents have not caused any material adverse impact on our operation and financial conditions. There is no assurance that we will not need to seek such amendments, waivers or consents in the future.

If we are or the Issuer is unable to comply with the restrictions and covenants in our current or future financing and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the relevant debt could terminate their commitments to lend to us, accelerate the debt obligation and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, certain debt agreements or instruments may contain cross-acceleration or cross-default provisions. As a result, default under one

debt agreement or instrument may cause the acceleration of repayment of not only such debt but also other debt or result in a default under other debt agreements. If any of these events should occur, there can be no assurance that our assets and cash flow would be sufficient to repay in full all indebtedness, or that alternative financing could be found. Even if alternative financing can be obtained, there can be no assurance that it would be on terms that are favourable or acceptable to us.

If we complete the Proposed China Xintiandi Spin-off, the credit underlying the Securities and thus the market price of the Securities may be materially affected.

On 28 May 2012, the Guarantor announced that it had submitted a proposal to the Hong Kong Stock Exchange to dispose of part of its interest in China Xintiandi, a wholly owned subsidiary of the Guarantor, by way of the Proposed China Xintiandi Spin-off, and has submitted a listing application to the Hong Kong Stock Exchange for the shares of China Xintiandi in connection with the Proposed China Xintiandi Spin-off.

The Proposed China Xintiandi Spin-off is subject to, among other things, the approval by the Listing Committee of the Hong Kong Stock Exchange, the final decisions of the board of directors of the Guarantor, of the board of directors of China Xintiandi, the approval of the shareholders of The Guarantor and consents from certain of our joint venture partners and lenders and from holders of our outstanding senior notes (including holders of the Securities). Although we have not made any final decision as to the final structure and timing with respect to the Proposed China Xintiandi Spin-off, if we complete the Proposed China Xintiandi Spin-off (after having obtained the required approvals and consents, including from the holders of the Securities), the business, assets and liabilities of China Xintiandi and its subsidiaries may no longer be part of the credit underlying the Securities (though we may also receive in return cash consideration or other benefits from the Proposed China Xintiandi Spin-off, depending on its final structure). This in turn may have a material effect on the market pricing and trading of the Securities following completion of the Proposed China Xintiandi Spin-off.

An active trading market for the Securities may not develop, and the trading price of the Securities could be materially and adversely affected.

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

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

- prevailing interest rates and interest rate volatility;
- our results of operations, financial condition and future prospects;
- changes in our industry and competition;

- the market conditions for similar securities; and
- general economic conditions, almost all of which are beyond our control.

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

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

The price and trading volume of the Securities may be highly volatile. Factors such as variations in our turnover, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates, currency exchange rates and fluctuations in prices for comparable companies could cause the price of the Securities to change. Any such developments may result in large and sudden changes in the volume and price at which the Securities will trade. There can be no assurance that these developments will not occur in the future.

No credit rating agencies have assigned ratings to the Securities.

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

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

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

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Securities depends solely upon the ability of our PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to us. Our PRC subsidiaries must present certain documents to SAFE, its authorised branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC

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

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

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

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

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

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

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

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

examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between IFRS and generally accepted accounting principles and other accounting standards in other jurisdictions and how those differences might affect the financial information contained in this Offering Circular.

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

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

The Securities 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 Securities will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global certificate representing the Securities will trade in book-entry form only, and securities 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 Securities for purposes of the Securities. The common depositary for Euroclear and Clearstream will be the sole registered holder of the global certificate. 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 Securities under the Securities. Upon the occurrence of an event of default under the Securities, unless and until definitive registered certificates 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 Securities. See "*Terms and Conditions of the Securities*".

The Guarantee may be challenged under applicable insolvency or fraudulent transfer laws which may affect the enforceability of such guarantees.

The Companies Law (2012 Revision) of the Cayman Islands (the "**Companies Law**"), where the Guarantor is established, provides that every conveyance or transfer of property, or charge thereon, and every payment obligation and judicial proceeding, made, incurred, taken or suffered by a company at a timewhen that company was unable to pay its debts within the meaning of section 93 of the Companies Law, and made or granted in favour of a creditor with a view to giving that creditor a preference over the other creditors of the company, would be invalid pursuant to section 145(1) of the Companies Law, if made, incurred, taken or suffered within the six months immediately preceding the commencement of a liquidation of the company. Such actions will be deemed to have been made with a view to giving such creditor a preference if it is a "related party" of the company. A creditor shall be treated as a related party if it has the ability to control the company or exercise significant influence over the company in making financial and operating decisions.

Any disposition of property made at an undervalue by or on behalf of a company and with an intent to defraud its creditors (which means an intention to wilfully defeat an obligation owed to a creditor), shall be voidable:

(a) under section 146(2) of the Companies Law at the instance of the company's official liquidator; and

(b) under the Fraudulent Dispositions Law (1996 Revision) of the Cayman Islands, at the instance of a creditor thereby prejudiced,

provided that in either case, no such action may be commenced more than six years after the date of the relevant disposition.

There is no statutory definition of "solvency" or "insolvency" as a matter of Cayman Islands law. Rather, the Companies Law provides (inter alia) that a Company may be wound up by the Grand Court of the Cayman Islands (the "**Court**") if the Court is satisfied that the Company is unable to pay its debts. On this basis, "insolvency" as a matter of Cayman Islands law is generally said to be determined on a "cash flow" analysis.

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. 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 Guarantor under the Guarantee will be limited to the maximum amount that can be guaranteed by the Guarantor without rendering the Guarantee, as it relates to such Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If the Guarantee were held to be invalid pursuant to the Companies Law or unenforceable for any other reason, holders of the Securities would cease to have a claim against the Guarantor based upon the Guarantee, and would solely be creditors of the Issuer (and any subsidiary of the Issuer that may be required to guarantee the Securities after the issue date, but only to the extent such subsidiary guarantee was not similarly voided, subordinated or held unenforceable). There can be no assurance that, in such an event and after providing for all prior claims, there would be sufficient assets to satisfy the claims of holders of the Securities.

The Trustee may request the holders of the Securities to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (as specified in the "*Terms and Conditions of the Securities*"), the Trustee may (at its sole discretion) request holders of the Securities to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of holders of the Securities. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed (as defined in the "*Terms and Conditions of the Securities*") and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the holders of the Securities to take such actions directly.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the discount to the Joint Lead Managers and other estimated expenses payable in connection with this offering, will be approximately US$488 million. We intend to use the net proceeds to fund capital expenditures related to the Group's real estate operations and/or acquire, develop, construct or improve assets, real or personal property or equipment or repay existing indebtedness, in each case subject only to the extent permitted under the terms of the 6.875% Senior Notes, the 7.625% Senior Notes, the 8% Senior Notes and the 9.75% Senior Notes. We may adjust the plans in response to changing market conditions and thus reallocate the use of the proceeds to the extent permitted under the terms of the 6.875% Senior Notes, the 7.625% Senior Notes, the 8% Senior Notes and the 9.75% Senior Notes.

The PBOC sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the previous day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars, Singapore dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE and other relevant authorities. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by 2% against the U.S. dollar. On 18 May 2007, the PBOC announced that the floating band for the trading prices in the inter-bank foreign exchange market of Renminbi against the U.S. dollar would be expanded from 0.3% to 0.5% around the central parity rate, effective on 21 May 2007. This allows Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On 20 June 2010, the PBOC announced that it intended to further reform the RMB exchange rate regime by allowing greater flexibility in the RMB exchange rate and on 16 April 2012 the band was further expanded to 1%. The PRC government may, in the future, make further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against Renminbi on the following working day.

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

	Noon Buying Rate			
Year	**Low**	**Average[1]**	**High**	**Period End**
	(RMB per US$)			
2009	6.8176	6.8307	6.8470	6.8259
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
2012				
May	6.3052	6.3242	6.3684	6.3684
June	6.3530	6.3633	6.3703	6.3530
July	6.3487	6.3717	6.3879	6.3610
August	6.3484	6.3593	6.3738	6.3484
September	6.2848	6.3200	6.3489	6.2848
October	6.2372	6.2627	6.2877	6.2372
November (to 23 November 2012)	6.2250	6.2364	6.2454	6.2275

Source: Federal Reserve H.10 Statistical Release

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

On 30 June 2012, the U.S. dollar/Renminbi exchange rate was US$1.00 to RMB6.3530.

CAPITALISATION

The following table sets forth our borrowings and capitalisation as at 30 June 2012 (derived from our unaudited, condensed consolidated financial statements as at 30 June 2012) on an actual basis, and on an "as adjusted" basis and an "as further adjusted" basis.

The "as adjusted" data set forth below gives effect to (i) the bank loans drawn down during the five months ended 30 November 2012 (net of repayment of such bank loans for the same period) and (ii) the additional US$400 million 9.75% Senior Notes due 2015.

The "as further adjusted" data set forth below gives effect to the Securities contemplated to be issued (but before deducting fees and other expenses payable in connection with the offering).

Except as otherwise disclosed herein and other than the drawdown and repayment of bank borrowings in the normal course of business, there has been no material change in our borrowings and capitalisation since 30 June 2012.

	Year ended 30 June 2012[1]					
	Actual		As Adjusted		As Further Adjusted	
	(RMB in millions)	*(US$ in millions)*	*(RMB in millions)*	*(US$ in millions)*	*(RMB in millions)*	*(US$ in millions)*
Total bank balance and cash						
Pledged bank deposits — non-current	1,010	159	1,010	159	1,010	159
Pledged bank deposits — current	982	155	982	155	982	155
Restricted bank deposits	303	48	303	48	303	48
Bank balances and cash[2]	2,901	457	7,683	1,210	10,860	1,710
Total bank balance and cash	5,196	819	9,978	1,572	13,155	2,072
Total borrowings — current portion						
Bank borrowings — due within one year	6,385	1,005	5,495	865	5,495	865
Total borrowings — current portion	6,385	1,005	5,495	865	5,495	865
Total borrowings — non-current portion						
Bank and other borrowings — due after one year	9,981	1,571	13,112	2,064	13,112	2,064
Convertible Bonds due 2015[3]	2,284	360	2,284	360	2,284	360
6.875% Senior Notes due 2013	2,971	468	2,971	468	2,971	468
7.625% Senior Notes due 2015	3,565	561	3,565	561	3,565	561
8% Senior Notes due 2015	1,263	199	1,263	199	1,263	199
9.75% Senior Notes due 2015	3,058	481	5,599	881	5,599	881
Total borrowings — non-current portion	23,122	3,640	28,794	4,533	28,794	4,533
Total borrowings[2]	29,507	4,645	34,289	5,398	34,289	5,398
Capital and reserves attributable to equity shareholders of the Company						
Issued capital[3]	112	18	112	18	112	18
Share premium	14,741	2,320	14,741	2,320	14,741	2,320
Other reserves	1,209	190	1,209	190	1,209	190
Securities to be issued	—	—	—	—	3,177	500
Retained earnings	13,821	2,176	13,821	2,176	13,821	2,176
Non-controlling interests	2,531	398	2,531	398	2,531	398
Total equity	32,414	5,102	32,414	5,102	35,591	5,602
Total Capitalisation[4]	55,536	8,742	61,208	9,635	64,385	10,135

Notes:

(1) All items in this table have been translated from Renminbi to U.S. dollars at the rate of RMB6.3530 to US$1.00 (except for all amounts relating to the 8% Senior Notes due 2015, which have been translated from Singapore dollar to Renminbi at the rate of S$1 to RMB4.9029).

(2) During the five months ended 30 November 2012, the Group repaid a total of RMB890 million of its bank borrowings and incurred a total of RMB3,131 million of additional bank borrowings and issued an additional RMB2,541 million of 9.75% Senior Notes due 2015.

(3) If all the Convertible Bonds due 2015 were converted at the conversion price of HK$4.47 per share, up to 696,065,000 shares would be issuable upon conversion.

(4) Total capitalisation represents the sum of the non-current portion of long-term borrowings and total equity.

The following is a discussion of our financial condition and results of operations as at and for the years ended 31 December 2009, 2010 and 2011 and as at and for the six months ended 30 June 2011 and 2012 and of the material factors that we believe are likely to affect our financial condition and results of operations. You should read this section in conjunction with our financial statements included in this Offering Circular beginning on page F-3. Our financial statements have been prepared in accordance with IFRS.

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

OVERVIEW

We are one of the leading property developers in the PRC and the flagship property company of the Shui On Group. We engage principally in the development, sale, leasing, management and the long-term ownership of high-quality residential, office, retail, entertainment and cultural properties in the PRC. We have expertise and experience in developing large-scale integrated property projects based on master plans that we have developed in conjunction with local governments. As at 30 June 2012, we have eight major multi-phase projects in various stages of completion located in the cities of Shanghai, Wuhan, Chongqing, Foshan and Dalian in the PRC. Our landbank currently stands at approximately 13.3 million sq.m. with an aggregate estimated leasable and saleable GFA of approximately 11.1 million sq.m. (of which approximately 8.2 million sq.m. is attributable to us) and approximately 2.2 million sq.m. of car parks and other public facilities.

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

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

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

As at 30 June 2012, our eight major multi-phase projects are as follows:

Shanghai area:

- the Shanghai Taipingqiao project;

- the Shanghai Rui Hong Xin Cheng project;
- the Shanghai KIC project;
- THE HUB;

Wuhan area:

- the Wuhan Tiandi project;

Chongqing area:

- the Chongqing Tiandi project;

Foshan area:

- the Foshan Lingnan Tiandi project; and

Dalian area:

- the Dalian Tiandi project.

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

For the years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2011 and 2012, we derived approximately 89.9%, 84.7%, 89.4%, 75.8% and 64.6% respectively, of our income from property sales (specifically, sales at Shanghai Taipingqiao, Shanghai Rui Hong Xin Cheng, Shanghai KIC, Wuhan Tiandi, Chongqing Tiandi and Foshan Lingnan Tiandi) and approximately 10.1%, 15.3%, 10.6%, 24.2% and 35.4% respectively, of our income from rental and other related income.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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

China's economic conditions

Our results of operations and financial conditions are significantly affected by China's economic conditions and the economic measures taken by the PRC government. China has experienced rapid economic growth over the past three decades largely as a result of the PRC government's extensive economic reforms, which have focused on transforming China's centrally planned economy into a more market-based economy. The real growth of China's overall economy ranged from 9.1% to 14.2% annually between 2002 and 2007, 9.6% in 2008 and 9.2% in 2009, according to the National Bureau of Statistics of China. Since the second half of 2008, the global economic slowdown has had an adverse impact on the overall Chinese economy, including the PRC real estate market, from which a significant portion of our turnover was generated. As the global economy began to recover at the end of 2009, the Chinese economy reached pre-downturn GDP growth of 10.7% in the last quarter of 2009 and 10.4% in 2010, but it slipped to 9.2% in 2011, according to the National Bureau of Statistics of China. The economic conditions and volatility of property prices may continue to have an impact on our business and results of operations.

The type and size of our completed properties

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

Ability to acquire and cost of acquiring suitable land

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

Construction costs

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

Valuation of our investment properties

Our investment properties are properties held to earn rental income and/or capital appreciation. Our investment properties are stated at their fair value on our consolidated financial statements as non-current assets as of each of the reporting dates on the basis of valuations by a qualified independent appraiser. Gains or losses arising from changes in the fair value of our investment properties are accounted for as increases or decreases in fair value of investment properties in our

consolidated income statement, which may have a substantial effect on our profit. From 1 January 2009, investment properties under construction or development have been accounted for in the same way as completed investment properties. In the circumstances where the fair value of an investment property under construction or development is not reliably determinable but the fair value of the property is expected to be reliably determinable once construction is complete, such investment property under construction or development is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is the earlier. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012, our investment properties were revalued upwards by RMB536 million, RMB2,711 million, RMB2,696 million (US$424 million), RMB661 million and RMB1,268 million (US$200 million), respectively, which included both completed properties and properties under construction or development. See "*Basis of Preparation*." Property valuation involves the exercise of professional judgment and requires the use of certain bases and assumptions. The bases and assumptions which an appraiser uses for the valuation typically include references to values realised in comparable precedent transactions in the market for properties of similar size, characteristics of the relevant property and location. The fair value of our investment properties may have been higher or lower if the appraiser had used a different set of bases or assumptions or if the valuation had been conducted by other qualified independent professional appraisers using a different set of bases and assumptions. In addition, upward revaluation adjustments reflect only unrealised capital gains on our investment properties at the relevant reporting dates, and do not generate any additional cash flows to us until such investment properties are disposed of at similarly revalued amounts. The amounts of revaluation adjustments have been, and may continue to be, significantly affected by the prevailing property markets and their value may rise as well as fall. There can be no assurance that we will continue to record similar levels or pace of increase in fair value of investment properties in the future.

Sales of interests in projects

We have historically sought out, and intend to continue to seek out, opportunities to enter into strategic partnerships with investors to sell our interests in selected parcels of land, and/or to co-develop some lots of our projects with a view to potentially accelerating our development schedules and allowing us to undertake more new projects. For example, since 2006 we have sold non-controlling interests in our Chongqing Tiandi, Wuhan Tiandi, Shanghai Rui Hong Xin Cheng, Shanghai Taipingqiao Lot 116, Foshan Lingnan Tiandi Lot 18, Lots 6 and 16 projects and our Chongqing Super High Rise properties to strategic investors that we believe would be beneficial to our development of those projects. The proceeds of approximately RMB5,337 million (US$840 million) that we received from such sales of non-controlling interests were used primarily to finance land acquisitions and project development costs for our other projects. We expect to receive an additional RMB39 million (US$6 million) in the second half of 2012, which will be used for the same purpose. In the future, our results may be affected by any such transactions, depending on the terms of sale and the cost of the asset or interest disposed.

PRC government control and policies

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

- land acquisition;
- property sales;
- the availability of mortgage financing;

- sales or other transfers of land use rights and completed properties;
- taxes;
- planning and zoning; and
- building design and construction.

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

Availability and cost of funds

We finance our property developments primarily through internally generated funds (including proceeds from sales and pre-sales of properties and rental income from our investment properties), sales of interests in our development projects to strategic investors, bank borrowings and other debt and capital financing. As at 31 December 2009, 2010 and 2011 and as at 30 June 2011 and 2012, our outstanding bank and other borrowings were RMB10,203 million, RMB13,183 million, RMB16,743 million (US$2,635 million), RMB15,802 million and RMB16,366 million (US$2,576 million) respectively.

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

RECENT DEVELOPMENTS

During the five months ended 30 November 2012, the Group repaid a total of RMB890 million of its bank borrowings and incurred a total of RMB3,131 million of additional bank borrowings.

On 22 August 2012, the Group and Mitsui entered into a sale and purchase agreement, pursuant to which the Group agreed conditionally to sell and Mitsui agreed conditionally to purchase a 49% equity interest in the entire issued share capital of Glory Land and the related shareholder's loans for total cash consideration of approximately RMB224 million. Glory Land holds all the class A shares of Billion China Investments Limited, which wholly owns Crown Fame Limited, which in turn owns 90% of Foshan Shui On which owns the land known as Lots 6 and 16 of the Foshan Lingnan Tiandi project. Upon acquisition of a 49% equity interest in Glory Land, Mitsui will hold a 44.1% attributable interest in Foshan Shui On. The transaction was completed on 9 November 2012. For further details, please refer to the announcement made by the Group on 22 August 2012, which was published and is available on the website of the Hong Kong Stock Exchange.

On 6 August 2012, the Issuer successfully completed an additional issuance of the 9.75% Senior Notes in an aggregate principal amount of US$400 million. The 9.75% Senior Notes are guaranteed by Shui On Land. See "*Description of Other Material Indebtedness — 9.75% Senior Notes due 2015.*" We intend to use the net proceeds from the additional issuance of 9.75% Senior Notes to fund capital expenditures related to the Group's real estate operations and/or acquire, develop, construct or improve assets, real or personal property or equipment or repay existing indebtedness, in each case to the extent permitted under the terms of the 6.875% Senior Notes, 7.625% Senior Notes, 8% Senior Notes and the existing 9.75% Senior Notes.

On 29 November 2011, the Group and Mitsui entered into a sale and purchase agreement, pursuant to which the Group agreed conditionally to sell and Mitsui agreed conditionally to purchase a 49% equity interest in the entire issued share capital of Value Land and the related shareholder's loans, in two tranches for total cash consideration of approximately RMB391 million. Value Land holds all the class A shares of Magic Bright Investments Limited, which wholly owns Regal Victory Limited, which in turn owns 92% of Foshan Yong Rui which owns the land known as Lot 18 of the Foshan Lingnan Tiandi project. Upon acquisition of a 49% equity interest in Value Land, Mitsui will hold a 45.08% attributable interest in Foshan Yong Rui. The first closing of this transaction took place on 12 December 2011 pursuant to which 44.1% of the issued share capital of Value Land as at 12 December 2011 was transferred to Mitsui. Subject to completion of the second closing, an additional 4.9% of the issued share capital of Value Land will be transferred to Mitsui. Under the terms of the relevant transaction agreements, because the second closing has not been completed within six months of the first closing, Mitsui has the option to sell back the equity interests in Value Land it has acquired in the first closing to the Group. For further details, please refer to the announcement made by the Group on 29 November 2011, which was published and is available on the website of the Hong Kong Stock Exchange.

CURRENT TRADING AND PROSPECTS

Since 30 June 2012, the PRC government has implemented further macroeconomic controls on the real estate property market in the PRC, including imposing restrictions on the number of properties which can be owned by families, which may adversely impact on the demand for our properties. See "*Risk Factors*" and "*Regulation*" for further details. Nevertheless, we do not expect our performance will be materially adversely affected by these policies.

BASIS OF PREPARATION

The consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("**IASB**"), in effect at the time of the preparation of the

consolidated financial statements. The consolidated financial statements include the accounts of the Group's subsidiaries from the date that control effectively commenced until the date that control effectively ceased. The list of the Group's principal subsidiaries with effective ownership interest as at 31 December 2009, 2010 and 2011 is included in the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

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

Valuation of our investment properties

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

Turnover recognition

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

Properties under development

Investment properties under construction or development are measured at fair value at the end of each reporting period. Construction costs incurred for investment properties under construction or development are capitalised as part of the carrying amount of the investment properties under construction or development. Any difference between the fair value of the investment properties under construction or development and their carrying amounts is recognised in the consolidated income statement in the period in which they arise. Properties under development which are intended to be

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

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. As at 30 June 2012, our associates were our Dalian Entities.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which excludes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

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

Borrowing costs

We capitalise borrowing costs directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of those assets, after deducting any investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets. Such capitalisation of borrowing costs ceases when the relevant assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Property, plant and equipment

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

LAT

The Group is subject to LAT in the PRC. However, the implementation and settlement of the tax varies among different tax jurisdictions in various cities of the PRC. The Group has cleared LAT for certain projects sold prior to year 2009 with the final settlement approximated to our LAT provision. However, for most of the projects sold during the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012, the Group has not finalised those LAT calculations and payments with the local tax authorities in the PRC. Accordingly, significant judgment is required in determining the amount of LAT and its related income tax provisions. The Group recognised LAT and made full provisions based on management's best estimates according to the PRC regulations. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax provisions in the periods in which such tax is finalised with local tax authorities. See "— *Description of Selected Income Statement Items — Taxation*."

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest is only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. At each reporting date, our directors consider a number of factors including the relevant profit projections, and, taking into account these factors, estimate the realisability of the tax losses based on their best knowledge of our profit projections for the relevant period. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

DESCRIPTION OF SELECTED INCOME STATEMENT ITEMS

Turnover

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

Property development

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

Property investment

Turnover from property investment principally represents income from property letting, property management and the operation of hotel and serviced apartments. As at the date of this Offering

Circular we derived property investment income from Shanghai Xintiandi, Shanghai Shui On Plaza, Shanghai Langham Xintiandi Hotel, Shanghai Corporate Avenue, Shanghai Rui Hong Xin Cheng Commercial Complex, Shanghai KIC (Plaza and Village), Hangzhou Xihu Tiandi Phase 1, Wuhan Tiandi Commercial and Chongqing Tiandi (The Riviera) and Foshan Lingnan Tiandi.

Others

Other turnover comprises primarily operating income from food and beverage outlets and retail outlets, car parking charges and project management fees.

Cost of sales

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

Property development

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

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

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

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

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

Property Investment

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

Gross Profit

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

Other income

Other income consists primarily of interest income, grants received from local governments and certain non-recurring income.

Selling and marketing expenses

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

General and administrative expenses

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

Increase in fair value of investment properties

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

Gain on acquisition of subsidiaries

Gain on acquisition of subsidiaries represented the excess of the fair value of the acquiree's identifiable assets acquired and the liabilities assumed at the date of acquisition, over the sum of the consideration transferred and the amount of any non-controlling interests in the acquiree.

Gain on acquisition of additional equity interests in subsidiaries

When we increase our interest in an entity controlled by us, goodwill arising on such acquisition represents the difference between the cost of additional interest acquired and the increase in our share of the fair value of the identifiable assets, liabilities and contingent liabilities.

At the date of acquisition, we reassess the identification and measurement of the enterprise's identifiable assets, liabilities and contingent liabilities. If our additional interest in the net fair value of those items exceeds the cost of the acquisition, any excess remaining after that reassessment, which represents the gain on acquisition, is recognised immediately in the consolidated income statement.

Share of results of associates

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

Finance costs, net of exchange gain

Finance costs, net of exchange gain, consist primarily of interest on the 6.875% Senior Notes, the 7.625% Senior Notes, the 8% Senior Notes, the 9.75% Senior Notes, the Convertible Bonds, bank loans and overdrafts wholly repayable within five years and the fair value changes on derivative financial instruments related to debt instruments. Finance costs are also net of amounts capitalised.

Profit before taxation

Profit before taxation consists of operating profit, net of finance costs, and includes increases in fair value of investment properties, gains on disposal of investment properties, gain on acquisition of subsidiaries, gain on acquisition of additional equity interests in subsidiaries and share of results of associates.

Taxation

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

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

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

Under PRC law, we are subject to LAT, calculated by reference to all the gains we recognise arising from sales of real property in the PRC. LAT is payable on the appreciation in value representing the balance of the proceeds received on such sales, after deducting various prescribed items, including payments made for acquisition of land use rights, the direct costs and expenses of the development of the land and construction of the buildings and structures, finance costs up to a maximum of 5.0% of the total development costs, the appraised price of any existing buildings and structures on the land and taxes related to the assignment of the real property. LAT is charged at progressive rates ranging from 30.0% to 60.0%. Apart from the aforementioned deductions, property developers enjoy an additional deduction equal to 20.0% of the payment made for acquisition of land use rights and the costs of land development and construction of new buildings or related facilities. An exemption from payment of LAT may be available if the taxpayer constructs ordinary standard residential apartments and the appreciation amount does not exceed 20.0% of the sum of deductions allowed under PRC law. If, however, the appreciation amount exceeds 20.0% of the sum of allowable deductions, such exemption is not available and the taxpayer will be liable for LAT on the full appreciation amount, after taking account of the allowable deductions. During the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012, we paid provisional LAT at a rate ranging from 1% to 5% on the gross proceeds of pre-sales and sales of our properties. We have cleared LAT for certain projects sold prior to year 2009 with the final settlement approximated to our LAT provision. For most of the projects sold during the years ended 31 December 2009, 2010 and 2011 and the six

months ended 30 June 2011 and 2012, we have not yet been required to undergo the LAT clearance procedures and pay the full amount of LAT. We, however, have made what we believe to be adequate provisions for LAT in our consolidated financial statements for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012.

Our effective tax rates (computed by dividing taxation by profit before taxation) for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012 were 33.4%, 31.1%, 34.0%, 33.7% and 34.6% respectively.

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

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

	Year ended 31 December				Six months ended 30 June		
	2009	2010	2011		2011	2012	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
PRC enterprise income tax	537	335	572	90	116	156	25
Deferred taxation	297	807	849	134	241	321	50
PRC LAT	467	215	641	101	90	35	6
Total tax expense	**1,301**	**1,357**	**2,062**	**325**	**447**	**512**	**81**

A significant portion of our tax charges for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012 are deferred tax liabilities which are detailed in the notes to our consolidated financial statements for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012 included herein. The deferred tax liabilities are mainly attributable to the increase in fair value of investment properties. During the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012, the valuation gains of RMB536 million, RMB2,711 million and RMB2,696 million (US$424 million), RMB661 million and RMB1,268 million (US$200 million) resulted in a corresponding deferred tax provision of RMB134 million, RMB678 million, RMB674 million (US$106 million), RMB165 million and RMB317 million (US$50 million) respectively. The provisions represent the PRC enterprise income tax of 25% on the revaluation surplus we expect to be payable. We expect such tax liabilities to be due and payable when properties generate returns in excess of the original cost in a subsequent year. In alignment with our current accounting of the revaluation surplus, the deferred tax effect of the surplus has been charged to the consolidated income statement in the period in which the revaluation surplus arises.

Non-controlling interests

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

RESULTS OF OPERATIONS

For the six months ended 30 June 2011 and 2012

The following discussion is based on, and should be read in conjunction with, the unaudited, condensed consolidated financial statements for the six months ended 30 June 2011 and 2012, included in this Offering Circular beginning on page F-28.

Turnover

The following table sets forth our turnover by segment for the six months ended 30 June 2011 and 2012:

	Six months ended 30 June				
	2011		2012		
	(RMB in millions)	*(Percent of total turnover)*	*(RMB in millions)*	*(US$ in millions)*	*(Percent of total turnover)*
Property development	1,356	75.8%	1,062	167	64.6%
Property investment	405	22.7%	563	89	34.3%
Others	27	1.5%	18	3	1.1%
Total	**1,788**	**100.0%**	**1,643**	**259**	**100.0%**

Our turnover decreased by 8.1% to RMB1,643 million (US$259 million) for the six months ended 30 June 2012, compared to RMB1,788 million for the six months ended 30 June 2011. This decrease was primarily due to fewer property sales being recognised in the first half of 2012.

Property development

The following table sets forth turnover, GFA and ASP per sq.m. of property sold during the six months ended 30 June 2011 and 2012:

	Six months ended 30 June						
	2011			2012			
Projects	**Turnover[1]**	**GFA Sold**	**ASP[3]**	**Turnover[1]**		**GFA Sold**	**ASP[3]**
	(RMB in millions)	*(sq.m.)*	*(RMB/ sq.m.)*	*(RMB in millions)*	*(US$ in millions)*	*(sq.m.)*	*(RMB/ sq.m.)*
Shanghai Taipingqiao	423	3,100	143,600	50	8	360	147,200
Shanghai Rui Hong Xin Cheng	5	200	29,200	190	30	5,100	39,500
Shanghai KIC	36	1,900	20,500	35	5	1,900	19,500
Wuhan Tiandi	46	1,200	40,400	96	15	3,500	29,100
Chongqing Tiandi	94	9,700	12,800[2]	431	68	40,300	13,800[2]
Foshan Lingnan Tiandi	696	40,600	18,000	18	3	840	22,700
Sub-total	1,300	56,700	25,200	820	129	52,000	16,700
Carparks and others	92			246	39		
Total	**1,392**	**56,700**	**25,200**	**1,066**	**168**	**52,000**	**16,700**
Recognised as:							
- property sales in turnover	1,356	54,800	26,000	1,062	167	51,800	21,700
- disposals of investment properties	36	1,900	20,500	4	1	200	21,200
Total	**1,392**	**56,700**		**1,066**	**168**	**52,000**	

Notes:

(1) Stated after the deduction of business tax of 5% and other surcharges/taxes.

(2) ASP of Chongqing residential sales is based on net floor area, a common market practice in the region.

(3) Except as otherwise provided, average selling price is calculated as turnover (inclusive of business tax of 5% and other surcharges/taxes) divided by GFA sold.

Turnover from property development sales for the six months ended 30 June 2012 amounted to RMB1,062 million (US$167 million), compared to RMB1,356 million for the six months ended 30 June 2011. Property development sales decreased by 21.7% due to a decrease in GFA delivery to customers from 54,800 sq.m. in the six months ended 30 June 2011 to 51,800 sq.m in the six months ended 30 June 2012.

Property investment

The following table sets forth our turnover from our property investment for the six months ended 30 June 2011 and 2012:

	Six months ended 30 June		
Projects	**2011**	**2012**	
	(RMB millions)	*(RMB millions)*	*(US$ millions)*
Shanghai Taipingqiao	290	392	62
Shanghai Rui Hong Xin Cheng	21	25	4
Shanghai KIC	41	75	12
Wuhan Tiandi	22	27	4
Hangzhou Tiandi	8	9	2
Foshan Lingnan Tiandi	16	27	4
Chongqing Tiandi	7	8	1
Total	405	563	89

Turnover from our property investment increased by RMB158 million or 39.0%, to RMB563 million (US$89 million) for the six months ended 30 June 2012 from RMB405 million for the six months ended 30 June 2011. The increase was primarily due to rental growth from the existing completed investment portfolio and income from the newly acquired matured investment properties, namely Shanghai Shui On Plaza and Shanghai Langham Xintiandi Hotel. These acquisitions were completed on 16 March 2012.

Others

Other turnover decreased by RMB9 million, or 33.3%, to RMB18 million (US$3 million) for the six months ended 30 June 2012 from RMB27 million for the six months ended 30 June 2011. This was primarily due to the decrease in management service fee income.

Cost of sales

The following table sets forth our cost of sales by segment for the six months ended 30 June 2011 and 2012:

	Six months ended 30 June				
	2011		2012		
	(RMB in millions)	*(Percent of total cost of sales)*	*(RMB in millions)*	*(US$ in millions)*	*(Percent of total cost of sales)*
Property development	854	88.9%	720	114	79.5%
Property investment	102	10.6%	180	28	19.9%
Others	5	0.5%	6	1	0.6%
Total	**961**	**100.0%**	**906**	**143**	**100.0%**

Our cost of sales decreased by RMB55 million, or 5.7%, to RMB906 million (US$143 million) for the six months ended 30 June 2012 from RMB961 million for the six months ended 30 June 2011. The decrease was primarily attributable to the decrease in property sales for the six months ended 30 June 2012.

Gross profit

As a result of the foregoing, our gross profit decreased by RMB90 million or 10.9%, to RMB737 million (US$116 million) for the six months ended 30 June 2012 from RMB827 million for six months ended 30 June 2011. Our gross margin (computed by dividing gross profit (i.e. turnover less cost of sales) by turnover) decreased by 1.4%, from 44.9% for the six months ended 30 June 2012, to 46.3% for the six months ended 30 June 2011.

Other income

Our other income decreased by RMB41 million, or 27.2%, to RMB110 million (US$17 million) for the six months ended 30 June 2012 from RMB151 million for the six months ended 30 June 2011. The decrease mainly resulted from the decrease in consultancy services provided during the six months ended 30 June 2012.

Selling and marketing expenses

Our selling and marketing expenses decreased by RMB4 million, or 5.9%, to RMB64 million (US$10 million) for the six months ended 30 June 2012 from RMB68 million for the six months ended 30 June 2011, a corresponding result of the decrease in property sales for the six months ended 30 June 2012.

General and administration expenses

Our general and administration expenses increased by RMB88 million, or 30.2%, to RMB379 million (US$60 million) for the six months ended 30 June 2012 from RMB291 million for the six months ended 30 June 2011. Contributing factors included increased depreciation expenses of Shanghai Langham Xintiandi Hotel and Foshan Marco Polo Hotel, higher rental expenses as a result of the relocation of our Wuhan project office, general inflation on staff costs and operational overhead.

Increase in fair value of investment properties

The following table sets forth our increase in fair value of investment properties for the six months ended 30 June 2011 and 2012:

	Six months ended 30 June		
	2011	2012	
	(RMB in millions)	*(RMB in millions)*	*(US$ in millions)*
Completed investment properties	421	400	63
Investment properties under construction or development	240	868	137
Total	**661**	**1,268**	**200**

The increase in fair value of investment properties (before deferred taxation) increased by RMB607 million, or 91.8%, to RMB1,268 million (US$200 million) for the six months ended 30 June 2012 from RMB661 million for the six months ended 30 June 2011. The increase in fair value of investment properties for the six months ended 30 June 2012 was primarily due to the accelerated construction progress of various commercial projects under development in Shanghai Taipingqiao, Shanghai Hongqiao (THE HUB), Wuhan Tiandi and Chongqing Tiandi.

Gain on acquisition of subsidiaries

Gain on acquisition of subsidiaries amounting to RMB50 million (US$8 million) arose from the acquisition of Shanghai Langham Xintiandi Hotel. This gain represented the difference between the fair value of the consideration based on market value of the new issue of ordinary shares of the Company and the carrying value of the underlying net assets being acquired.

Share of results of associates

Our share of results of associates decreased by RMB95 million, or 97.9%, to RMB2 million (US$0.3 million) for the six months ended 30 June 2012, compared to a gain of RMB97 million for the corresponding period in 2011. The share of results of associates included a revaluation gain from investment properties under development or construction (net of tax effect) of RMB21 million (US$3 million) for the six months ended 30 June 2012. The decrease in the share of results of associates was due to a different mix of property sales, with comparatively more property sales of low-rise residential units (which carried a lower margin of sales than villas) than the sales of villas sold in the six months ended 30 June 2012 compared with the six months ended 30 June 2011.

Finance costs, net of exchange difference

The following table sets forth the breakdown of our finance costs for the six months ended 30 June 2011 and 2012:

	Six months ended 30 June		
	2011	2012	
	(RMB in millions)	*(RMB in millions)*	*(US$ in millions)*
Interest costs, before capitalisation	873	1,131	178
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	(746)	(1,018)	(160)
	127	113	18
Net exchange (gain) loss on bank borrowings and other financing activities	(103)	68	10
Other finance costs	27	63	10
Total	**51**	**244**	**38**

Finance costs, net of exchange gain or loss, increased to RMB244 million (US$38 million) for the six months ended 30 June 2012 from RMB51 million for the six months ended 30 June 2011. With the issuance of S$250 million 8% Senior Notes and US$475 million 9.75% Senior Notes in January 2012 and February 2012, gross interest expenses increased to RMB1,131 million (US$178 million) for the six months ended 30 June 2012 from RMB873 million for the six months ended 30 June 2011. Capitalised borrowing costs increased correspondingly to RMB1,018 million (US$160 million) for the six months ended 30 June 2012 from RMB746 million for the six months ended 30 June 2011. Concurrently with the appreciation of the Hong Kong dollar, the U.S. dollar and the Singapore dollar against the RMB for the six months ended 30 June 2012, a net exchange loss of RMB68 million (US$10 million) was recorded as a consequence of the appreciation in the Group's Hong Kong dollar, U.S. dollar and Singapore dollar borrowings.

Taxation

Taxation increased by RMB65 million or 14.5%, to RMB512 million (US$81 million) for the six months ended 30 June 2012 from RMB447 million for the six months ended 30 June 2011. The increase was due to an increase in profit before taxation of RMB154 million from RMB1,326 million for the six months ended 30 June 2011 to RMB1,480 million (US$233 million) for the six months ended 30 June 2012. Our effective tax rate (computed by dividing taxation by profit before taxation) for the six months ended 30 June 2011 and 2012 was 33.7% and 34.6%, respectively. Excluding the LAT together with its effect on enterprise income tax, our effective tax rates for the six months ended 30 June 2011 and 2012 were 28.7% and 32.8%, respectively. The increase in the effective tax rate was attributable to the increase in interests on offshore borrowings which were not tax deductible in the PRC.

Profit attributable to shareholders of the Company

Our profit attributable to shareholders increased by RMB41 million, or 5.2%, to RMB825 million (US$130 million) for the six months ended 30 June 2012 from RMB784 million for the six months ended 30 June 2011 as a result of the factors described above.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests increased by RMB48 million to RMB143 million (US$22 million) for the six months ended 30 June 2012 from RMB95 million for the six months ended 30 June 2011.

For the years ended 31 December 2010 and 2011

The following discussion is based on, and should be read in conjunction with, the consolidated financial statements for the years ended 31 December 2010 and 2011, included in this Offering Circular beginning on page F-128.

Turnover

The following table sets forth our turnover by segment for the years ended 31 December 2010 and 2011:

	Year ended 31 December				
	2010		2011		
	(RMB in millions)	*(Percent of total turnover)*	*(RMB in millions)*	*(US$ in millions)*	*(Percent of total turnover)*
Property development	4,133	84.7%	7,581	1,193	89.4%
Property investment	706	14.5%	849	134	10.0%
Others	40	0.8%	54	9	0.6%
Total	**4,879**	**100.0%**	**8,484**	**1,336**	**100.0%**

Our turnover increased by RMB3,605 million (US$567 million), or 73.9%, to RMB8,484 million (US$1,336 million) in 2011 from RMB4,879 million (US$768 million) in 2010. The increase was primarily due to an increase in property sales recognised in 2011.

Property development

The following table sets forth the turnover, GFA and average selling price per sq.m. of property sold in the years ended 31 December 2010 and 2011:

	Year ended 31 December						
	2010			2011			
Projects	**Turnover[1]**	**GFA Sold**	**ASP[3]**	**Turnover[1]**		**GFA Sold**	**ASP[3]**
	(RMB in millions)	*(sq.m.)*	*(RMB/ sq.m.)*	*(RMB in millions)*	*(US$ in millions)*	*(sq.m.)*	*(RMB/ sq.m.)*
Shanghai Taipingqiao	604	6,500	97,800	827	130	5,900	148,600
Shanghai Rui Hong Xin Cheng	824	31,300	27,700	2,133	336	57,700	39,200
Shanghai KIC	918	39,200	24,700	575	90	16,700	36,500
Wuhan Tiandi	1,324	85,300	16,300	2,349	370	107,900	23,100
Chongqing Tiandi	449	57,700	10,200[2]	1,083	171	107,300	13,400[2]
Foshan Lingnan Tiandi	—	—	—	1,061	167	50,600	22,200
Subtotal	4,119	220,000	19,700	8,028	1,264	346,100	24,600
Carparks and others	199			166	26		
Total	**4,318**			**8,194**	**1,290**		
Recognised as:							
- property sales in turnover	4,133	212,300		7,581	1,193	329,400	
- disposals of investment properties	185	7,700		613	97	16,700	
Total	**4,318**	**220,000**		**8,194**	**1,290**	**346,100**	

Notes:

(1) Stated after the deduction of business tax of 5% and other surcharges/taxes.

(2) ASP of Chongqing residential sales is based on net floor area, a common market practice in the region.

(3) Except as otherwise provided, average selling price is calculated as turnover (inclusive of business tax of 5% and other surcharges/taxes) divided by GFA sold.

Turnover from property sales increased by RMB3,448 million (US$543 million), or 83.4%, to RMB7,581 million (US$1,193 million) for the year ended 31 December 2011 from RMB4,133 million (US$651 million) for the year ended 31 December 2010. The increase was principally due to a rise in average selling price across all projects ranging from 31% to 52%, together with an increase in the area being delivered from 212,300 sq.m. to 329,400 sq.m.

Property investment

The following table sets forth our turnover from investment properties for the years ended 31 December 2010 and 2011:

	Year ended 31 December		
Projects	**2010**	**2011**	
	(RMB in millions)	*(RMB in millions)*	*(US$ in millions)*
Shanghai Taipingqiao	530	588	93
Shanghai Rui Hong Xin Cheng	45	41	6
Shanghai KIC	58	102	16
Wuhan Tiandi	34	48	8
Chongqing Tiandi	8	18	3
Hangzhou Tiandi	18	17	2
Foshan Lingnan Tiandi	13	35	6
Total	**706**	**849**	**134**

Turnover from our investment properties increased by RMB143 million (US$23 million), or 20.3%, to RMB849 million (US$134 million) for the year ended 31 December 2011 from RMB706 million (US$111 million) for the year ended 31 December 2010. The increase in turnover was primarily due to more leasable area being available as a result of more investment properties being completed during 2011, together with an improved general occupancy rate for those projects completed in 2010.

Cost of sales

The following table sets forth our cost of sales by segment for the years ended 31 December 2010 and 2011:

	Year ended 31 December				
	2010		**2011**		
	(RMB in millions)	*(Percent of total cost of sales)*	*(RMB in millions)*	*(US$ in millions)*	*(Percent of total cost of sales)*
Property development	2,619	91.3%	4,490	707	93.9%
Property investment	213	7.4%	269	42	5.6%
Others	37	1.3%	24	4	0.5%
Total	**2,869**	**100.0%**	**4,783**	**753**	**100.0%**

Our cost of sales increased by RMB1,914 million (US$301 million), or 66.7%, to RMB4,783 million (US$753 million) for the year ended 31 December 2011, from RMB2,869 million (US$452 million) for the year ended 31 December 2010. The increase was primarily due to the increase in the GFA of the properties delivered to buyers in 2011.

Gross profit

Our gross profit increased by RMB1,691 million (US$266 million), or 84.1%, to RMB3,701 million (US$583 million) for the year ended 31 December 2011 from RMB2,010 million (US$316 million) for the year ended 31 December 2010. Our gross profit margin (computed by dividing gross profit (i.e. turnover less cost of sales) by turnover) increased by 2.4%, from 41.2% for the year ended 31 December 2010 to 43.6% for the year ended 31 December 2011. This was largely due to the increased average selling price across all projects delivered in 2011.

Other income

Our other income increased by RMB18 million (US$3 million), or 8.0%, to RMB244 million (US$38 million) for the year ended 31 December 2011 from RMB226 million (US$36 million) for the year ended 31 December 2010. The increase was mainly due to an increase in interest income from banks.

Selling and marketing expenses

Our selling and marketing expenses increased by RMB53 million (US$8 million), or 37.3%, to RMB195 million (US$31 million) for the year ended 31 December 2011 from RMB142 million (US$22 million) for the year ended 31 December 2010, which was mainly due to the increase in contracted sales from RMB4,606 million (US$725 million) in 2010 to RMB10,244 million (US$1,612 million) in 2011.

General and administration expenses

Our general and administration expenses increased by RMB73 million (US$11 million), or 13.0%, to RMB634 million (US$100 million) for the year ended 31 December 2011 from RMB561 million (US$88 million) for the year ended 31 December 2010, primarily due to greater operating expenses being incurred as a result of the number of new investment properties completed in recent years.

Increase in fair value of investment properties

The following table sets forth the increases in fair value of investment properties for the years ended 31 December 2010 and 2011:

	Year ended 31 December		
	2010	2011	
	(RMB in millions)	*(RMB in millions)*	*(US$ in millions)*
Completed investment properties	1,140	1,648	259
Investment properties under construction or development	1,571	1,048	165
Total	**2,711**	**2,696**	**424**

The increase in fair value of investment properties (before deferred taxation) was RMB2,696 million (US$424 million) for the year ended 31 December 2011 as compared with RMB2,711 million (US$427 million) for the year ended 31 December 2010, a change of RMB15 million (US$2 million), or 0.6%. The increase in fair value of investment properties in 2011 was primarily attributable to KIC.

We disposed of certain office and retail spaces in KIC in a transaction with the Yangpu Branch of the Industrial and Commercial Bank of China Limited in December 2011. The relevant transaction prices were then used to determine the market value of the remaining portion of KIC as at 31 December 2011. As those relevant transaction prices were considerably higher than the reference prices used to value KIC as at 31 December 2010, reflecting the upward trend of Shanghai and PRC property market prices over this period, the fair value of the investment properties in KIC increased significantly in 2011.

Gain on disposal of investment properties

We recognised a gain of RMB17 million (US$3 million) on disposal of investment properties for the year ended 31 December 2011, which represented the disposal of certain office and retail spaces in Shanghai KIC at a consideration of RMB613 million (US$96 million), less their respective revalued carrying amount of RMB596 million (US$94 million) as calculated when these properties were sold.

Share of results of associates

Our share of results of associates increased by RMB79 million (US$12 million), or 136.2%, to RMB137 million (US$22 million) for the year ended 31 December 2011 from RMB58 million (US$9 million) for the year ended 31 December 2010. Our share of results of associates for the year ended 31 December 2010 included our share of revaluation gain on the investment properties from our Dalian Tiandi project which amounted to RMB96 million (US$15 million).

Finance costs, net of exchange difference

The following table sets forth the breakdown of our finance costs for the years ended 31 December 2010 and 2011:

	Year ended 31 December		
	2010	2011	
	(RMB in millions)	*(RMB in millions)*	*(US$ in millions)*
Interest costs, before capitalisation	888	1,800	283
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	(796)	(1,608)	(253)
	92	192	30
Net exchange gain on bank borrowings and other financing activities	(200)	(311)	(49)
Other finance costs	66	25	4
Total	**(42)**	**(94)**	**(15)**

Finance costs, net of exchange gain, amounted to a net income of RMB94 million (US$15 million) for the year ended 31 December 2011 from a net income of RMB42 million (US$7 million) for the year ended 31 December 2010. With the issue of the Convertible Bonds and the 6.875% Senior Notes in the second half of 2010 and the 7.625% Senior Notes in early 2011, gross interest expenses increased to RMB1,800 million (US$283 million). Capitalised borrowing costs increased proportionally to RMB1,608 million (US$253 million).

Taxation

Our taxation increased by RMB705 million (US$111 million), or 52.0%, to RMB2,062 million (US$325 million) for the year ended 31 December 2011 from RMB1,357 million (US$214 million) for the year ended 31 December 2010. The increase was due to an increase in profit before taxation of RMB1,693 million (US$266 million) from RMB4,367 million (US$687 million) for the year ended 31 December 2010 to RMB6,060 million (US$954 million) for the year ended 31 December 2011. Our effective tax rate (computed by dividing taxation by profit before taxation) for the years ended 31 December 2010 and 2011 was 31.1% and 34.0%, respectively. Excluding the LAT of RMB641 million (US$101 million), which was assessed based on the appreciation value of properties disposed of, together with its corresponding enterprise income tax effect of RMB160 million (US$25 million), our effective tax rate for the year ended 31 December 2011 was 26.0%, compared to 27.4% for the year ended 31 December 2010.

Profit attributable to shareholders of the Company

Our profit attributable to shareholders increased by RMB619 million (US$97 million), or 22.0%, to RMB3,428 million (US$540 million) for the year ended 31 December 2011 from RMB2,809 million (US$442 million) for the year ended 31 December 2010 as a result of the factors described above.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests increased by RMB369 million (US$58 million) to RMB570 million (US$89 million) for the year ended 31 December 2011 from RMB201 million (US$32 million) for the year ended 31 December 2010.

For the years ended 31 December 2009 and 2010

The following discussion is based on, and should be read in conjunction with, the consolidated financial statements for the years ended 31 December 2009 and 2010, included in this Offering Circular beginning on page F-59.

Turnover

The following table sets forth our turnover by segment for the years ended 31 December 2009 and 2010:

	Year ended 31 December			
	2009		2010	
	(RMB in millions)	*(Percent of total turnover)*	*(RMB in millions)*	*(Percent of total turnover)*
Property development	6,078	89.9%	4,133	84.7%
Property investment	643	9.5%	706	14.5%
Others	37	0.6%	40	0.8%
Total	**6,758**	**100.0%**	**4,879**	**100.0%**

Our turnover decreased by RMB1,879 million, or 27.8%, to RMB4,879 million in 2010 from RMB6,758 million in 2009. The decrease was primarily due to a decrease in property sales recognised in 2010.

Property development

The following table sets forth the turnover, GFA and average selling price per sq.m. of property sold in the years ended 31 December 2009 and 2010:

	Year ended 31 December					
	2009			2010		
Projects	**Turnover[1]**	**GFA Sold**	**ASP[3]**	**Turnover[1]**	**GFA Sold**	**ASP[3]**
	(RMB in millions)	*(sq.m.)*	*(RMB/ sq.m.)*	*(RMB in millions)*	*(sq.m.)*	*(RMB/ sq.m.)*
Shanghai Taipingqiao	4,706	65,600	75,600	604	6,500	97,800
Shanghai Rui Hong Xin Cheng	—	—	—	824	31,300	27,700
Shanghai KIC	450	24,300	19,500	918	39,200	24,700
Wuhan Tiandi	514	37,500	14,400	1,324	85,300	16,300
Chongqing Tiandi	345	66,900	6,700[2]	449	57,700	10,200[2]
Subtotal	6,015	194,300	32,600	4,119	220,000	19,700
Carparks and others	63			199		
Total	**6,078**			**4,318**		
Recognised as:						
- property sales in turnover	6,078	194,300		4,133	212,300	
- disposals of investment properties	—	—		185	7,700	
Total	**6,078**	**194,300**		**4,318**	**220,000**	

Notes:

(1) Stated after the deduction of business tax of 5% and other surcharges/taxes.

(2) ASP of Chongqing residential sales is based on net floor area, a common market practice in the region.

(3) Except as otherwise provided, average selling price is calculated as turnover (inclusive of business tax of 5% and other surcharges/taxes) divided by GFA sold.

Turnover from property sales decreased by RMB1,945 million, or 32.0%, to RMB4,133 million for the year ended 31 December 2010 from RMB6,078 million for the year ended 31 December 2009. The decrease was primarily due to the delivery in 2009 of most of the residential units of Casa Lakeville (Phase 3 of Taipingqiao residential development) which left fewer units of Casa Lakeville available for sale in 2010. The decrease was mitigated by new completions and deliveries of Shanghai Rui Hong Xin Cheng, Shanghai KIC, Wuhan Tiandi and Chongqing Tiandi.

Property investment

The following table sets forth our turnover from investment properties for the years ended 31 December 2009 and 2010:

	Year ended 31 December	
Projects	**2009**	**2010**
	(RMB in millions)	*(RMB in millions)*
Shanghai Taipingqiao	508	530
Shanghai Rui Hong Xin Cheng	39	45
Shanghai KIC	58	58
Wuhan Tiandi	18	34
Chongqing Tiandi	—	8
Hangzhou Tiandi	18	18
Foshan Lingnan Tiandi	2	13
Total	**643**	**706**

Turnover from our investment properties increased by RMB63 million, or 9.8%, to RMB706 million for the year ended 31 December 2010 from RMB643 million for the year ended 31 December 2009. The increase in turnover was primarily due to an increase in rental income from investment properties completed prior to 2010 which, in turn, was due to increases in the occupancy rates, rental rates and the availability of leasable areas from the completion of investment properties.

Cost of sales

The following table sets forth our cost of sales by segment for the years ended 31 December 2009 and 2010:

	Year ended 31 December			
	2009		**2010**	
	(RMB in millions)	*(Percent of total cost of sales)*	*(RMB in millions)*	*(Percent of total cost of sales)*
Property development	3,080	95.4%	2,619	91.3%
Property investment	119	3.7%	213	7.4%
Others	30	0.9%	37	1.3%
Total	**3,229**	**100.0%**	**2,869**	**100.0%**

Our cost of sales decreased by RMB360 million, or 11.1%, to RMB2,869 million for the year ended 31 December 2010 from RMB3,229 million for the year ended 31 December 2009. The decrease was primarily due to the proportion of sales from projects outside Shanghai were higher in 2010 and these projects were constructed at lower development costs than projects located in Shanghai.

Gross profit

Our gross profit decreased by RMB1,519 million, or 43.0%, to RMB2,010 million for the year ended 31 December 2010 from RMB3,529 million for the year ended 31 December 2009. Our gross profit margin (computed by dividing gross profit (i.e. turnover less cost of sales) by turnover) decreased by 11.0%, to 41.2% for the year ended 31 December 2010 from 52.2% for the year ended 31 December 2009. This was largely due to the lower proportion of sales from Shanghai Taipingqiao project in 2010, which used to contribute a relatively higher gross margin than other projects.

Other income

Our other income increased by RMB56 million, or 32.9%, to RMB226 million for the year ended 31 December 2010 from RMB170 million for the year ended 31 December 2009. The increase was partly due to the receipt of guarantee fee income from a non-controlling shareholder of RMB19 million.

Selling and marketing expenses

Our selling and marketing expenses decreased by RMB9 million, or 6.0%, to RMB142 million for the year ended 31 December 2010 from RMB151 million for the year ended 31 December 2009, which was mainly due to the decrease in contracted sales from RMB6,486 million in 2009 to RMB4,606 million in 2010.

General and administration expenses

Our general and administration expenses increased by RMB18 million, or 3.3%, to RMB561 million for the year ended 31 December 2010 from RMB543 million for the year ended 31 December 2009, which was generally in line with inflation in the PRC.

Increase in fair value of investment properties

The following table sets forth our increase in fair value of investment properties for the years ended 31 December 2009 and 2010:

	Year ended 31 December	
	2009	**2010**
	(RMB in millions)	*(RMB in millions)*
Completed investment properties	259	1,140
Investment properties under construction or development	277	1,571
Total	**536**	**2,711**

Our increase in fair value of investment properties (before deferred taxation) increased by RMB2,175 million, or 405.8%, to RMB2,711 million for the year ended 31 December 2010 from RMB536 million for the year ended 31 December 2009.

The increase in fair value of investment properties for the year ended 31 December 2010 was primarily due to the increase in the fair value of investment properties under construction or development in Lot 113 of Shanghai Taipingqiao, together with an increase in the investment properties portfolio during the year ended 31 December 2010.

Gain on disposal of investment properties

We recognised a gain of RMB23 million on disposal of investment properties for the year ended 31 December 2010, which represented the disposal of certain office and retail spaces in Shanghai KIC at a consideration of RMB185 million.

Share of results of associates

We recognised a decreased gain of RMB378 million, or 86.7%, to RMB58 million on share of results of associates for the year ended 31 December 2010, compared to a gain of RMB436 million for the corresponding period in 2009. The share of profits of associates of RMB58 million included a revaluation gain from investment properties under development or construction of RMB96 million for the year ended 31 December 2010. The share of profits in the year ended 31 December 2009 was attributable to the prospective adoption of the amendment to IAS 40, which resulted in an RMB496 million gain from revaluation of the investment properties under construction or development of the Dalian Tiandi project.

Finance costs, net of exchange difference

The following table sets forth the breakdown of our finance costs for the years ended 31 December 2009 and 2010:

	Year ended 31 December	
	2009	**2010**
	(RMB in millions)	*(RMB in millions)*
Interest costs, before capitalisation	761	888
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	(634)	(796)
	127	92
Net exchange gain on bank borrowings and other financing activities	(44)	(200)
Other finance costs	6	66
Total	**89**	**(42)**

Finance costs, net of exchange gain, represented a net income of RMB42 million for the year ended 31 December 2010 from a net expense of RMB89 million for the year ended 31 December 2009. With net of bank loans movement of RMB2,980 million in 2010, interest expenses increased to RMB888 million for the year ended 31 December 2010 from RMB761 million for the year ended 31 December 2009. Capitalised borrowing costs increased correspondingly to RMB796 million for the year ended 31 December 2010 from RMB634 million for the year ended 31 December 2009.

Taxation

Our taxation increased by RMB56 million, or 4.3%, to RMB1,357 million for the year ended 31 December 2010 from RMB1,301 million for the year ended 31 December 2009. The increase was due to an increase in profit before taxation of RMB473 million from RMB3,894 million for the year ended 31 December 2009 to RMB4,367 million for the year ended 31 December 2010. Our effective tax rate (computed by dividing taxation by profit before taxation) for the years ended 31 December 2009 and 2010 was 33.4% and 31.1%, respectively. Excluding the LAT of RMB215 million, which was assessed based on the appreciation value of properties disposed of, together with its corresponding enterprise income tax effect of RMB54 million, our effective tax rate for the year ended 31 December 2010 was 27.4%, compared to 24.4% for the year ended 31 December 2009.

Profit attributable to shareholders of the Company

Our profit attributable to shareholders increased by RMB136 million, or 5.1%, to RMB2,809 million for the year ended 31 December 2010 from RMB2,673 million for the year ended 31 December 2009 as a result of the factors described above.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests increased by RMB281 million to RMB201 million for the year ended 31 December 2010 from a loss of RMB80 million for the year ended 31 December 2009. The loss attributable to the non-controlling interests for the year ended 31 December 2009 was mainly due to the share of loss by non-controlling interests in relation to the Chongqing Tiandi project. For the year ended 31 December 2010, our profits attributable to non-controlling interests were primarily derived from Shanghai Rui Hong Xin Cheng, Shanghai KIC, Wuhan Tiandi and Chongqing Tiandi projects.

LIQUIDITY AND CAPITAL RESOURCES

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

Internal resources

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

Proceeds from debt and equity offerings

In addition to the Securities offered hereby, the Convertible Bonds, the 6.875% Senior Notes, the 7.625% Senior Notes, the 8% Senior Notes and the 9.75% Senior Notes raised gross proceeds of approximately RMB2,720 million (US$428 million), RMB3,000 million (US$472 million), RMB3,500 million (US$551 million), RMB1,226 million (US$193 million) and RMB5,629 million (US$886 million) respectively. We will continue to consider from time to time additional offerings of our debt and equity securities based on our liquidity needs and general market and economic conditions at that time.

Bank Borrowings

As at 30 June 2012, we had total bank and other borrowings of RMB16,366 million (US$2,576 million), which includes RMB13,362 million (US$2,103 million) in the form of secured bank borrowings. For our property development projects we often obtain project-specific bank borrowings that are secured by our properties under development and our land use rights, and usually repay the such borrowings using a portion of our pre-sale proceeds of the relevant properties.

As at 30 June 2012, we had cash and bank deposits of RMB5,196 million (US$818 million), which included RMB1,992 million (US$314 million) of deposits pledged to banks.

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

	Year ended 31 December				Six months ended 30 June		
	2009	2010	2011		2011	2012	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Net cash generated from (used in) operating activities	1,613	(3,323)	528	83	(456)	(1,140)	(179)
Net cash used in investing activities	(2,695)	(3,525)	(7,179)	(1,129)	(5,770)	(1,124)	(177)
Net cash generated from financing activities	2,342	8,665	5,631	887	5,289	1,636	257
Net (decrease) increase in cash and cash equivalents	**1,260**	**1,817**	**(1,020)**	**(159)**	**(937)**	**(628)**	**(99)**

Operating Activities

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

	Year ended 31 December				Six months ended 30 June		
	2009	2010	2011		2011	2012	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Profit before taxation	3,894	4,367	6,060	954	1,326	1,480	233
Adjustments for:							
Increase in fair value of investment properties	(536)	(2,711)	(2,696)	(424)	(661)	(1,268)	(200)
Other operating activities	(77)	(199)	(399)	(63)	(477)	230	36
Operating cash flows before movements in working capital	3,281	1,457	2,965	467	188	442	69
(Increase) decrease in accounts receivable, deposits and prepayments	(44)	(2,672)	1,079	170	(372)	369	58
Increase in properties under development for sale	(4,148)	(4,448)	(7,010)	(1,103)	(2,991)	(3,031)	(477)
Decrease in properties held for sale	2,906	2,619	4,485	706	844	712	112
(Increase) decrease in amounts due from related companies	(11)	24	(163)	(26)	(1)	159	25
Increase (decrease) in amounts due to related companies	36	26	273	43	83	(347)	(54)
Increase (decrease) in amounts due to associates	45	(16)	(24)	(4)	(13)	4	1
(Decrease) increase in accounts payable, deposits received and accrued charges	(113)	675	(265)	(42)	2,315	1,508	237
(Increase) decrease in restricted bank deposits	—	(243)	(92)	(14)	(150)	32	5
Cash generated from (used in) operations	1,952	(2,578)	1,248	197	(97)	(152)	(24)
Tax paid	(339)	(745)	(720)	(114)	(359)	(988)	(155)
Net cash generated from (used in) operating activities	**1,613**	**(3,323)**	**528**	**83**	**(456)**	**(1,140)**	**(179)**

For the six months ended 30 June 2012, we generated a net cash outflow of RMB1,140 million (US$179 million) compared to a net cash outflow of RMB456 (US$72 million) for the six months ended 30 June 2011, a change of RMB684 million (US$108 million). The change was primarily due to the decrease in the deposits received from property sales contracted in the first half of 2012.

For the year ended 31 December 2011, we generated a net cash inflow of RMB528 million (US$83 million) compared to a net cash outflow of RMB3,323 million (US$523 million) for the year ended

31 December 2010, a change of RMB3,851 million (US$606 million). The change was primarily due to (i) an increase in profit before taxation; (ii) a decrease in accounts receivables, deposits and prepayments compared to an increase in the prior period, in part due to the payment of a deposit in respect of land premium of RMB1,838 million in the year ended 31 December 2010.

For the year ended 31 December 2010, we had a net cash outflow of RMB3,323 million compared to a net cash inflow of RMB1,613 million for the year ended 31 December 2009, a change of RMB4,936 million. The change was primarily due to a greater proportion of our profit being derived from the increase in the fair value of investment properties and a greater increase in properties under development for sale and accounts receivables, deposits and prepayments.

Investing Activities

Our principal investment activity is the development of city-core development and integrated residential development projects. In the years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2011 and 2012, we experienced net cash outflows as a result of our investing activities.

The following tables set forth our summary cash flow on investing activities for the years indicated:

	Year ended 31 December				Six months ended 30 June		
	2009	2010	2011		2011	2012	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Additions to investment properties	(2,973)	(3,426)	(7,280)	(1,146)	(5,100)	(1,617)	(254)
Proceeds from disposal of investment properties	—	185	613	97	36	—	—
Net decrease (increase) in loans to associates and amounts due from associates	283	(171)	(120)	(19)	(136)	(138)	(22)
Proceeds from partial disposals of equity interests in subsidiaries	339	—	—	—	—	—	—
Net cash inflow from disposal of subsidiaries	—	—	342	54	342	—	—
Net (increase) decrease in pledged bank deposits	(310)	134	(627)	(99)	(1,397)	520	81
Cash inflow from acquisition of subsidiaries	—	(109)	—	—	—	111	18
Other investing cash flows	(34)	(138)	(107)	(16)	485	—	—
Net cash used in investing activities	**(2,695)**	**(3,525)**	**(7,179)**	**(1,129)**	**(5,770)**	**(1,124)**	**(177)**

For the six months ended 30 June 2012, net cash used in investing activities decreased by RMB4,646 million (US$731 million), or 81%, to a net cash outflow of RMB1,124 million (US$177 million) from RMB5,770 million (US$908 million) for the six months ended 30 June 2011. The decrease was primarily due to land cost payment of RMB3,188 million for the acquisition of Shanghai Hongqiao THE HUB in the first half of 2011.

For the year ended 31 December 2011, net cash used in investing activities increased by RMB3,654 million (US$575 million), or 104%, to a net cash outflow of RMB7,179 million (US$1,129 million) from RMB3,525 million (US$555 million) for the year ended 31 December 2010. This increase was primarily due to an increase in cash outflow on the additions to investment properties of approximately RMB3,854 million (US$607 million) mainly due to the development of our Hongqiao project.

For the year ended 31 December 2010, net cash used in investing activities increased by RMB830 million, or 31%, to a net cash outflow of RMB3,525 million from RMB2,695 million for the year ended 31 December 2009. This increase was primarily due to an increase in cash outflow on the additions to investment properties of approximately RMB453 million. The increase in amounts due from associates of RMB171 million for the year ended 31 December 2010 represented our portion of shareholders' funds to the Dalian Tiandi project, whereas the decrease in amounts due from associates of RMB283 million for the year ended 31 December 2009 represented the repayment of short-term cash advances from the Dalian Tiandi project.

Financing Activities

Historically, our cash from financing activities was derived from offerings of our equity securities, and bank and other borrowings.

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

	Year ended 31 December				Six months ended 30 June		
	2009	2010	2011		2011	2012	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Net proceeds on issuance of shares	1,759	—	—	—	—	—	—
New bank and other loans raised	4,182	6,761	6,106	961	4,312	4,241	668
Repayment of bank loans	(2,168)	(3,483)	(2,082)	(328)	(1,486)	(5,796)	(912)
Deposit received in respect of partial disposal of equity interest in subsidiaries	—	—	352	56	—	—	—
Issue of convertible bonds	—	2,720	—	—	—	—	—
Expenses on issue of convertible bonds	—	(54)	—	—		—	—
Issue of notes	—	3,000	3,500	551	3,500	4,233	666
Expenses on issue of notes	—	(60)	(70)	(11)	(70)	(85)	(13)
Settlement of interest rate swaps designated as cash flow hedges	—	—	—	—	—	(73)	(12)
Interest and bank charges paid	(766)	(827)	(1,547)	(244)	(692)	(956)	(151)
Payment of dividends	(81)	(245)	(327)	(51)	(220)	—	—
Dividend payment to non-controlling shareholders of subsidiaries	(204)	(4)	(4)	—	(4)	(9)	(1)
Advance from (repayment to) non-controlling shareholders of subsidiaries	174	807	(323)	(51)	(76)	59	9
Other financing cash flows	(554)	50	26	4	25	22	3
Net cash generated from financing activities	**2,342**	**8,665**	**5,631**	**887**	**5,289**	**1,636**	**257**

For the six months ended 30 June 2012, net cash from financing activities decreased by RMB3,653 million (US$575 million), or 69%, to RMB1,636 million (US$257 million) from RMB5,289 million (US$833 million) for the six months ended 30 June 2011. Net cash generated from financing activities decreased primarily because of the increased repayment of bank loans during the six months ended 30 June 2012.

For the year ended 31 December 2011, our net cash generated from financing activities decreased by RMB3,034 million (US$477 million), or 35%, to RMB5,631 million (US$887 million) from RMB8,665 million (US$1,364 million) for the year ended 31 December 2010. Net cashflow generated from financing activities decreased primarily because there was an issuance of convertible bonds in the year ended 31 December 2010 of RMB2,720 million. In addition to the issuance of convertible bonds in September 2010, the 6.875% Senior Notes and 7.625% Senior Notes issued in December 2010 and January 2011 together with more bank and other borrowings in the year ended 31 December 2011 resulted in an increase of interest and bank charges paid by RMB720 million (US$113 million), or 87% to RMB1,547 million (US$244 million) from RMB827 million (US$130 million).

For the year ended 31 December 2010, net cash from financing activities increased by RMB6,323 million, or 270%, to RMB8,665 million from RMB2,342 million for the year ended 31 December 2009. Net cashflow from financing activities increased primarily because convertible bonds with an aggregate principal amount of RMB2,720 million and senior notes with an aggregate principal amount of RMB3,000 million were issued in September 2010 and December 2010 respectively. Additionally, more advances were received from non-controlling shareholders for the proportionate contribution of shareholders' funds to the relevant projects.

Contractual Obligations

Capital expenditure

As at 30 June 2012, we were contractually committed to spend RMB16,139 million (US$2,540 million) on capital expenditure required for our property developments, primarily consisting of land costs and construction costs.

The following table sets forth information on our capital commitments as at 30 June 2012:

	Capital commitments with respect to the development cost contracted	
	(RMB in millions)	*(US$ in millions)*
Development costs for investment properties under development	4,656	733
Development costs for properties under development held for sale	11,483	1,807
Total	16,139	2,540

Secured assets

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

As of 30 June 2012, we had pledged investment properties, property, plant and equipment, prepaid lease payments, properties under development held for sale, properties held for sale, accounts receivable and bank and cash balances totalling approximately RMB40,806 million (US$6,423 million) to secure our borrowings of RMB13,362 million (US$2,103 million), or 81.6% of our bank and other borrowings.

Indebtedness and other commitments

Long-term debt

As at 30 June 2012, we had long-term debts of RMB23,122 million (US$3,640 million) which are due after one year from the reporting date.

The following table sets forth the maturities of our long-term debt as at 30 June 2012:

	Convertible bonds	Senior notes	Bank and other borrowings	Total long-term debt as of 30 June 2012	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
1 to 2 years	2,284	2,971	4,243	9,498	1,495
2 to 5 years	—	7,886	4,418	12,304	1,937
More than 5 years	—	—	1,320	1,320	208
Total	**2,284**	**10,857**	**9,981**	**23,122**	**3,640**

Quantitative and qualitative disclosures about market risks

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

Interest rate risk

We are exposed to interest rate risk resulting from fluctuations in interest rates. A substantial portion of our bank borrowings consists of variable rate debt obligations with original maturities ranging from two to four years for our project construction loans and five to ten years for our mortgage loans. Increases in interest rates would increase interest expenses relating to our outstanding variable rate borrowings and increase the cost of new debt. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of our debt obligations. At 30 June 2012, we had outstanding interest rate swaps to hedge against the variability of cash flows arising from the interest rate fluctuations. Under these swaps, we would receive interest at variable rates at HIBOR or LIBOR and pay interest at fixed rates ranging from 0.64% to 3.58% based on the notional amounts of HK$4,968 million and US$150 million in aggregate. The principal terms of the interest rate swaps have been negotiated to match the terms of the related bank borrowings. Other than the transactions described above, we do not hold any other derivative instruments to manage our interest rate risk. To the extent we decide to do so in the future, there can be no assurance that any future hedging activities will protect us from fluctuations in interest rates.

Foreign exchange risk

Substantially all of our turnover is denominated in Renminbi. The Convertible Bonds, the 6.875% Senior Notes and the 7.625% Senior Notes were also denominated in Renminbi. As a result, the interests payments and the repayments of the principal amounts of the Convertible Bonds, the 6.875%

Senior Notes and the 7.625% Senior Notes do not expose the Group to any exchange risks. A portion of the revenue, however, is converted into other currencies to meet our foreign currency denominated debt obligations, such as the bank and other borrowings denominated in Hong Kong dollars and U.S. dollars amount to the equivalent of RMB7,449 million and RMB1,731 million, respectively, as at 30 June 2012. As a result, the Group is exposed to fluctuations in foreign exchange rates upon the interest payments and principal repayments of these bank and other borrowings denominated in Hong Kong dollars and U.S. dollars. In addition, the 8% Senior Notes and the 9.75% Senior Notes will increase the foreign exchange risk exposure to the Group upon the payment of distributions and redemption of the Notes denominated in Singapore dollars and U.S. dollars, respectively. Considering that a relatively stable currency regime with regard to Renminbi is maintained by the central government, which only allows the exchange rate to fluctuate within a narrow range going forward, we expect the fluctuation of the exchange rates between Renminbi and Hong Kong dollars, U.S. dollars and Singapore dollars may not have a significant adverse effect to the financial position of the Group in the short-to-medium term. We continue to closely monitor the Group's exposure to exchange rate risk, and may employ derivative financial instruments to hedge against the risks exposed when necessary. To the extent we decide to implement additional hedging arrangements in the future, there can be no assurance that any current or future hedging activities will protect us from fluctuations in exchange rates.

The following table sets forth our bank and other borrowings by currency as at 31 December 2009, 2010 and 2011 and as at 30 June 2011 and 2012:

	31 December				30 June		
	2009	2010	2011		2011	2012	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
RMB	3,595	4,576	6,760	1,064	5,683	7,186	1,131
HK$	6,349	8,276	9,166	1,443	9,473	7,449	1,173
US$	259	331	817	128	646	1,731	272
Total	**10,203**	**13,183**	**16,743**	**2,635**	**15,802**	**16,366**	**2,576**

Inflation

According to the National Bureau of Statistics of China, the change in the Consumer Price Index was -0.7%, 3.3% and 5.4% in 2009, 2010 and 2011, respectively. There can be no assurance that we will not be adversely affected by inflation or deflation in China in the future.

Credit Risk

As at 30 June 2012, there were no outstanding guarantees in place on mortgages.

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

Commodities Risk

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

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

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

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

THE ECONOMY OF THE PRC

The PRC economy has grown significantly since the PRC government introduced economic reforms in the late 1970s. China's accession to the World Trade Organisation in 2001 has further accelerated the reform of the PRC economy. In the past decade, China's gross domestic product, or GDP, increased from approximately RMB12,033 billion in 2002 to approximately RMB47,288 billion in 2011 at a compound annual growth rate ("**CAGR**") of approximately 16.4%.

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Nominal GDP (RMB in billion)	12,033	13,582	15,988	18,494	21,631	26,581	31,405	34,090	40,151	47,288
Real GDP growth rate (%)	9.1	10.0	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.3
Per capita GDP (RMB)	9,398	10,542	12,336	14,185	16,500	20,169	23,708	25,608	29,992	34,999
Foreign Direct Investment										
- Actual investment (US$ in billion)	52.7	53.5	60.6	60.3	63.0	74.8	92.4	90.0	105.7	116.0
- Contracted investment (US$ in billion)	82.8	115.1	153.5	189.1	193.7	N.A.	N.A.	N.A.	N.A.	N.A.
Fixed Asset Investment (RMB in billion)	4,350	5,557	7,048	8,887	11,000	13,732	17,283	22,460	27,812	31,149

Source: China Statistical Yearbook 2012 and China Statistical Bureau

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

CHINA PROPERTY MARKET OVERVIEW

Trends of the China property market

Investment in real estate development increased by a CAGR of 25.9% from 2002 to 2011 and the total gross floor area sold increased at a CAGR of 16.9% from 2002 to 2011. Average prices for both residential and commercial properties also rose significantly between 2002 and 2011 as demand for real estate from local and foreign investors increased.

The table below sets forth data for the China property market from 2002 to 2011:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real estate investment (RMB billion)	779.1	1,015.4	1,315.8	1,590.9	1,942.3	2,528.9	3,120.3	3,624.2	4,825.9	6,179.7
GFA of all properties sold (million sq m)	268.1	337.2	453.6	554.9	618.6	773.5	659.7	947.6	1,047.6	1,093.7
Average price of residential commodity properties (RMB per sq m)	2,092	2,197	2,608	2,937	3,119	3,645	3,576	4,459	4,725	4,993
Average price of commercial properties (RMB per sq m)	3,489	3,675	3,884	5,022	5,247	5,774	5,886	6,871	7,747	8,488

Source: China Statistical Yearbook 2012 and China Real Estate Annual Report

KEY DRIVERS OF CHINA'S PROPERTY MARKET

Government policies

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

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

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

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

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

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

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

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

On 10 July 2007, the General Affairs Department of the SAFE issued the Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment That Have Properly Registered with the MOFCOM (國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知). The notice stipulates, among other things, (i) that the SAFE will no longer process foreign debt registrations or applications for purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained authorisation certificates from local commerce departments and registered with the MOFCOM on or after 1 June 2007 and (ii) that the SAFE will no longer process foreign exchange registrations (or change of such registrations) or applications for sale and purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained approval certificates from local government commerce departments on or after 1 June 2007 but who did not register with the MOFCOM.

On 11 April 2008, the State Administration of Taxation issued a new notice concerning the prepayment of the enterprise income tax for property developers (國家税務總局關於房地產開發企業所得税預繳問題的通知). This notice included: residential houses, commercial houses, fixtures, supporting establishments or other development products, developed and constructed by property developers and presold before they were completed. The anticipated profit shall be calculated on the basis of the anticipated profit margin by the quarter (or month), and shall then be included into the total taxable income to prepay. The adjustment shall be conducted after the completion of the products and the settlement of the assessable cost of the products.

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

房轉讓營業税政策的通知) on 27 January 2011. Under the New Notice, the sale of an ordinary housing unit or non-ordinary residential housing within five years after the original purchase date, results in the business tax being collected on a full sale price. For the sale of non-ordinary residential housing more than five years after the original purchase date, the business tax thereon shall be collected on the basis of the difference between the sale price and the original purchase price. For the sale of ordinary housing unit more than five years after the original purchase date, it shall be exempted from business tax.

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

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

On 17 April 2010, the State Council issued the Notice on Resolutely Curbing the Rapid Rising of the House Price in Certain Cities (國務院關於堅決遏制部分城市房價過快上漲的通知) according to which a stricter differential housing credit policy shall be enforced. It provides that, among other things, (1) for first-time family buyers (including the borrower, his/her spouse and his/her underage children, similarly hereinafter) of apartments larger than 90 square metres, a minimum 30% down payment must be paid; (2) the down payment requirement on second-home mortgages was raised to at least 50% from 40%, reiterating that an extra 10% should be adopted on the interest rates for housing loans granted to such buyers (3) for those who buy three or more houses, even higher requirements on both down payments and interest rates shall be levied. In addition, the banks can suspend housing loans to buyers who own two or more housing units in places where housing prices are rising too rapidly and are too high, and housing supply is insufficient. According to the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy, promulgated by PBOC and CBRC (中國人民銀行、中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知) on 29 September 2010, commercial banks shall stop providing housing mortgages temporarily to any members of a family unit purchasing the third or subsequent residential housing. This also applies to non-local residents who fail to provide local one-year or longer tax payment certificates or social insurance payment certificates. According to the Circular of the General Office of the State Council on Issues concerning Further Works of Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作的有關問題的通知) dated 26 January 2011 (the "**26 January 2011 Circular**"), the minimum down payment for the second house of a residential family using bank loans or housing provident fund loan is raised to 60% with a minimum lending interest rate of 110% of the benchmark rate. A local residential family that holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family that cannot provide the local payment certificates of tax and/or social insurance for a certain period shall be suspended from purchasing commodity residential houses in the relevant administrative regions.

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

(1) prohibits commercial banks from granting or extending loans to property developers that violate laws and regulations such as: (i) holding idle land; (ii) changing the land use and nature; (iii) delaying the commencement and completion of development; (iv) intentionally holding properties for future sale, for the purpose of new property development; and

(2) increases the minimum down payment to at least 30% of the purchase price of the property.

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

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

(1) For a family that buys its first property with a GFA larger than 90 sq.m. and who apply for a house accumulation fund loan, a minimum of 30% down payment is required. The maximum house accumulation fund loan shall be RMB600,000. For a family that buys its second property for the improvement of living conditions, a minimum of 50% down payment is required and the maximum house accumulation fund loan shall be RMB400,000. All the Housing Fund Management Centres shall suspend making loans to families that apply for second properties, which cannot be defined as an improvement of living-condition property. Families who buy three or more properties are also prohibited from receiving house accumulation fund loans.

(2) No family (including both the husband and wife, and their minor children) can buy more than one additional property in Shanghai within a certain term.

(3) LAT shall be levied according to the ratio of the average price of properties sold to the average price of all newly built properties in the same area of the previous year. If the ratio is less than 1.0, land value appreciation tax shall be levied at the rate of 2%. If the ratio is between 1.0 and 2.0, land value appreciation tax shall be levied at the rate of 3.5%. If the ratio is higher than 2.0, land value appreciation tax shall be levied at the rate of 5%.

(4) Any real estate project which obtained its construction license after 1 July 2010, requires an adjustment in its application for pre-sale permits. These residential housing projects should have completed the main structural works and passed for examination before they can be eligible for pre-sale, thus raising the standard for pre-sale.

(5) Separate grants of planning permits, construction permits and pre-sale permits are restricted. The scale of construction and pre-sale of a real estate project should be no less than 30,000 sq.m. GFA. Real estate projects with less than 30,000 sq.m. GFA are required to obtain a construction planning permit, construction license and pre-sale permit at the same time.

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

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

(a) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for a required period is limited to purchasing one house.

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

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

(i) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for more than one year (on a cumulative basis) within the most recent two years is limited to purchasing one house;

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

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

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

Under the Shanghai Provisional Rules on the Trial in Collection and Administration of Property Tax on Certain Individual Residential Houses (上海市開展對部分個人住房徵收房產稅試點的暫行辦法), (i) starting 28 January 2011, Shanghai, on a trial basis, will levy property taxes on a newly bought second or succeeding house in Shanghai which is purchased by a local resident family and each newly bought house in Shanghai which is purchased by a non-local resident family; (ii) the applicable rate of the property tax is 0.6% and if the sale price per square metre is below two times the average price of newly constructed commodity residential properties in the previous year, property tax is 0.4%; (iii) the property tax shall be temporarily payable on the basis of 70% of the transaction value of the

taxable house; and (iv) the Shanghai property tax rule provides several measures for tax deduction or exemption including: a rule that if a local resident family's GFA per capita, calculated on the basis of the consolidated living space (including the newly bought house) owned by such family, is not more than 60 sq.m., such family is temporarily exempted from property tax when purchasing a second house or more after 28 January 2011 in Shanghai.

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

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

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

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

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

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

On 15 February 2012, the Ministry of Land and Resources issued a Notice on Strengthening work on the Priorities of Management and Regulatory in Real Estate in 2012 (國土資源部關於做好2012年房地產用地管理和調控重點工作的通知), which provides that the provincial land and resources departments shall further perfect the system of examination on the announcement regarding the grant of the land use right and strengthen the supervision of residential land after supply, which requires such governmental authorities timely to discover and resolve the problems in relation to the idle land, unlawful transfer, unauthorised change of land use in nature and any violation of the terms of the land use right grant contract relating to the construction.

In second quarter of 2012, local governments began fine-tuning property policies in some cities. For example, the Guangzhou municipal government announced it would allow some first-time home buyers to pay 20% down payment for home purchases funded by loans from the Housing Provident Fund. The Guangzhou municipal government aims to support first-time home purchases with the lowered down-payment requirement, and the new policy is limited to purchases of apartments with floor area no larger than 90 sq.m and limited to local residents who have contributed to the Housing Provident Fund. The loan amount is capped at RMB500,000 for individuals or RMB 800,000 per couples. Another example is the Yangzhou government which announced a home purchase incentive package that provides homebuyers with a subsidy for purchase of decorated flats. The subsidy is calculated based on the unit purchase price at set at 0.6% for flats sized up to 90 sq.m., 0.5% for flats sized 90-120 sq.m. or 0.4% for homes sized 120-144 sq.m. In Chongqing, the maximum loan amount that may be borrowed from the Housing Provident Fund was increased from RMB 200,000 to RMB400,000 for an individual borrower, and from RMB 400,000 to RMB 800,000 for a household.

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

On 19 July 2012, the MLR and MOHURD promulgated an Urgent Circular on Further Strengthening the Administration of the Land and Consolidating the Positive Result of the Adjustment and Control over Real Estate Market (關於進一步嚴格房地產用地管理鞏固房地產市場調控成果的緊急通知) (the "**Urgent Circular**"). The Urgent Circular provides that the land and house administrative departments at the provincial, municipal and county level are to continue strict implementation of their adjustment and control policies in order to prevent a housing price rebound. According to the Urgent Circular, the

area of granted land shall not exceed the prescribed maximum limit and the land shall not be transferred in the form of bundled or unconsolidated sale. The ratio of the residential land to plot area shall not be less than 1:1. The land grant contract regarding the residential project must provide that construction will commence within one year from the date of the land transfer and complete within three years of the commencement date. The Urgent Circular further provides that land users may not bid for land within a certain period if the land users: i) owe the land premium; ii) hold any idle land; iii) participate in speculative land dealing; iv) develop the land over its actual ability of development; or v) breach the land use right transfer contract.

To implement the Urgent Circular, Chongqing State-owned Land and Housing Administration Bureau issued a Notice on Further Strengthening the Administration of the Land and Consolidating the Positive Result of the Adjustment and Control over the Real Estate Market (重慶市國土房管局關於進一步做好房地產用地管理鞏固房地產市場調控成果的通知) on 25 July 2012. The General Office of Shanghai Municipal People's Government also issued a Notice on Further Implementation of the Adjustment and Control Policies over the Real Estate Market (上海市人民政府辦公廳關於進一步嚴格執行房地產市場各項調控政策的通知) on 26 July 2012, which requires ongoing strict enforcement of the differential housing consumer credit policy, property tax reform and purchase restriction.

Rising disposable incomes

Average annual disposable incomes per capita of urban households increased at a compound annual rate of 12.3% between 2002 and 2011, rising from RMB7,703 to RMB21,810. Increased purchasing power is also demonstrated by the rising annual per capita consumption expenditure of city residents, which increased by a compound annual rate of approximately 10.8% between 2002 and 2011. Such increased purchasing power is a positive sign for the property market as it may be an indication that an increasing number of high-income people are entering the property market.

Urbanisation

The pace of urbanisation has been rapid. Between 2000 and 2011, China's urban population increased by more than 231 million, resulting in an urbanisation rate of 51.3% in 2011. The China National Bureau of Statistics estimates that China's urbanisation rate will reach 70% by 2050. If this materialises, it is expected to create greater demand for properties in the cities.

Housing Reform

Since its announcement in 1998, housing reform has been effective in increasing local real estate ownership levels. Prior to the reform, most people in China's urban areas were housed under the welfare housing system in which the PRC government heavily subsidises urban residents. However, under the reform such subsidised housing is being phased out and workers have been encouraged to buy their own houses, or pay rent at rates closer to prevailing market levels. This has contributed to greater demand for owner-occupied residential properties.

Residential mortgages

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

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

Key real estate markets

We have projects in five cities, all of which are among the leading property markets in China by investments completed in 2011.

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

City	Resident Population 2011 (million)	Urban Household Disposable Income Per Capita 2011 (RMB)	Urban Household Disposable Income Per Capita Growth 2001-2011[1]	Real Estate Investment 2011 (RMB billion)	Real Estate Investment Growth between 2001 and 2011[1]
Shanghai[3]	23.5	36,230	10.9%	217	13.2%
Chongqing[3]	29.2	20,250	11.9%	202	26.2%
Wuhan[3]	10.0	23,738	12.5%	127	27.2%
Dalian[3]	6.7[2]	24,276	12.6%	111	25.4%
Foshan[3]	7.2	30,718	8.5%	60	24.2%
Hangzhou	8.7	34,065	12.1%	130	24.9%
Beijing	20.2	32,903	11.0%	304	14.5%
Chengdu	14.1	23,932	11.4%	160	25.0%
Guangzhou	12.7[2]	34,438	8.9%	131	13.1%
Shenyang	8.1[2]	23,326	13.8%	168	36.0%
Shenzhen	10.5	36,505	4.5%	59	6.9%
Tianjin	13.5	26,921	11.6%	108	20.9%
Nanjing	8.0[2]	32,200	13.8%	90	23.2%

Notes:

(1) Growth is calculated on a compound annual average basis.

(2) 2010 Resident Population

(3) Cities in which we have projects.

Shanghai property market

In recent years Shanghai has enjoyed rapid economic development, evidenced by the increase in GDP per capita reaching approximately RMB82,560 in 2011 according to the Shanghai Statistical Yearbook 2012. Investments in real estate have risen from RMB74.9 billion in 2002 to RMB217.0 billion in 2011, representing a compound annual growth of 12.5% over the period. In the same period, the GFA of residential projects under construction increased from 59.95 million sq.m. in 2002 to 84.41 million sq.m. in 2011. Despite the implementation of policies intended to cool the housing market, such as purchase restrictions and the differential housing loan policy, the average price of residential commodity properties in Shanghai increased by 2.8% in 2011, from RMB20,995 per sq.m. to RMB21,584 per sq.m.

Infrastructure developments and urban planning

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

- Construction of the last remaining section of the middle ring road to enhance the connection between the inner and outer ring roads.
- The Shanghai government plans to expand total metro-line track length from 420 km in 2010 to about 600 km by 2015.
- The Shanghai-Hong Kong high-speed rail line is expected to open in 2013 or 2014.
- The Shanghai-Beijing high-speed railway line opened on 30 June 2011.
- Government approval for the construction of additional bridges and tunnels crossing the Huangpu River.
- Completion of the third phase of Yangshan Port in 2008.
- Opening of second terminals at Pudong International Airport in March 2008 and at Hongqiao International Airport in March 2010.

Huangpu district overview

Our Shanghai Taipingqiao project is located in the former Luwan District, which has now been merged into Huangpu District, one of the main CBDs of Shanghai. On 8 June 2011, the central government approved a plan to merge Luwan with Huangpu District, with the aim to facilitate long-term development of both districts. The new Huangpu District, covers an area of approximately 20.46 square kilometres and has a resident population of 0.68 million, or about 2.9% of the overall Shanghai population in 2011, based on the Shanghai Statistical Yearbook 2012. Huangpu is noted as one of the city's leading business and commercial districts. Part of the old French Concession is located within this district, and the district is characterised by many cultural sights and historical buildings. It is served by efficient public transport, including Shanghai's subway system. Huai Hai Zhong Road is a major thoroughfare within the district and is a key commercial street with shops, shopping malls and department stores. Three other major commercial areas within the district are the Bund, Nanjing East Road and People's Square.

Hongqiao area overview

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

Hongkou district overview

Our Shanghai Rui Hong Xin Cheng project is located in the Hongkou District, a major shopping centre located in the north-eastern part of Shanghai. According to the Shanghai Statistical Yearbook 2012, Hongkou District covers an area of approximately 23.48 square kilometres. According to the Shanghai Statistical Yearbook 2012, Hongkou District has a resident population of approximately 0.85 million,

about 3.7% of the overall Shanghai population in 2011. There are two major commercial areas in the district, Sichuan North Road retail area and the North Bund area. The Shanghai Municipal Government has ambitious plans to transform the North Bund area into a shipping hub, thereby establishing Hongkou District as an international shipping, commerce, residential and leisure area.

Yangpu district overview

Our Shanghai KIC project is located in the Yangpu District, which is a district located in the north eastern part of Shanghai. According to the Shanghai Statistical Yearbook 2012, Yangpu District covers an area of 60.73 square kilometres and includes several kilometres of waterfront alongside the Huangpu River. According to the Shanghai Statistical Yearbook 2012, Yangpu District has 1.3 million resident population, about 5.6% of Shanghai's population. The district possesses rich historical and cultural resources and is regarded as an intellectual hub of Shanghai with 14 major universities and colleges, 22 key state laboratories and 15 scientific research institutes. Within this district, growth is expected in the office segment, which reflects the district's emerging role as an education, research and development centre.

Shanghai upper-end residential market

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

Luwan district, which has now merged with Huangpu District, is one of the major upper-end residential districts in central Shanghai. Due to the upper-end residential developments clustered around Shanghai Xintiandi such as Casa Lakeville (Phase 3 of Taipingqiao residential development), the average price reached RMB148,600 per square metre in 2011.

Shanghai upper-mid-end residential market

From 2007 to 2011, the five-year period saw strong demand for upper-mid-end residential properties. This pattern is likely to continue due to Shanghai's growing and diversifying economy-increasing flows of overseas and domestic investment, growing numbers of foreign and domestic migrants and rising incomes of local white collar workers. Rental demand has been fairly consistent and the negative impact associated with recent macro control policies is expected to be limited in the mid- to long-term as the market matures.

Shanghai Grade A/Premium office market

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

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

- An increased level of foreign investment in Shanghai following China's accession to the World Trade Organisation, resulting in an expansion of the financial services, business services and retail distribution sectors;

- The establishment in, and relocation to, Shanghai of corporate headquarters by large domestic and multinational corporations; and

- The goals, endorsed by the State Council, of building Shanghai into a global hub for yuan trading, clearing, pricing and innovation by 2015 and an international financial centre by 2020 as well as the associated policies will accelerate financial services development.

Shanghai high-end retail market

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

Chongqing property market

Chongqing is a major city in Southwest China, which is located at the east of Sichuan Province in the Sanxia (the Three Gorges) area on the middle and lower reaches of the Yangtze River. Chongqing is not only a commercial and industrial hub but also an inland transport hub. According to the Chongqing Statistical annual report 2011, per capita GDP was RMB34,500 in 2011 with strong economic growth recorded from 2002 to 2011. It is also among the world's largest cities by population.

According to the Chongqing Statistical annual report 2011, investments in real estate have risen from RMB24.59 billion in 2002 to RMB201.51 billion in 2011, representing a compound annual growth of 26.2% over the period. In the same period, the GFA of projects under construction increased from 44.14 million sq.m. in 2002 to 203.97 million sq.m. in 2011. Despite the central bank's tightened bank loans to developers to curb speculation in the property market, the average price of residential commodity properties in Chongqing increased by 11.2% in 2011, from RMB4,040 per sq.m. in 2010 to RMB4,492 per sq.m. in 2011.

Infrastructure developments and urban planning

According to the newest Chongqing Metro Plan, a total of 9 lines with a circle line will be constructed by 2020. Among them, Metro Lines No. 1, No. 2, No. 3 and No. 6 are expected to be completed before 2013. There are plans to construct another eight bridges over the Jialing River and another ten bridges over the Yangtze River by 2020.

Yuzhong district overview

Our Chongqing Tiandi project is located in the Yuzhong District which is in the centre of Chongqing and bordered by the Jialing River and the Yangtze River. It is the most affluent district and the political, trading and financial centre of Chongqing. Yuzhong District is the most densely populated district in Chongqing. In 2011 it had a resident population of approximately 639,000, or about 2.2% of the total Chongqing resident population, according to the 2011 Population Survey.

Wuhan property market

Wuhan, located at the intersection of the Yangtze and the Han Rivers, is the capital of Hubei Province in central China and has developed into a major commercial and manufacturing centre in China. According to the Wuhan Statistical Yearbook 2012, Wuhan's per capita GDP reached RMB 68,315 in 2011, representing a significant growth during the period 2002 to 2011. Total investment in real estate in Wuhan rose significantly from RMB13.25 billion in 2002 to RMB 127.42 billion in 2011.

Infrastructure developments and urban planning

Our Wuhan Tiandi Project is adjacent to a station of the light rail system, which runs through the downtown area on the western side of the river. The government plans to extend the light rail to the northern Hankou Wholesale Market by 2013. Two other metro lines (Line 2 and Line 4) are under construction and scheduled for operation in 2013, bringing the total urban track length to 220 km. There are seven bridges across the Yangtze River in Wuhan now and other four bridges are under construction which are all expected to be completed by 2015. The 904-km Guangzhou-Wuhan High-Speed Railway Project was completed in 2008 and has reduced the travel time for passenger trains between these two major Chinese cities from ten hours to four hours. These infrastructure developments should further boost economic development in Wuhan.

Jiang'an district overview

The Jiang'an District, in which our Wuhan Tiandi project is located, is in the city centre of Wuhan within the Hankou area. Hankou is the political, trading and economic centre of Wuhan. According to the Wuhan Statistical Yearbook 2012, Jiang'an District covers an area of 64.24 square kilometres. In 2011, Jiang'an had a resident population of about 915,700, or 9.1% of the overall Wuhan population, according to the Wuhan statistical bureau.

Dalian Property Market

Dalian, located on the coast of Bohai Bay, is a major city of Liaoning Province and is recognised as a regional economic centre in northeast China. Dalian's infrastructure such as port, airport and border facilities has developed rapidly and the city expects to become an international transportation and trade hub in China. With rapid growth over the past few years, the software and business process outsourcing industries in Dalian have been designated as one of its pillar industries by the Dalian city government. The Dalian city government seeks to develop Dalian into one of the major information technology and business process outsourcing (ITO/BPO) centres in China. According to the Dalian Statistical Annual Report 2011, per capita GDP was approximately RMB91,287 in 2011, as compared to RMB25,276 in 2002.

Investments in real estate have risen from RMB12.5 billion in 2002 to RMB110.7 billion in 2011, representing a compound annual growth of 27.4% over the period, according to the Dalian Statistical Annual Report 2011. In the same period, GFA of projects under construction increased from 13.7 million sq.m. in 2002 to 62.01 million sq.m. in 2011.

Infrastructure developments and urban planning

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

Lushun district and Ganjingzi district overview

Our project, Dalian Tiandi, is part of Dalian Software Park Phase II and located across two districts, namely Lushun district and Ganjingzi district. According to the Lushun and Ganjingzi District Statistical Bureaus, the Lushun district has a registered population of approximately 213,850, or 3.7% of the overall registered population in Dalian and the Ganjingzi District has a population of approximately 743,795, or 12.7% of the overall Dalian resident population. Dalian Software Park is one of China's eleven "National Software Industry Bases." In June 2007, Dalian municipal government launched the Lushun South Road Software Industry Belt project, in which Dalian Software Park Phase II is the core development. Dalian Software Park Phase I has almost been completed and over 500 enterprises have established presences there, of which 40% are foreign-invested enterprises, including 42 Fortune 500 enterprises as at end-2010.

Foshan property market

Foshan, a city in central Guangdong province, is situated to the west of Guangzhou. According to the Foshan statistical annual report 2011, Foshan had a resident population of approximately 7.23 million in 2011. The city experienced a high GDP growth from 2002 to 2011. In 2011, Foshan's GDP reached approximately RMB658.0 billion, as compared to RMB132.9 billion in 2002, representing compound annual average growth of 19.5%. Per capita GDP also grew from RMB 24,030 to RMB91,000 over the same period. According to the Foshan Statistical Bureau, a total GFA of approximately 3,863,900 sq.m. of commodity properties was completed in Foshan in 2011, while a total GFA of approximately 8,752,700 sq.m. of commodity properties was sold in Foshan in 2011. The average selling price of commodity properties in Foshan in 2011 was RMB7,991 per sq.m.

According to the Foshan Statistics Bureau, investments in real estate have risen from RMB8.2 billion in 2002 to RMB59.9 billion in 2011, representing a CAGR of 24.7% during this period. Total sales of commodity properties has grown from RMB8.6 billion in 2002 to RMB66.9 billion in 2011, at a CAGR of 25.6%.

Infrastructure developments and urban planning

The Foshan government has announced details pertaining to the implementation of its three-year urban renewal plan to improve urban infrastructure. According to the plan, 103 construction projects are to be completed in the period of 2012-2015, including enhancement of the urban fabric, "three-old" community reconstruction, and the construction of transportation facilities and industrial towns. Infrastructural projects commenced during 2012 include the extension of Guangzhou-Foshan Subway Line 1 with 4 new stations, Western-Chancheng Highway, Longwan Bridge and expressways to surrounding areas like Guangzhou, Zhaoqing and Guizhou.

The three-year urban renewal plan of Chancheng district, where Foshan Lingnan Tiandi project is located, mainly includes reconstruction of Zumiao and Donghuali areas, improvement of Zumiao commercial area, Jihua business district and Foshan Route 348 reconstruction project.

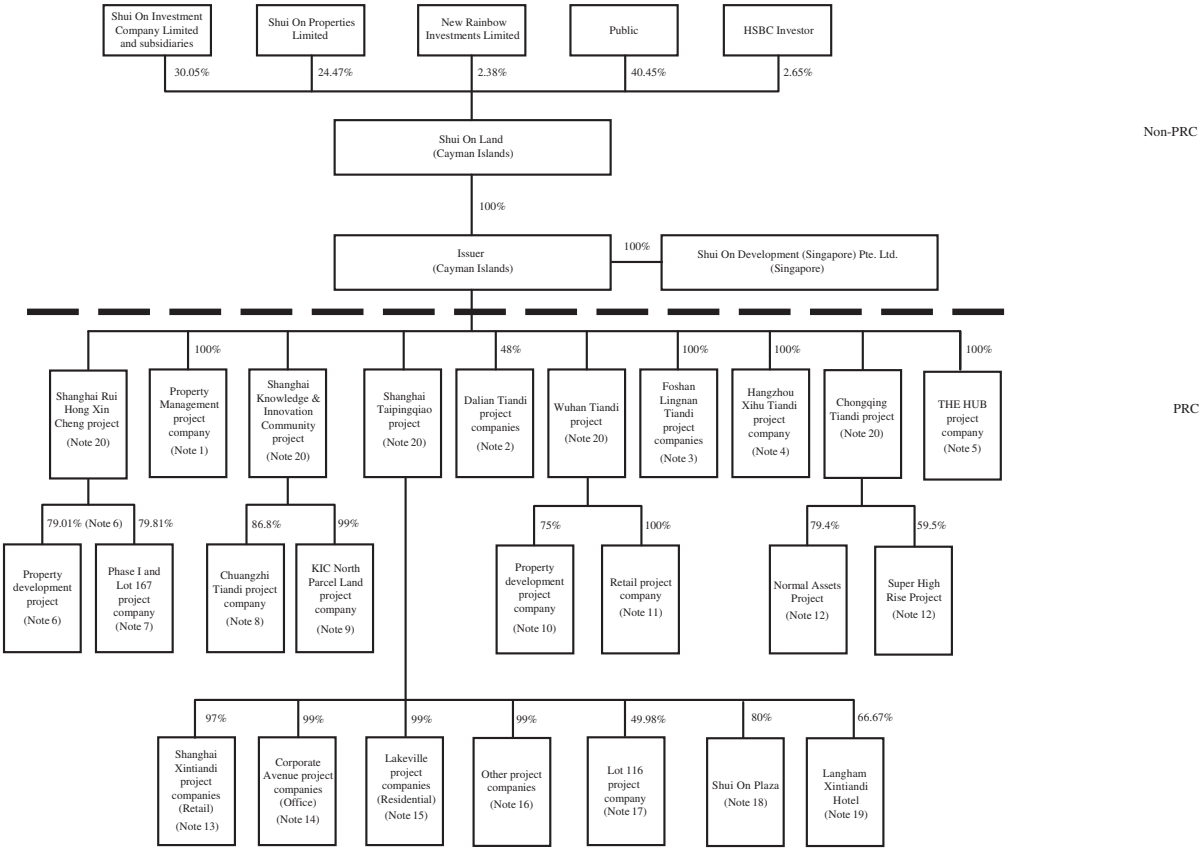
Chancheng district overview

Our Foshan Lingnan Tiandi project is situated in central Chancheng district, at Foshan's traditional city core and public transportation hub. The Chancheng district functions as Foshan's cultural and commercial centre, offering the city's foremost historical and cultural assets, including two national

level protection sites - Donghuali and the Zumiao Temple - as well, the city's main retail areas are also in Zumiao Road and Jihua Road. Our project site is well-positioned within Chancheng district, as it encompasses Donghuali and Zumiao Temple at its boundaries and is adjacent to Zumiao Road. The site is at the heart of the local government's planned redevelopment zone, which will catalyse central Chancheng's development as a commercial zone - focusing on business, culture and tourism. According to the 2010 Population Census, the resident population of Chancheng was approximately 1.1 million in 2010, constituting 15.3% of Foshan's total resident population.

CORPORATE STRUCTURE

Set out below are the principal members of the Group and their respective principal businesses, and the effective shareholding structure of the Group as at 30 November 2012.



Notes:

(1) The project company is Shanghai Feng Cheng Property Management Co., Ltd., which is incorporated in the PRC.

(2) The project companies of Dalian Tiandi include Dalian Software Park Shuion Fazhan Co., Ltd., Dalian Software Park Shui On Kaifa Co., Ltd. and its subsidiaries, each of which is incorporated in the PRC.

(3) (i) The project companies of Foshan Lingnan Tiandi are Fo Shan Shui On Property Development Co., Ltd., Fo Shan Yi Kang Property Development Co., Ltd., Fo Shan An Ying Property Development Co., Ltd., Fo Shan Yuan Kang Property Development Co., Ltd., Fo Shan Yong Rui Tian Di Property Development Co., Ltd., Fo Shan Rui Dong Property Development Co., Ltd., Fo Shan Rui Fang Property Development Co., Ltd., Fo Shan Rui Kang Tian Di Property Development Co., Ltd. and Fo Shan Shui On Tiandi Trading Co., Ltd., each of which is incorporated in the PRC.

(ii) On 12 December 2011, the Issuer disposed 41% equity interest in Fo Shan Yong Rui Tian Di Property Development Co., Ltd. (the project company relating to Foshan Lot 18) to Mitsui upon the first closing of the sale and purchase agreement dated 29 November 2011 between the Issuer and Mitsui. Details of this transaction were set out in Shui On Land's announcement dated 29 November 2011 and the circular dated 3 January 2012 respectively.

(iii) Upon completion of the sale and purchase agreement dated 22 August 2012 between the Issuer and Mitsui on 9 November 2012, Fo Shan Shui On Property Development Co., Ltd. (the project company relating to Foshan Lots 6 and 16) is effectively held as to 55.9% by the Issuer and 44.1% by Mitsui. Details of this transaction were set out in Shui On Land's announcement dated 22 August 2012.

(4) The project company of Hangzhou Xihu Tiandi is Hangzhou Xihu Tiandi Management Co., Ltd., which is incorporated in the PRC.

(5) The project company is Shanghai Rui Qiao Property Development Co., Ltd., which is incorporated in the PRC.

(6) The project company is Shanghai Rui Hong Xin Cheng Co., Ltd., which is incorporated in the PRC. The Group has a 79.01% interests in the property development project of Rui Hong Xin Cheng except for the non-retail portion of Lot 6 (Phase 5), where the Group has a 99% effective interest in it.

(7) The project companies for Phase I and Lot 167 are Shanghai Rui Cheng Properties Co., Ltd. and Shanghai Baili Property Development Co., Ltd. respectively, which are incorporated in the PRC.

(8) The project company is Shanghai Yang Pu Centre Development Co., Ltd., which is incorporated in the PRC.

(9) The project company is Shanghai Knowledge and Innovation Community Development Co., Ltd., which is incorporated in the PRC.

(10) The project company is Wuhan Shui On Tiandi Property Development Co., Ltd., which is incorporated in the PRC.

(11) The project company is Wuhan Shui On Tian Di Trading Co., Ltd., which is incorporated in the PRC.

(12) Both the Normal Assets Project and the Super High Rise Project are held by Chongqing Shui On Tiandi Property Development Co., Ltd., which is incorporated in the PRC.

(13) The project companies include Shanghai Ji-Xing Properties Co., Ltd., Shanghai Bai-Xing Properties Co., Ltd., Shanghai Xin-Tian-Di Plaza Co., Ltd. and Shanghai Xing-Qi Properties Co., Ltd., each of which is incorporated in the PRC.

(14) The project company is Shanghai Xing-Bang Properties Co., Ltd. (for Lot 110), which is incorporated in the PRC.

(15) The project companies include Shanghai Fu-Xiang Properties Co., Ltd. (for Lot 113), Shanghai Lakeville Properties Co., Ltd. (for Lot 117) and Shanghai Jing Fu Properties Co., Ltd. (for Lot 114), each of which is incorporated in the PRC.

(16) The project companies include Shanghai Fu Ji Properties Co., Ltd. (for Lot 122-3), Shanghai Xing Qiao Properties Co., Ltd. (for Lot 126) and Shanghai Le Fu Properties Co., Ltd. (for Lot 127), each of which is incorporated in the PRC.

(17) The project company is Shanghai Jun Xing Property Development Co., Ltd. (for Lot 116), which is incorporated in the PRC.

(18) The project company is Shanghai Jiu Hai Rimmer Properties Co., Ltd., which is incorporated in the PRC.

(19) The project company is Shanghai Li Xing Hotel Co., Ltd., which is incorporated in the PRC.

(20) Includes the companies shown underneath.

OVERVIEW

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

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

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

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

In mid-2009, we launched our Three-Year Plan which is designed to accelerate sustainable growth and maintain a closer balance between value creation for the longer term and cash generation in the short-to-medium term. The cornerstone of our Three-Year Plan is to expedite the development completion of our landbank portfolio. A second Three-Year Plan for 2013-2015 is currently under consideration.

As at 30 June 2012, we have obtained land use rights certificates, or have entered into land grant contracts or legally binding master agreements with district governments for approximately 13.3 million sq.m. of landbank. These land parcels fall under our eight major multi-phase projects with an aggregate estimated leasable and saleable GFA of approximately 11.1 million sq.m. (of which approximately 8.2 million sq.m. is attributable to us) and approximately 2.2 million sq.m. of car parks and other public facilities. We have a controlling interest in all of these projects, except for the Dalian Tiandi project. In order to develop the Dalian Tiandi project, we entered into a joint venture agreement

with SOCAM Development Limited ("**SOCAM**") and the Yida Group Company Limited ("**Yida**") and its subsidiaries (together with Yida, the "**Yida Group**"). This project in Dalian city is expected to have approximately 3.6 million sq.m. of aggregate GFA, of which 48% will be attributable to us. Among such 3.6 million sq.m. of aggregate GFA, we have obtained land use rights certificates of two plots of land with an aggregate GFA of 3.3 million sq.m. For the remaining plots of land, we plan to participate in the bidding or public auction, once they are ready for sale. We expect that the aggregate GFA on such remaining plots of land for the Dalian Tiandi project will be approximately 0.3 million sq.m.

As at 30 June 2012, we have eight major multi-phase projects in various stages of development located in the Chinese cities of Shanghai, Wuhan, Chongqing, Foshan and Dalian. Shanghai is located in the economically vibrant Yangtze River Delta, Wuhan is a major transportation hub located in central China and Chongqing is a major commercial and industrial centre in southwestern China. Foshan, located in the Pearl River Delta, one of the major economic regions and manufacturing centres in China, is a major city in Guangdong Province and is close to Guangzhou city. Dalian, located on the coast of Bohai Bay, is a major city in Liaoning Province and a regional economic centre in northeast China.

Current projects

- ***The Shanghai Taipingqiao project*** is a city-core development project consisting of office, residential, commercial, retail, hotel, entertainment and cultural properties in the heart of Shanghai. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 1.3 million sq.m., of which approximately 252,000 sq.m. had been sold as at 30 June 2012. This project comprises:

  - A historic restoration zone (Lot 109 and Lot 112, or Shanghai Xintiandi), which has been open since 2001 and was fully completed in 2002 and a new shopping mall (Lot 113, or Xintiandi Style) was also completed in 2010;

  - A corporate headquarters zone (known as Corporate Avenue), of which Lot 110, or phase 1 of Corporate Avenue, consisting of retail and office properties, was completed in 2004;

  - An up-market residential zone, of which the first phase (Lot 117, or Lakeville) was completed in 2003, the second phase (Lot 114, or Lakeville Regency) was completed in 2006 and the third phase (Lot 113, or Casa Lakeville) was completed in 2010; and

  - A commercial zone, construction of which will commence following the completion of the relocation of existing residents.

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

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

- ***The Shanghai Rui Hong Xin Cheng project***, also known as Shanghai Rainbow City, has been enlarged through our successful purchase of all the equity interests in Shanghai Baili Property Development Company Limited and the obtaining of the title with respect to the land use rights of Lot 167A and Lot 167B, Xingang, Hongkou District, Shanghai in June 2010. Upon completion, we expect this entire project to have a total leasable and saleable GFA of approximately 1.7 million sq.m. according to the new approved master plan, of which approximately 451,000 sq.m. had been sold as at 30 June 2012. Shanghai Rui Hong Xin Cheng will redevelop the existing residential neighbourhoods into a mixed-use large-scale community. Shanghai Rui Hong Xin Cheng is located within the Inner Ring Viaduct of Shanghai with public transportation links including its own dedicated metro station and major roads. Upon completion, we expect the project will comprise high rise residential buildings, commercial shopping complexes, offices and schools.

- ***The Shanghai KIC project***, also known as the Shanghai Chuangzhi Tiandi project, comprises retail, entertainment and sports facilities, office buildings and residential properties. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 0.5 million sq.m., of which approximately 149,000 sq.m. had been sold as at 30 June 2012. This project is intended to inspire innovation and entrepreneurship in a "Lifestyle of Health and Sustainability" (LOHAS), supported by retail, entertainment and sporting facilities to create a "Live-Work-Play-Learn" lifestyle. The project is located close to 14 major universities and colleges in the northeast of downtown Shanghai, including some of China's leading universities such as Fudan University, Shanghai University of Finance and Tongji University. The project will provide a "plaza area" comprising office buildings, learning centres, exhibition halls, conference and convention facilities, and commercial outlets. These are integrated and designed to function as facilities and spaces for recreation, leisure, education, training, culture, as well as, a "live-work" area and a mixed-use area comprising office buildings, retail shops and residential accommodations.

- ***THE HUB*** is an important development project comprising commercial, retail, exhibition and performance facilities leveraging on the traffic and convenience of the Hongqiao Transportation Hub. Upon completion, we expect to have a total leasable and saleable GFA of approximately 277,000 sq.m. The project is situated adjacent to Hongqiao Transportation Hub which we expect will become an important economic centre of the Yangtze Delta, and will link Shanghai to the rest of the PRC. Based on the latest proposed development plan of the Shanghai government, the Hongqiao Transportation Hub is expected to be supported by a strong transportation network of an international airport, high speed inter-city trains, maglev train, subway lines and a highway network, which extends the one hour catchment population to 75 million people.

- ***The Wuhan Tiandi project*** is a city-core development project comprising retail, food and beverage and entertainment facilities, office buildings and residential properties. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 1.4 million sq.m., of which approximately 264,000 sq.m. had been sold as at 30 June 2012. Located between Shanghai and Chongqing at the confluence of the Han River and the Yangtze River, Wuhan is a major transportation hub in inland China and is the capital of Hubei Province. The project comprises two main sites, Site A and Site B, which will include Grade A office buildings, retail facilities, hotel and residential properties.

- ***The Chongqing Tiandi project*** is a city-core development project comprising office buildings, exhibition and conference facilities, retail and entertainment outlets, hotels and residential properties. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 2.8 million sq.m., of which approximately 284,000 sq.m. had been sold as at 30 June 2012. The Chongqing Tiandi project is situated on a hillside on the south bank of the Jialing River, just upstream of the confluence of the Yangtze and Jialing Rivers. We expect this project

will help support and service Chongqing's extensive manufacturing and service industries. Chongqing Tiandi will be integrated with Chongqing's nearby central business district via a light rail system and major roads. The main features, in addition to modern high-quality office buildings, are expected to include a commercial core comprising business facilities such as an exhibition centre and luxury hotels, a large residential area, entertainment and cultural properties, as well as a man-made lake.

- ***The Foshan Lingnan Tiandi project*** is a city-core development project comprising office, retail, hotel, cultural facilities and residential properties. The project is expected to have nearly 1.5 million sq.m. of leasable and saleable GFA of which approximately 51,000 sq.m. had been sold as at 30 June 2012. The project is planned for development in 5 phases over a period of 10 years. Besides our recent strategic partnership with Mitsui (See the section entitled "*Business — Forging strategic partnerships with developers, contractors, consultants and investors")*, we may also invite other strategic partners to co-invest in this Foshan Lingnan Tiandi project if, and when, suitable opportunities arise, but no definite plans or terms have been fixed.

- ***The Dalian Tiandi project*** is a development consisting of software offices, residential and commercial properties, training centres, hotels and an area of a Shanghai Xintiandi type development. Upon completion, we expect this project to have an aggregate leasable and saleable GFA of approximately 3.2 million sq.m., subject to our success in acquiring the land with an expected GFA of 0.3 million sq.m. through competitive bidding process. As at 30 June 2012, approximately 52,000 sq.m. had been sold. We have a 48% interest in the Dalian Tiandi project. Our joint venture partners are the Yida Group with a 30% interest and SOCAM with a 22% interest. Dalian, located on the coast of Bohai Bay, is a major city of Liaoning Province and a regional economic centre in northeast China.

The projects described above are multi-phase projects at various stages of development. While none of these projects are completed in their entirety, certain developments within these multi-phase projects have been completed. As at 30 June 2012, our completed developments included Shanghai Xintiandi, Lakeville, Corporate Avenue, Lakeville Regency, Casa Lakeville, Xintiandi Style and Shui On Plaza, which form a part of the Shanghai Taipingqiao project; Phase 1, Phase 2, Phase 3 and Phase 4 of the Shanghai Rui Hong Xin Cheng project; KIC Village R1 and R2, KIC Plaza Phase 1 and Phase 2, and KIC C2 of the Shanghai KIC project; Phase 1, Phase 2 and a portion of Phase 3 of The Riviera and the retail and entertainment area, Chongqing Tiandi of the Chongqing Tiandi project; Phase 1, Phase 2 and Phase 3 of The Riverview, Lot A5 and the retail and entertainment area, Wuhan Tiandi of the Wuhan Tiandi project; The Regency Phase 1, The Legendary Phase 1, Lot D and the retail and entertainment area, a portion of Foshan Lingnan Tiandi of the Foshan Lingnan Tiandi project and a portion of Phase 1 of the Dalian Tiandi project.

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

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

The following table provides information relating to our landbank as at 30 June 2012:

	Approximate/Estimated leasable and saleable GFA							
Project	**Residential**	**Office**	**Retail**	**Hotel/ serviced apartments**	**Subtotal**	**Clubhouse, carpark and other facilities**	**Total**	**Group's interest**
	sq.m.	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*%*
Completed properties:								
Shanghai Taipingqiao	1,000	111,000	109,000	5,000	**226,000**	86,000	**312,000**	99.0%[1]
Shanghai RHXC	—	—	47,000	—	**47,000**	60,000	**107,000**	79.0%[2]
Shanghai KIC	—	118,000	54,000	—	**172,000**	105,000	**277,000**	86.8%
Hangzhou Xihu Tiandi	—	—	6,000	—	**6,000**	—	**6,000**	100.0%
Wuhan Tiandi	1,000	—	46,000	—	**47,000**	31,000	**78,000**	75.0%
Chongqing Tiandi	69,000	—	62,000	—	**131,000**	115,000	**246,000**	79.4%
Foshan Lingnan Tiandi	4,000	—	30,000	38,000	**72,000**	40,000	**112,000**	100.0%
Dalian Tiandi	52,000	207,000	—	—	**259,000**	82,000	**341,000**	48.0%[3]
Subtotal	**127,000**	**436,000**	**354,000**	**43,000**	**960,000**	**519,000**	**1,479,000**	
Properties under development:								
Shanghai Taipingqiao	90,000	105,000	52,000	33,000	**280,000**	97,000	**377,000**	99.0%[1]
Shanghai RHXC	116,000	—	18,000	—	**134,000**	52,000	**186,000**	79.0%[2]
Shanghai KIC	49,000	97,000	4,000	14,000	**164,000**	79,000	**243,000**	99.0%[4]
THE HUB	—	105,000	128,000	44,000	**277,000**	110,000	**387,000**	100.0%
Wuhan Tiandi	120,000	252,000	112,000	41,000	**525,000**	150,000	**675,000**	75.0%
Chongqing Tiandi	337,000	754,000	270,000	25,000	**1,386,000**	408,000	**1,794,000**	79.4%[5]
Foshan Lingnan Tiandi	251,000	—	105,000	8,000	**364,000**	141,000	**505,000**	100.0%[6]
Dalian Tiandi	551,000	189,000	243,000	33,000	**1,016,000**	360,000	**1,376,000**	48.0%[3,7]
Subtotal	**1,514,000**	**1,502,000**	**932,000**	**198,000**	**4,146,000**	**1,397,000**	**5,543,000**	
Properties for future development:								
Shanghai Taipingqiao	166,000	174,000	118,000	38,000	**496,000**	44,000	**540,000**	99.0%
Shanghai RHXC	535,000	272,000	252,000	10,000	**1,069,000**	12,000	**1,081,000**	79.0%[2]
Wuhan Tiandi	424,000	35,000	92,000	10,000	**561,000**	4,000	**565,000**	75.0%
Chongqing Tiandi	780,000	25,000	91,000	78,000	**974,000**	218,000	**1,192,000**	79.4%
Foshan Lingnan Tiandi	379,000	450,000	125,000	80,000	**1,034,000**	28,000	**1,062,000**	100.0%
Dalian Tiandi	529,000	936,000	362,000	49,000	**1,876,000**	8,000	**1,884,000**	48.0%[3,7]
Subtotal	**2,813,000**	**1,892,000**	**1,040,000**	**265,000**	**6,010,000**	**314,000**	**6,324,000**	
Total landbank GFA	**4,454,000**	**3,830,000**	**2,326,000**	**506,000**	**11,116,000**	**2,230,000**	**13,346,000**	

Notes:

(1) The Group has a 99.0% interest in all the remaining lots, except for Shanghai Xintiandi, Lot 116, Shui On Plaza and Langham Xintiandi Hotel, in which the Group has 97.0%, 50.0%, 80.0% and 66.7% effective interest, respectively.

(2) The Group has a 79.81% interest in Phase I, Lot 167A and Lot 167B of Shanghai Rui Hong Xin Cheng project, a 99.0% interest in the non-retail portion of Lot 6 (Phase 5) and a 79.01% interest in the remaining phases.

(3) Dalian Tiandi is expected to have a landbank of 3.6 million sq.m. in GFA. As at 30 June 2012, approximately 3.3 million sq.m. had been acquired. The remaining GFA of approximately 0.3 million sq.m. is expected to be acquired through public bidding in due course.

(4) The Group has 99.0% and 86.8% interest respectively in KIC Lot 311 and KIC Lot 12-8.

(5) The Group has a 79.4% interest in Chongqing Tiandi, except for Lot B11-1/02, in which the Group has a 59.5% effective interest. The development of super high rise office towers is planned for Lot B11-1/02.

(6) The Group has a 100% interest in Foshan Lingnan Tiandi, except for Lot 18 in which the Group has a 59.43% effective interest and Lots 6 and 16 in which the Group had a 55.9% effective interest as at 9 November 2012.

(7) The Group has a 48% interest in Dalian Tiandi, except for Lots C01, C03, B08, B09, E02A and D06 in which the Group has a 33.6% effective interest.

OUR COMPETITIVE STRENGTHS

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

Experienced management team

Our management team has a number of key executives with over 20 years of property development experience in mainland China and over 30 years of construction and property development experience in Hong Kong. We benefit from the involvement of Mr. Lo in our property development projects, particularly during the origination and design stages of the projects. At the beginning, a team from the Shui On Group was transferred in to set up the business, some of whom had been with the Shui On Group for over 15 years. Since then, we have hired staff from other reputable developers in Hong Kong, where they accumulated in-depth industry knowledge, developed strong technical capabilities and established project development expertise. We also conduct ongoing training and management programmes for our employees to keep their knowledge current on industry standards and developments and to enhance their expertise in managing large and complex property developments to international standards.

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

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

We have received several awards in recognition of the Group's outstanding corporate governance, including 5th Corporate Governance Asia Recognition Award from "Corporate Governance Asia" magazine in 2009, The Best in Corporate Governance 2008 — Honorable Mentions (Hong Kong) from "The Asset" magazine, Best Practice Awards 2008 — Enterprise Governance from the Best Practice Management Group and the 7th Corporate Governance Asia Recognition Award 2011 from "Corporate Governance Asia" magazine.

Tiandi — unique business model

We believe we are one of the leading property developers in China possessing end-to-end capabilities to develop and manage large-scale, multi-phase premium integrated residential and commercial properties, from master planning expertise, through the development cycle to ongoing property management expertise. We have a proven track record of developing and managing premium properties that comprise our city-core development projects. Our development projects are characterised by innovative designs and high-quality construction and finishing and usually become a landmark of the cities in which they are located.

Before embarking on a development, we usually carry out extensive feasibility studies on the region, the city and the specific project. We also work closely with local governments to understand their needs and aspirations for the whole area and develop a plan that will be economically viable while preserving any historical aspects of the location. We then start our development of a project by developing the entertainment area, with high-end restaurants and shops under the "Tiandi" brand blending in with local heritage and tranquil amenities, such as parks and man-made lakes. The next phase of our projects usually consists of the development of a residential area, targeting local high-end buyers. We aim to provide a "Live-Work-Play" community to our customers and our finished properties are of high delivery standard with fully fitted move-in condition. Our residential blocks will typically have clubhouses and other sports facilities available for the use of the residents. The last stage of our project development is usually the development of office buildings and shopping malls. Such commercial buildings will provide us with recurrent and growing rental income. We believe that our approach to master planning has helped shape the social and urban development of Shanghai and we take the same approach with all our projects. See "*Our Property Projects*".

Quality landbank in high growth cities

Our well-established presence and highly regarded reputation in China has enabled us to gain access to quality landbanks. As at 30 June 2012, our landbank stood at 13.3 million sq.m. of total GFA, of which approximately 8.2 million sq.m. of leasable and saleable GFA is attributable to us. Our existing projects are located in the cities of Shanghai, Wuhan, Chongqing, Foshan and Dalian, all of which are cities where we expect demand for quality properties to grow. Within each of these cities, our projects are in or near business or education centres. We expect demand for properties in these areas to be higher than in other locations, including less central locations in each of the respective cities. We believe our product mix of each project fits well within its location.

Strong track record and diversified contracted sales

We believe we are one of the leading property developers in China with superb track record. Our existing projects are located in high-growth cities and we have successfully built our "Tiandi" brand. Although we commenced our operation in Shanghai we have since expanded our business out of Shanghai to enable us to benefit from the strong economic growth in second-tier cities in China. We entered the market of Chongqing in 2004, Wuhan in 2005, Foshan and Dalian in 2007. Leveraging on our track record, we are able to gain strong pricing power for our properties. The average selling price and its growth rate of our projects in Shanghai, Chongqing and Wuhan outperformed the respective city average, demonstrating our pricing power and the recognition of the established "Tiandi" model.

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

	Shui On Land			City Average[1]				
Project	1H2012 Contracted ASP	1H2011 Contracted ASP	ASP Growth Rate	1H2012 City Centre ASP	1H2011 City Centre ASP	ASP Growth Rate	10-year GDP Growth Rate	2011 GDP per Capita
	RMB per sq.m.	*RMB per sq.m.*	*%*	*RMB per sq.m.*	*RMB per sq.m.*	*%*	*%*	*RMB per capita*
Shanghai				58,283	47,978	21%	11.4%	82,500
- Taipingqiao	147,200	142,300	3%					
- Rui Hong Xin Cheng	38,900	39,700	-2%					
- KIC	28,600	20,500	40%					
Wuhan Tiandi	23,100	33,400	-31%	7,764	7,372	5%	13.9%	67,400
Chongqing Tiandi[2]	13,000	15,100	-14%	6,485	7,287	-11%	13.8%	34,500
Foshan Lingnan Tiandi	38,100	36,500	4%	8,501	10,839	-22%	16.2%	91,000

Notes:

(1) *Source*: City Statistics Bureau

(2) Average selling price of Chongqing residential sales is based on net floor area (rather than GFA), a common market practice in the region.

Growing investment property portfolio

Our investment properties have prime city centre locations and generate growing rental income for us. As of 30 June 2012, our investment property portfolio in Shanghai, Hangzhou, Wuhan, Chongqing, and Foshan was approximately 626,000 sq.m. of leasable GFA. The carrying value of these completed investment properties (excluding hotel and self-used properties) was approximately RMB21,632 million and the Shanghai portfolio accounted for 87% and Wuhan, Chongqing and Foshan portfolio accounted for the remaining 13%.

Prudent financial management

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

- The development of earlier phases of a multi-phase development often enhances the desirability of properties in the surrounding area, as it provides us with an opportunity to demonstrate to the market our appealing concept and the possibility to further improve our concept in the following phases. This enhances the value of our projects and reduces our development risk;

- Mobilisation of construction equipment for a subsequent phase of an existing site can be accomplished more quickly and cheaply than relocating plant, equipment, staff and sales offices and display apartments to a new site; and

- Cost efficiencies, particularly in terms of procurement of materials and in negotiating construction contracts and optimisation of our utilisation of plant and equipment, personnel resources and information systems.

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

STRATEGY

In response to the need for balancing value creation and cash flow in a volatile global business environment, together with our vision to be the premier and most innovative property developer in China, in mid-2009, we introduced and are now implementing our Three-Year Plan to maintain a closer balance between value creation for the long term and cash generation in the short-to-medium term in order to achieve sustainable growth. The cornerstone of our Three-Year Plan is to expedite the development and to increase the completion rate consistently and continuously, by which we target to stay ahead of the market and generate sufficient cash flow for our accelerated programme and expansion. A second Three-Year Plan for 2013-2015 is currently under consideration.

Our strategies to achieve our vision are as follows:

Standardisation and customisation to achieve efficiency

Standardisation includes synchronising best practice, standards and the operating systems of project teams and centralising procurement, product design and layouts through formalised strategic partnerships with key architects, consultants, contractors and suppliers. We have set a target that 70% of construction materials for our projects are purchased through centralised procurement systems. Such strategies have been in operation for the last three years and have been proved to be effective. In addition, we have introduced an e-tendering system for procurement to further enhance operational efficiency. These initiatives have lowered production costs, streamlined procedures, guaranteed quality, and improved control of delivery timing and procedures. Standardisation of product design, technical specifications and layout plans has shortened the development cycle and construction time with better quality assurance, enabling us to expedite our construction works and to achieve targets.

In order to provide better quality and differentiated products to end-users, we continue our premium customisation programme in our projects by offering customers a selection of interior designs based on different floor plans. Such initiatives evoked a favourable market response since Phase 3 Shanghai Rui Hong Xin Cheng project was launched in 2009. Now, we offer customised programmes across all of our projects which are highly appreciated by our customers.

Strong and steady cash flow from investment properties

Steady growth in the rental income of our investment properties portfolio further enhances our financial performance, improving our cash flow position and capital structure. Property sales from various projects and rental income from our investment properties provides stable and recurrent income. The rental income stream will continue to grow as more of our investment properties are completed in the coming years. Strong cash flow and a low gearing ratio provide us with more flexibility in capital management and enable us to meet our funding requirements.

Decentralised decision-making and project-based management

The decentralisation process and project-based management were implemented on 1 January 2010. At the central level, the corporate head office retains responsibility for financial management and capital allocation, as well as formulation of corporate development strategies. At the project level, because

many of our projects are maturing, with a significant portion of the site area cleared and site formation completed, we initiated a project-based organisation which is more conducive to coping with the ever-increasing construction volume and product delivery and providing for faster cash flow. In order to facilitate project teams to make timely, front line decisions about product development, construction management, sales and marketing and leasing, we initiated decentralisation to allow greater autonomy for the project teams to make these decisions so that our projects are not only of the highest quality but also financially self-sufficient.

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

The locations and scope of our projects help us achieve turnover, geographic and product diversity. We have a geographically diverse project portfolio located in Shanghai, Wuhan, Chongqing, Foshan and Dalian and have been constantly exploring project development opportunities in other strategic cities. We will continue to maintain a spread of our development sites to limit earnings volatility from potential regional property market fluctuations and to allow us to enjoy regional growth upsides.

Our projects are typically completed in several phases and each project may contain properties that range from those for which we have entered into master agreements but where construction work has not yet begun, to fully completed properties for which land use rights have been granted, sales have commenced and retail and office space has been leased. We believe that the spread of development phases allows us to minimise development risks while providing earnings growth potential.

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

Forging strategic partnerships with developers, contractors, consultants and investors

Strategic partnership continues to be one of the pillars of our long-term business strategies to give synergies to the project developments. We continue our strategic partnership with Winnington Capital Limited ("**Winnington**") and its affiliates, with whom we are working together to re-position the Shanghai Rui Hong Xin Cheng project. Further, we entered into agreements with Mitsui for the sale and purchase of certain issued share capital (and related shareholder's loan) of Many Praises Dalian Limited, Value Land Investment Limited and Glory Land Investment Limited in respect of the land known as Lots C01, C03, B08, B09, E02A and D06 of the Dalian Tiandi project, Lot 18 and Lots 6 and 16 of the Foshan Lingnan Tiandi project. The cooperation will enable us to leverage on Mitsui's contribution in attracting Japanese buyers, tenants and other participants.

The following table sets forth Winnington's investments in a certain number of our projects as at 30 June 2012:

Project	Holding company of the project	Shareholding in holding company held by Winnington or its affiliates
Lot 116 of Shanghai Taipingqiao project	Portspin Limited	49.0%
Shanghai Rui Hong Xin Cheng project (1)	Foresight Profits Limited	20.2%
Wuhan Tiandi project	Fieldcity Investments Limited	25.0%
Chongqing Tiandi project	Score High Limited	19.8%
Super High Rise development in Chongqing Tiandi project	Rightchina Limited	25.0%

Note:

(1) Except for the non-retail portion of Lot 6 in Shanghai Rui Hong Xin Cheng project.

The following table sets forth Mitsui's investments in a certain number of our projects as at 30 June 2012:

Project	Holding company of the project	Shareholding in holding company held by Mitsui or its affiliates
Lots C01, C03, B08, B09, E02A and D06 of the Dalian Tiandi project	Many Praises Dalian Limited	30.0%
Lot 18 of the Foshan Lingnan Tiandi project	Value Land Investment Limited	44.1%(1)
Lots 6 and 16 of the Foshan Lingnan Tiandi project	Glory Land Investment Limited	49.0%(2)

Notes:

(1) Upon occurrence of the second closing of the sale and purchase agreement between the Issuer and Mitsui, the shareholding in holding company held by Mitsui are expected to increase from 44.1% to 49%.

(2) As at 9 November 2012, Mitsui had a 49% equity interest in Glory Land.

We continue to look for appropriate strategic partners to co-develop projects, either at a project level and/or for a particular parcel of land. This strategy allows us to accelerate returns from our projects, diversify our risks and enhance cash flow. This strategy brings synergies to us by tapping the expertise and know-how of prospective partners.

OUR PROPERTY PROJECTS

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

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

- **Completed properties**: Completed properties are projects for which construction of all constituent buildings has been completed and that are available for lease or sale. As at 30 June 2012, the total GFA of our completed properties is approximately 1,479,000 sq.m., of which approximately 1,158,000 sq.m. of GFA is attributable to us;

- **Properties under development**: Properties under development are incomplete property projects that are under construction or design and are in the delivery pipeline. As at 30 June 2012, the total GFA of our properties under development is approximately 5,543,000 sq.m., of which approximately 4,079,000 sq.m. of GFA is attributable to us; and

- **Properties held for future development**: Properties held for future development are properties under planning or under relocation. They represent projects for which we have entered into a legally binding master agreement or similar arrangement with, or which we have been awarded following a competitive tender by the relevant regulatory authorities, and for which we have started planning but not relocation or construction. As these properties are still at the planning stage, the details of the development plans or estimated GFAs in this Offering Circular reflect our current design and expectations only, and are subject to change and approvals by the relevant government authorities. As at 30 June 2012, the total GFA of our properties held for future development is approximately 6,324,000 sq.m., of which approximately 4,730,000 sq.m. is attributable to us.

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

Our major projects in Shanghai

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

Shanghai Taipingqiao project

Description

The Shanghai Taipingqiao project is a city-core development project. The planning of the Shanghai Taipingqiao project adopts an integrated approach to urban planning, with an emphasis on the restoration of historic buildings and the establishment of an integrated community. At the centre of the project is one of the largest man-made lakes in the centre of Shanghai with a surface area of approximately 12,000 sq.m., and a park which covers an area of approximately 44,000 sq.m. with an underground car park which has approximately 230 spaces. When completed, we expect the Shanghai Taipingqiao project to comprise a GFA of approximately 745,000 sq.m. of office, retail, entertainment, hotels, serviced apartments and cultural space, in addition to a GFA of approximately 509,000 sq.m. of high-end residential properties, including approximately 252,000 sq.m. of GFA sold as at 30 June 2012.

Master planning

The Shanghai Taipingqiao project is located in the city centre of Shanghai. A number of domestic and multinational corporations have offices nearby and important transport lines, such as the South-North

Viaduct and the Inner Ring Viaduct, and Shanghai's Metro Line no. 1, no. 8 and no. 10, run through this area. The project is just south of Huai Hai Zhong Road, one of Shanghai's principal commercial streets. This section of Huai Hai Zhong Road is a prime office location, with a number of Grade A office towers.

In December 1996, Shui On Properties Limited, a company of the Shui On Group, entered into a master agreement with the Luwan District[1] government in relation to the development of the Shanghai Taipingqiao project.

Under the terms of the master agreement, the development of the site will be carried out by a Sino-foreign equity joint venture in which Shui On Properties Limited or any of its subsidiaries holds a 90% to 95% interest and a Chinese partner entrusted or designated by the Luwan District[1] government holds a 5% to 10% interest. We acquired our interest in the equity joint venture from the Shui On Group in April 2004. In connection with that acquisition, Shui On Properties Limited undertook to exercise all of its rights under the master agreement for our benefit and as we direct, pursuant to a deed of undertakings dated 29 April 2004.

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

The first phase of the Shanghai Taipingqiao project consisted of the historic restoration zone and construction of the lake and park area and part of the up-market residential zone. Included in this phase is the northern part of Shanghai Xintiandi (Lot 109), which has been open since mid-2001, and Lakeville (first phase of the high-end residential zone), which was completed in 2003. Substantially all of the retail spaces in the northern part of Shanghai Xintiandi have been leased and all of the residential units of Lakeville were sold following the completion of Shanghai Xintiandi.

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

We commenced pre-sales of the second phase of the residential zone, Lakeville Regency, in the first quarter of 2006. We commenced pre-sales of the third phase of the residential zone, Casa Lakeville, in June 2008. The relocation of residents on Lot 126 and Lot 127 commenced in early 2007 and the relocation of residents on Lot 115 commenced in December 2009. In addition, the relocation of Lot 116 began in November 2010. We plan to start development on the remaining lots on a progressive basis from 2013 onwards.

On 29 June 2007, the Issuer entered into a legally binding agreement with Trophy Property Development L.P. ("**Trophy Property**") for the sale of 49% of Portspin Limited, a BVI company which has the right to develop Lot 116 of the Shanghai Taipingqiao project. The transaction closed in July 2007. On 17 December 2008, Trophy Property transferred all its shares in Portspin Limited to Taipingqiao 116 Development Company Limited.

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

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

Project overview

The following table sets forth the development status of the Shanghai Taipingqiao project as of 30 June 2012:

	Approximate/Estimated leasable and saleable area							
	Residential	Office	Retail	Hotel/ serviced apartment	Subtotal GFA	Clubhouse, Carpark and other facilities	Total GFA	Group's interest
	sq.m.	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	%
Completed properties								
Xintiandi	—	5,000	47,000	5,000	**57,000**	12,000	**69,000**	97.0%
Corporate Avenue	—	76,000	7,000	—	**83,000**	16,000	**99,000**	99.0%
The Lakeville and Lakeville Regency	—	—	—	—	**—**	26,000	**26,000**	99.0%
Casa Lakeville and Xintiandi Style	1,000	—	27,000	—	**28,000**	24,000	**52,000**	99.0%
Shui On Plaza	—	30,000	28,000	—	**58,000**	8,000	**66,000**	80.0%
Subtotal	**1,000**	**111,000**	**109,000**	**5,000**	**226,000**	**86,000**	**312,000**	
Properties under development								
Lot 126	—	50,000	23,000	—	**73,000**	35,000	**108,000**	99.0%
Lot 108 (Langham Xintiandi Hotel)	—	—	1,000	33,000	**34,000**	19,000	**53,000**	66.7%
Lot 127	—	55,000	28,000	—	**83,000**	43,000	**126,000**	99.0%
Lot 116	90,000	—	—	—	**90,000**	—	**90,000**	50.0%
Subtotal	**90,000**	**105,000**	**52,000**	**33,000**	**280,000**	**97,000**	**377,000**	
Properties for future development								
Subtotal	**166,000**	**174,000**	**118,000**	**38,000**	**496,000**	**44,000**	**540,000**	99.0%
Total	**257,000**	**390,000**	**279,000**	**76,000**	**1,002,000**	**227,000**	**1,229,000**	

We completed construction of Lakeville in 2003, Lakeville Regency in 2006 and Casa Lakeville in 2010. The sold residential units together comprised an aggregate GFA of approximately 252,000 sq.m. as at 30 June 2012. Ownership of all units in these residential developments, and some car parking spaces, have been transferred to the individual owners. We have, however, retained the property ownership rights in relation to the unsold units, clubhouses and the unsold car parking spaces.

Relocation of original residents

Pursuant to the relocation agreements entered into between us and the Luwan District[1] government, the Luwan District[1] government has appointed relocation companies to handle the relocation for the Shanghai Taipingqiao project. We are responsible for the costs of relocation. As at 30 June 2012, approximately 96% and 82% of households on Lot 127 and the first stage of residential Phase 4 (Lot 116), respectively, had signed relocation agreements. The relocation of Lot 126 has been completed and construction works commenced. See "*Regulation — The Land System of the PRC*" and "*Risk Factors — Risks relating to our Business — For some of our development projects, we are required to relocate existing residents and pay relocation costs, and the relocation process may not be completed as planned*".

[1] Luwan District had merged with Huangou District in June 2011.

Project details

The Shanghai Taipingqiao project blends the architecture and charm of "Old Shanghai" with modern features and amenities. The objective of the Shanghai Taipingqiao project is to revitalise the quality of the district's living environment and infrastructure.

Historic restoration zone

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

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

Shanghai Xintiandi, which has a leasable and saleable GFA of approximately 57,000 sq.m., has been retained for rental purposes and, as at 30 June 2012, these rental units had been almost completely rented. Our tenants include Blancpain, UME, I.T., Starbucks, TMSK, Paulaner, Va Bene, Shanghai Tang, Zen, Ye Shanghai and a lot of renowned retailers.

As an extension of Shanghai Xintiandi, the new shopping mall in Lot 113, Xintiandi Style, was completed in September 2010 and held its grand opening ceremony in November 2010. Xintiandi Style, which has a leasable and saleable GFA of approximately 27,000 sq.m., achieved an occupancy rate of 89% as at 30 June 2012.

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

Corporate headquarters zone

The corporate headquarters zone, known as Corporate Avenue, comprises properties built around the Taipingqiao lake and is adjacent to Shanghai Xintiandi. Corporate Avenue consists of Grade A office buildings with commercial and entertainment complexes, including high-end luxury retail stores designed to create a prestigious retail shopping corridor along the lakefront. The office towers serve

as an extension to the commercial area along Huai Hai Zhong Road and are intended to capitalise on their proximity to the Huang Pi Nan Road and Xi Zang Zhong Road metro stations. Tenants in this area are to include major multinational and domestic corporations. We plan to retain and lease out all units in the corporate headquarters zone.

A portion of Corporate Avenue to the north of the Taipingqiao lake, Lot 110, was completed in 2004. Lot 110 consists of lakefront twin towers and a retail podium. The office portion has a GFA of approximately 76,000 sq.m. The twin towers feature art deco style architecture, characteristic of Shanghai in the 1930s. The towers are linked by retail facilities, with a GFA of approximately 7,000 sq.m. The retail portion of Lot 110 is intended to be part of the planned retail shopping corridor (referred to above). Our major multinational corporate tenants include PricewaterhouseCoopers, Amway, BHP, Eli Lilly, SONY and Pernod Ricard. As at 30 June 2012, Lot 110 had been completely rented.

Lot 126 and Lot 127 will be mixed retail and office developments around the Taipingqiao lake. We intend to target multinational and domestic corporations, major professional firms, financial institutions, consultants and selected high-end retailers as tenants of the office properties. The retail portion will serve as an extension of the lakefront shopping corridor and will feature retail outlets of luxury brands and specialty merchandise.

An office tower with retail podium on Lot 126 with a GFA of approximately 73,000 sq.m. commenced construction in the first half of 2011. Lot 127 offers an additional GFA of approximately 83,000 sq.m. earmarked for office and retail space. They are expected to be completed in 2013 and 2015, respectively.

Up-market residential zone

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

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

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

Casa Lakeville (Lot 113). We commenced construction of residential units on Casa Lakeville in early 2007 and completed in 2010. Casa Lakeville has a total GFA of approximately 147,000 sq.m., consisting of approximately 78,000 sq.m. of residential units, 27,000 sq.m. of retail properties (also known as Xintiandi Style), 5,000 sq.m. of clubhouse and 37,000 sq.m. of car park and other facilities. The residential units in Casa Lakeville in Towers 1, 2, 9, 10, 11 and 12 of approximately 71,000 sq.m. were launched for pre-sales in phases starting in June 2008 and had all been sold and delivered to

home buyers as at 30 June 2012. We upgraded Casa Lakeville Towers 3 to 8 into luxury apartments ("**The Manor**") in 2010 totalling 18 units or 7,000 sq.m. As at 30 June 2012, only 1 unit or 700 sq.m. was left available in The Manor. Due to the scarcity of luxury homes in the city centre of Shanghai, the average selling price of The Manor reached RMB147,000 per sq.m.

Lot 116 and Lot 118. Relocation of Lot 116 is underway and Lot 118 is being planned for future development. These lots will consist of high-end residential properties. We expect to commence construction of these lots progressively from 2012 onwards.

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

Commercial zone

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

Shui On Plaza

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

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

Langham Xintiandi Hotel

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

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

Shanghai Rui Hong Xin Cheng

Description

The Shanghai Rui Hong Xin Cheng project, also known as Rainbow City, is a city-core development project aimed at redeveloping existing residential neighbourhoods into a mixed-use, sustainable,

large-scale development including office, retail, hotel, entertainment, cultural and residential space. The Shanghai Rui Hong Xin Cheng project is located within the Inner Ring Viaduct of Shanghai and is served by three metro lines. The Shanghai Rui Hong Xin Cheng project comprises twelve land parcels, of which Lot 5 (Phase 1), Lot 149 (Phase 2), Lot 8 (Phase 3) and Lot 4 (Phase 4) have been completed as at 30 June 2012.

Master planning

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

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

Upon completion, the Shanghai Rui Hong Xin Cheng project will comprise a total leasable and saleable GFA of approximately 1.7 million sq.m. according to the new approved master plan, of which approximately 451,000 sq.m. of GFA had been sold as at 30 June 2012. A broad and landscaped avenue, Rui Hong Road, is planned to connect the Peace Park in the north and run through the site. The site will include high-rise residential buildings, commercial shopping complexes, offices and schools. One shopping complex has already opened and includes E-mart, a hypermarket chain, as a core tenant.

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

The Shui On Group completed the development of Lot 5, or Shanghai Rui Hong Xin Cheng Phase 1, in 2002, and sold all of the residential units by the end of September 2004. The remaining part of Shanghai Rui Hong Xin Cheng Phase 1, consists of retail shops, clubhouse, kindergarten and some office spaces. In February 2008, we acquired Shanghai Rui Hong Xin Cheng Phase 1 from SOCL for an aggregate consideration of HK$154 million (US$24 million).

In June 2008, we completed the disposal of 25% of our interest in the Shanghai Rui Hong Xin Cheng project to Winnington. We also granted Winnington an irrevocable call option to acquire a further 24% of our equity interest in the Shanghai Rui Hong Xin Cheng project, exercisable from 1 December 2008 to 31 December 2008. The call option was not exercised during the period nor during the extended exercisable period agreed to in April 2009. On 30 June 2008, Winnington transferred all its shares in Foresight Profits Limited to Elegant Partners Limited. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Key factors affecting our results of operations and financial condition — Sale of interest in projects*".

On 20 June 2012, the Issuer applied to Foresight Profits Limited ("**FPL**"), a 75%-owned subsidiary of Shui On Land, for the issuance of certain new shares of FPL for a total cash consideration of RMB951 million. Elegant Partners Limited ("**EPL**"), holder of 25% equity interest in FPL, did not participate in subscribing to the new shares. The subscription was completed on 25 June 2012, following which, the Issuer's equity interest in the enlarged issued share capital of FPL increased from 75.0% to 79.8%, while EPL's equity interest in FPL was diluted from 25.0% to 20.2%. For further details, please refer to the announcement made by the Group on 20 June 2012, which is available on the website of the Hong Kong Stock Exchange.

Project overview

The following table sets forth the development status for the Shanghai Rui Hong Xin Cheng project as at 30 June 2012:

	Approximate/Estimated leasable and saleable area							
	Residential	**Office**	**Retail**	**Hotel/ serviced apartment**	**Subtotal GFA**	**Clubhouse, Carpark and other facilities**	**Total GFA**	**Group's interest**
	sq.m.	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*%*
Completed properties								
RHXC Phase 1.	—	—	5,000	—	**5,000**	13,000	**18,000**	79.8%
RHXC Phase 2	—	—	28,000	—	**28,000**	21,000	**49,000**	79.0%
RHXC Phase 3 Lot 8	—	—	2,000	—	**2,000**	3,000	**5,000**	79.0%
RHXC Phase 4 Lot 4	—	—	12,000	—	**12,000**	23,000	**35,000**	79.0%
Subtotal	**—**	**—**	**47,000**	**—**	**47,000**	**60,000**	**107,000**	
Properties under development								
Lot 6 - Retail portion	—	—	18,000	—	**18,000**	6,000	**24,000**	79.0%
Lot 6 - Non-retail portion. . . .	116,000	—	—	—	**116,000**	46,000	**162,000**	99.0%[1]
Subtotal	**116,000**	**—**	**18,000**	**—**	**134,000**	**52,000**	**186,000**	
Properties for future development								
Subtotal	**535,000**	**272,000**	**252,000**	**10,000**	**1,069,000**	**12,000**	**1,081,000**	79.0%[2]
Total	**651,000**	**272,000**	**317,000**	**10,000**	**1,250,000**	**124,000**	**1,374,000**	

Notes:

(1) On 1 April 2011, the Group's effective interest in the non-retail portion of Lot 6 was increased from 74.3% to 99% through an equity acquisition from Winnington.

(2) The Group had a 79.81% interest in Lot 167a and Lot 167b and 79.01% interest in the remaining Lots.

Relocation of original residents

Pursuant to the relocation agreements entered into between us and the local government, we have engaged two relocation companies in the Hongkou district to handle the relocation of residents in Lot 4, Lot 6 and Lot 8. Our relocation costs in relation to Shanghai Rui Hong Xin Cheng are based on the compensation policy set by the local authorities which may be revised as and when market conditions change. We have completed the relocation of the households located on Lot 4 and Lot 8. As at 30 June 2012, approximately 99% of households on Lot 6 have signed relocation agreements. By adopting the new relocation scheme, the relocation work for Lot 2 Stage 1 and Lot 3 began in 2009. As at 30 June 2012, approximately 84% of households on this lot have signed relocation agreements. With the

successful implementation of the new relocation scheme, the district government plans to speed up the relocation of Shanghai Rui Hong Xin Cheng project. The second round of relocation consultation on Lot 2 Stage 2, Lot 9 and Lot 10 started in December 2010. 76%, 82% and 77% of residents respectively have signed the relocation agreements up to 30 June 2012. See "*Regulation — The Land System of the PRC*" and "*Risk Factors — Risks relating to our Business — For some of our development projects, we are required to relocate existing residents and pay relocation costs, and the relocation process may not be completed as planned*".

Project details

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

Lot 149, Phase 2 of the Shanghai Rui Hong Xin Cheng project, consists of 1,759 units and has a total GFA of approximately 187,000 sq.m. of residential and 28,000 sq.m. of retail podium as well as a clubhouse with a GFA of approximately 5,000 sq.m. Lot 149 is located above the metro station of Metro Line no. 4. All the residential units were sold out. The commercial facilities comprise a two-level "northern" shopping complex and a two-level "southern" commercial podium located in the lower floors of the apartment buildings. The shopping complex had been completely rented as at 30 June 2012.

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

Lot 4 consists of four residential towers with a GFA of approximately 63,000 sq.m. and approximately 12,000 sq.m. of retail area. Towers 5 and 6 and Towers 1 and 2 were launched for pre-sale respectively in December 2010 and April 2011. As at 30 June 2012, all 636 units had been sold.

Subsequent lots of the Shanghai Rui Hong Xin Cheng project

Residential Phase 5 (Lot 6) is under construction, with planned residential GFA of approximately 116,000 sq.m. and a retail GFA of 18,000 sq.m.. It is scheduled for presale from December 2012 through the end of 2013.

Lot 2 Stage 1 and Lot 3 successfully completed the second round of relocation intention consultation with the existing residents on 15 April 2010, with around 84% of households signing the relocation agreements as at 30 June 2012.

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

Shanghai KIC

Description

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

Master planning

In March 2004, Shui On Holdings Limited, a company within the Shui On Group, entered into a master agreement with the Yangpu District government. The master agreement shows the proposed development of a plot with a site area of approximately 839,000 sq.m. into a comprehensive large-scale community for commerce, offices, education, science and research, culture and entertainment, sports and residential purposes. It is well connected to the city centre by a public transportation network consisting of the Mid-Ring Highway, over 30 public transportation routes and three metro lines, namely Metro Line no. 3, no. 8 and no. 10.

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

The Shanghai KIC will include:

- A "Plaza Area" comprising a work, leisure, educational, cultural and service centre;
- A "Live and Work" mixed-use area comprising office buildings, retail shops and residential accommodation; and
- A historic restoration zone, including the Jiangwan Sports Stadium.

Project overview

The following table sets forth the development status of the Shanghai KIC project as at 30 June 2012:

	Approximate/Estimated leasable and saleable area							
	Residential	Office	Retail	Hotel/ serviced apartment	Subtotal GFA	Clubhouse, Carpark and other facilities	Total GFA	Group's interest
	sq.m.	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*%*
Completed properties								
KIC Village R1	—	7,000	7,000	—	**14,000**	12,000	**26,000**	86.8%
KIC Village R2 (Lots 7-9, 8-2)	—	7,000	3,000	—	**10,000**	8,000	**18,000**	86.8%
KIC Village R2 (Lot 7-7)	—	6,000	1,000	—	**7,000**	18,000	**25,000**	86.8%
KIC Plaza Phase 1	—	29,000	21,000	—	**50,000**	25,000	**75,000**	86.8%
KIC Plaza Phase 2	—	39,000	10,000	—	**49,000**	30,000	**79,000**	86.8%
KIC C2	—	30,000	12,000	—	**42,000**	12,000	**54,000**	86.8%
Subtotal	**—**	**118,000**	**54,000**	**—**	**172,000**	**105,000**	**277,000**	
Properties under development								
Lot 311 Phase 1	49,000	—	—	—	**49,000**	25,000	**74,000**	99.0%
Lot 311 Phase 2	—	92,000	4,000	14,000	**110,000**	54,000	**164,000**	99.0%
KIC C1 (Lot 12-8)	—	5,000	—	—	**5,000**	—	**5,000**	86.8%
Subtotal	**49,000**	**97,000**	**4,000**	**14,000**	**164,000**	**79,000**	**243,000**	
Total	**49,000**	**215,000**	**58,000**	**14,000**	**336,000**	**184,000**	**520,000**	

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

Relocation of original residents

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

Project details

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

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

The Plaza Area

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

The Plaza Area covers a site of approximately 62,000 sq.m. with a total leasable and saleable GFA of approximately 99,000 sq.m. The development of the Plaza Area is divided into two phases. Plaza 1 comprises office and commercial buildings which we intend to lease along the University Avenue leading to a plaza in front of the entrance of the stadium and the stadium itself. Construction of Plaza 1 was completed in November 2006 and the occupancy rate was approximately 80% as at 30 June 2012. Plaza 2 was fully completed in December 2010 and the occupancy rate was approximately 81% as at 30 June 2012.

Live and Work Area

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

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

The development of Lot R1 and Lot R2 were completed in phases from 2006 to 2010. In March 2010, we successfully bid for Lot R3, Lot R4 and Lot C3 (also known as Lot 311) in Shanghai KIC with a total GFA of approximately 238,000 sq.m. for a consideration of approximately RMB1,264 million. The land use right certificate was obtained in the first half of 2011 and construction work commenced in June 2011. Residential units with a GFA of 49,000 sq.m. in Lot 311 were launched in October 2012 and are scheduled for delivery in 2013. The remaining area of Lot 311, designed for office, retail and hotel use, is under development with delivery planned for 2014. This parcel of land is included as part of the master plan for the entire development of Shanghai KIC.

THE HUB

Description

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

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

Master planning

THE HUB is located in Lot 6 of Hongqiao CBD core area Phase I. It comprises mixed-use, large retail component, office, hotel and exhibition properties consisting of approximately 277,000 sq.m. of leasable and saleable GFA upon completion.

Project overview

The following table sets forth the development status of THE HUB as at 30 June 2012, which is subject to variation according to future development plans:

	Approximate/Estimated leasable and saleable area							
	Residential	**Office**	**Retail**	**Hotel/ serviced apartment**	**Subtotal GFA**	**Clubhouse, Carpark and other facilities**	**Total GFA**	**Group's interest**
	sq.m.	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*%*
Properties under development								
Lot 6 (D17)	—	78,000	18,000	44,000	**140,000**	42,000	**182,000**	100.0%
Lot 6 (D19)	—	27,000	110,000	—	**137,000**	68,000	**205,000**	100.0%
Total	**—**	**105,000**	**128,000**	**44,000**	**277,000**	**110,000**	**387,000**	

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

Relocation of original residents

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

Project details

THE HUB is separated into Block D17 and D19 in the north-south direction by the central line of Hongqiao Transportation Hub. Block D17 is designed to build three 10-storey offices, one 11-storey hotel and a 1-3-storey retail zone; whereas Block D19 will have one 7-storey shopping mall, one 9-storey office and one exhibition & performance building. The project is planned to be developed in 2 phases with construction of Phase 1, which includes 2 offices and XTD retail zone in D17 & shopping mall in D19, commenced in the second quarter of 2011.

Major projects outside of Shanghai

Wuhan Tiandi

Description

In April 2005, we won the bid for the development of a site known as "Yong Qing Pian" in Wuhan. Our project in Wuhan is known as the Wuhan Tiandi project. The Wuhan Tiandi project is a city-core development project with an estimated total leasable and saleable GFA of approximately 1.4 million sq.m. upon completion, of which approximately 264,000 sq.m. of GFA had been sold as at 30 June 2012.

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

Master planning

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

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

Project overview

The following table sets forth the development status of the Wuhan Tiandi project as at 30 June 2012:

	Approximate/Estimated leasable and saleable area							
	Residential	**Office**	**Retail**	**Hotel/ serviced apartment**	**Subtotal GFA**	**Clubhouse, Carpark and other facilities**	**Total GFA**	**Group's interest**
	sq.m.	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*%*
Completed properties								
Wuhan Tiandi (Lots A4-1/2/3)	—	—	46,000	—	**46,000**	25,000	**71,000**	75.0%
The Riverview (Lot A6)	—	—	—	—	**—**	2,000	**2,000**	75.0%
The Riverview Phase 3 (Lots A11/A12)	1,000	—	—	—	**1,000**	4,000	**5,000**	75.0%
Subtotal	**1,000**	**—**	**46,000**	**—**	**47,000**	**31,000**	**78,000**	
Properties under development								
Residential Phase 4 (Lot B9)	66,000	—	1,000	—	**67,000**	18,000	**85,000**	75.0%
Residential Phase 4 (Lot B11)	54,000	—	1,000	—	**55,000**	13,000	**68,000**	75.0%
Lots A1/A2/A3 - Retail Podium	—	—	110,000	—	**110,000**	119,000	**229,000**	75.0%
Lots A1/A2/A3 - Office	—	252,000	—	41,000	**293,000**	—	**293,000**	75.0%
Subtotal	**120,000**	**252,000**	**112,000**	**41,000**	**525,000**	**150,000**	**675,000**	
Properties for future development								
Subtotal	**424,000**	**35,000**	**92,000**	**10,000**	**561,000**	**4,000**	**565,000**	75.0%
Total	**545,000**	**287,000**	**250,000**	**51,000**	**1,133,000**	**185,000**	**1,318,000**	

Relocation of original residents

The Wuhan Tiandi project was obtained through public bidding and we have made substantial payment for the land. The Wuhan government is responsible for all the related relocation work at its own cost. Land on Site A has been completely cleared and delivered to us in phases and is now under construction. Site B is currently under relocation. As at 30 June 2012, approximately 95% of the residents signed relocation agreements. Part of the land parcels of Lot B9, Lot B11, Lot B12, Lot B13 and Lot B14 have been handed over to us. See "*Regulation — The Land System of the PRC*" and "*Risk Factors — Risks relating to our Business — For some of our development projects, we are required to relocate existing residents and pay relocation costs, and the relocation process may not be completed as planned*".

Project details

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

Site A

The planned leasable and saleable GFA of Site A is expected to be approximately 723,000 sq.m. upon completion, of which approximately 264,000 sq.m. of GFA had been sold as at 30 June 2012.

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

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

We have also completed the commercial portion of Site A, Wuhan Tiandi on Lot A4-1, Lot A4-2 and Lot A4-3, which has a total leasable GFA of approximately 46,000 sq.m. As at 30 June 2012, the Wuhan Tiandi had been substantially rented.

Lot A5 is a grade A office building named as "Corporate Centre No. 5" with a leasable and saleable GFA of 57,000 sq.m. of office space and 2,000 sq.m. of retail space. The office building was pre-sold to Ping An Life Insurance Company of China, Limited ("**Ping An**") for a total consideration of approximately RMB963 million in 2011. The building was completed and delivered to Ping An in December 2011. Lot A11 and Lot A12, also known as Phase 3 of The Riverview, with a total residential GFA of approximately 51,000 sq.m., are luxury residential apartments. The construction works were completed and the apartments were delivered to customers in 2011.

The construction of the shopping mall (retail podium of Lot A1, Lot A2 and Lot A3) for a total GFA of approximately 110,000 sq.m. commenced after the ground breaking ceremony held in November 2010. Completion of construction is expected to be in 2014.

Site B

We expect the total leasable and saleable GFA of Site B to be approximately 673,000 sq.m. when the site is completed, of which more than 81% will comprise residential units.

Construction of Lots B9 and B11 of Site B, also known as The Regal Riverview Phase 1, is underway. In the first half of 2012, two rounds of new launches of residential apartments in Lot B9 of Site B have been conducted. The remaining towers of Lot B9 and new launches in Lot B11 are scheduled for the second half of 2012. The total leasable and saleable of Lots B9 and B11 is 122,000 sq.m. with delivery in 2012 and 2013.

Chongqing Tiandi

Description

The Chongqing Tiandi project is a city-core development project comprising, on completion, an expected leasable and saleable GFA of approximately 2.8 million sq.m., of which approximately 284,000 sq.m. of GFA had been sold as at 30 June 2012. The project is situated on the south bank of the Jialing River on the hillside, just upstream of the confluence of the Yangtze and Jialing Rivers. The Chongqing Tiandi project is located adjacent to the central business district in the Yuzhong District in Chongqing, an economic hub of southwest China. We intend for this project to support and

service Chongqing's extensive manufacturing and service industries. It will include facilities such as an exhibition and merchandise centre, luxury hotels and office buildings as well as residential and retail, food and beverage and entertainment properties. Construction of the Chongqing Tiandi project commenced in the fourth quarter of 2005.

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

Master planning

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

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

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

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

Pursuant to a sale and purchase agreement dated 21 August 2008, as amended by a supplementary agreement dated 29 August 2008, between Score High Limited as seller and Winnington as purchaser, Score High Limited agreed to sell its 25% equity interest in Rightchina Limited which holds 99% interest in the Super High Rise development in the Chongqing Tiandi project. Pursuant to the agreement, Score High Limited also granted an irrevocable call option to Winnington or its affiliate to acquire an additional 25% equity interest of Score High Limited in Rightchina Limited, exercisable during the period from 1 December 2008 to 31 December 2008. The call option was not exercised during the period nor the extended exercisable period agreed to in April 2009. Super High Rise development is our development for the Chongqing Tiandi project on Lot B11-1/02, comprising primarily office, hotel, retail and other commercial space, with a planned leasable and saleable GFA of approximately 515,000 sq.m. upon completion.

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

The following table sets forth the development status of for the Chongqing Tiandi project as of 30 June 2012:

	Approximate/Estimated leasable and saleable area							
	Residential	Office	Retail	Hotel/ serviced apartment	Subtotal GFA	Clubhouse, Carpark and other facilities	Total GFA	Group's interest
	sq.m.	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	
Completed properties								
The Riviera Phase 1 (Lot B1-1/01)	3,000	—	2,000	—	**5,000**	13,000	**18,000**	79.4%
The Riviera Phase 2 (Lot B2-1/01)	46,000	—	7,000	—	**53,000**	49,000	**102,000**	79.4%
Chongqing Tiandi (Lot B3/01)	—	—	49,000	—	**49,000**	25,000	**74,000**	79.4%
The Riviera Phase 3 (Lot B19/01) Area A	20,000	—	4,000	—	**24,000**	28,000	**52,000**	79.4%
Subtotal	**69,000**	**—**	**62,000**	**—**	**131,000**	**115,000**	**246,000**	
Properties under development								
The Riviera Phase 3 (Lot B19/01) Area B	74,000	—	2,000	—	**76,000**	4,000	**80,000**	79.4%
Super High Rise (Lot B11-1/02) Phase 1	—	117,000	10,000	—	**127,000**	59,000	**186,000**	59.5%
Super High Rise (Lot B11-1/02) Phase 2/3	—	259,000	104,000	25,000	**388,000**	114,000	**502,000**	59.5%
Residential Phase 4 (Lot B20-5/01)	83,000	—	—	—	**83,000**	25,000	**108,000**	79.4%
Lot B12-1/02	—	97,000	2,000	—	**99,000**	34,000	**133,000**	79.4%
Lot B18/02	180,000	—	5,000	—	**185,000**	45,000	**230,000**	79.4%
Lot B12-3/02	—	68,000	35,000	—	**103,000**	39,000	**142,000**	79.4%
Lot B12-4/02	—	61,000	29,000	—	**90,000**	31,000	**121,000**	79.4%
Lot B13/03	—	152,000	83,000	—	**235,000**	57,000	**292,000**	79.4%
Subtotal	**337,000**	**754,000**	**270,000**	**25,000**	**1,386,000**	**408,000**	**1,794,000**	
Properties for future development								
Subtotal	**780,000**	**25,000**	**91,000**	**78,000**	**974,000**	**218,000**	**1,192,000**	79.4%
Total	**1,186,000**	**779,000**	**423,000**	**103,000**	**2,491,000**	**741,000**	**3,232,000**	

Relocation of original residents

We negotiated a fixed land price with the land bureau in Chongqing and the local government is responsible for relocating original residents. Almost all the relocation work has been completed as at 30 June 2012 and most of the land parcels in the Chongqing Tiandi project had been handed over to us phase by phase. See "*Regulation — The Land System of the PRC*" and "*Risk Factors — Risks relating to our Business — For some of our development projects, we are required to relocate existing residents and pay relocation costs, and the relocation process may not be completed as planned*".

Project details

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

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

Construction of the first phase of residential development on Lot B1-1/01, Phase 1 of The Riviera, was completed in June 2008. The site comprises approximately 109,000 sq.m. of leasable and saleable GFA. As at 30 June 2012, 104,000 sq.m. of residential properties had been sold and delivered to the home buyers.

Stage 1 (Towers 1 to 5), Stage 2 (Towers 6 to 12) and Stage 3 (Towers 13 to 17) of Lot B2-1/01, The Riviera Phase 2, were completed in 2010, the end of 2011 and June 2012 respectively, among which, 157,000 sq.m. of residential properties had been sold and delivered to the end-buyers as at 30 June 2012.

Construction works at Lot B19/01, The Riviera Phase 3, commenced in the first quarter of 2010, were fully completed in July 2012. Residential towers in Lot B19/01 were launched in phases from December 2010. As at 30 June 2012, 23,000 sq.m. of residential properties had been sold and delivered to the home buyers.

Construction works of Chongqing Tiandi commercial portion in Lot B3/01 had been fully completed in 2010. A soft opening was held in January 2010. Public facilities, such as the Grand Theatre and man-made lakes were opened to the public in May and June of 2010, respectively, providing a new recreational area to residents in Chongqing. Construction work of a Grade A office tower in Phase 1 of Lot B11-1/02 with a leasable and saleable GFA of 127,000 sq.m. commenced in late 2009. Construction works of office towers in commercial zone (including Lot B12-1, Lot B12-3, Lot B12-4 and Lot B13) partially commenced in December 2010.

Foshan Lingnan Tiandi

Description

The Foshan Lingnan Tiandi project, a large-scale city centre development project similar to the Shanghai Taipingqiao project, is located in Zumiao and Donghuali in Foshan City, Guangdong Province, with a planned leasable and saleable GFA of approximately 1.5 million sq.m. This development is zoned for a comprehensive mixed-use community with a restoration project. Construction of the Foshan Lingnan Tiandi project commenced in 2008.

Master Planning

The Foshan Lingnan Tiandi project is located in the centre of Chancheng district, which is the urban district of Foshan and also the political, finance, cultural and transportation centre. Among the 22 historic culture heritage centres located in the area, Zumiao and Donghuali are the most famous sites. Zumiao, meaning "Temple of Ancestor" in Chinese, is an ancient temple which attracts millions of tourists from all over the world every year. Donghuali is a lane where upper-class residents lived in the Qing Dynasty and is now known for its artistic and unique architecture. Zumiao and Donghuali are both national-level cultural relics.

On 30 November 2007, we, through eight subsidiaries duly organised in Hong Kong, successfully acquired the site for the Foshan Lingnan Tiandi project in a public auction. A land grant contract between us and the local government was signed on 30 May 2008, and we have made substantial payment for the site.

On 29 November 2011, the Group and Mitsui entered into a sale and purchase agreement, pursuant to which the Group agreed conditionally to sell and Mistui agreed conditionally to purchase a 49% equity interest in the entire issued share capital of Value Land and the related shareholder's loans, in two tranches for total cash consideration of approximately RMB 391 million. Value Land holds all the class A shares of Magic Bright Investments Limited, which wholly owns Regal Victory Limited, which in turn owns 92% of Foshan Yong Rui which owns the land known as Lot 18 of the Foshan Lingnan Tiandi project. Upon acquisition of a 49% equity interest in Value Land, Mitsui will therefore be entitled to hold a 45.08% attributable interest in Foshan Yong Rui. The first closing of this transaction took place on 12 December 2011 pursuant to which 44.1% of the issued share capital of Value Land as at the first closing date was transferred to Mitsui. Subject to completion of the second closing, additional 4.9% of the issued share capital of Value Land will be transferred to Mitsui. As the second closing has not been completed within six months of the first closing, Mitsui has the option to sell back the equity interests in Value Land to the Group. For further details, please refer to the announcement made by the Group on 29 November 2011, which was published and is available on the website of Hong Kong Stock Exchange.

On 22 August 2012, the Group and Mitsui entered into a sale and purchase agreement, pursuant to which the Group agreed conditionally to sell and Mitsui agreed conditionally to purchase a 49% equity interest in the entire issued share capital of Glory Land and the related shareholder's loans for total cash consideration of approximately RMB224 million. Glory Land holds all the class A shares of Billion China Investments Limited, which wholly owns Crown Fame Limited, which in turn owns 90% of Foshan Shui On which owns the land known as Lots 6 and 16 of the Foshan Lingnan Tiandi project. Upon acquisition of a 49% equity interest in Glory Land, Mitsui will hold a 44.1% attributable interest in Foshan Shui On. The transaction was completed on 9 November 2012. For further details, please refer to the announcement made by the Group on 22 August 2012, which was published and is available on the website of the Hong Kong Stock Exchange.

The Foshan Lingnan Tiandi project is a city-core development project comprising office, retail, hotel, cultural facilities and residential properties. The project is expected to comprise nearly 1.5 million sq.m. of leasable and saleable GFA and is planned for development in 5 phases over a period of 10 years.

Project overview

The following table sets forth the development status of the Foshan Lingnan Tiandi project as at 30 June 2012:

	Approximate/Estimated leasable and saleable area							
	Residential	**Office**	**Retail**	**Hotel/ serviced apartment**	**Subtotal GFA**	**Clubhouse, Carpark and other facilities**	**Total GFA**	**Group's interest**
	sq.m.	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*%*
Completed properties								
The Regency Phase 1 (Lot 4)	1,000	—	—	—	**1,000**	5,000	**6,000**	100%
The Legendary Phase 1 (Lot 14)	3,000	—	—	—	**3,000**	9,000	**12,000**	100%
Lingnan Tiandi Stage 1 (Lot 1-1)	—	—	16,000	—	**16,000**	1,000	**17,000**	100%
Lot D	—	—	14,000	38,000	**52,000**	25,000	**77,000**	100%
Subtotal	**4,000**	**—**	**30,000**	**38,000**	**72,000**	**40,000**	**112,000**	
Properties under development								
The Regency Phase 2 (Lot 5)	51,000	—	1,000	—	**52,000**	16,000	**68,000**	100%
The Legendary Phase 2 (Lot 15)	16,000	—	1,000	—	**17,000**	8,000	**25,000**	100%
Lot 6	46,000	—	—	—	**46,000**	13,000	**59,000**	100%[1]
Lot 16	16,000	—	—	—	**16,000**	9,000	**25,000**	100%[1]
Lot G	—	—	2,000	—	**2,000**	—	**2,000**	100%
Lingnan Tiandi Stage 2 (Lot 1-2)	—	—	26,000	8,000	**34,000**	3,000	**37,000**	100%
Lingnan Tiandi Stage 3 (Lot 1-3)	—	—	5,000	—	**5,000**	—	**5,000**	100%
Lot 13b	—	—	—	—	**—**	5,000	**5,000**	100%
Lot 18	104,000	—	12,000	—	**116,000**	34,000	**150,000**	59.43%
Lots E1/E2/Eos	18,000	—	58,000	—	**76,000**	53,000	**129,000**	100%
Subtotal	**251,000**	**—**	**105,000**	**8,000**	**364,000**	**141,000**	**505,000**	
Properties for future development								
Subtotal	**379,000**	**450,000**	**125,000**	**80,000**	**1,034,000**	**28,000**	**1,062,000**	100.0%
Total	**634,000**	**450,000**	**260,000**	**126,000**	**1,470,000**	**209,000**	**1,679,000**	

Notes:

(1) As at 9 November 2012, the Group had a 55.9% effective interest in Lots 6 and 16.

Relocation of original residents

The neighbourhood of our Foshan Lingnan Tiandi project is the traditional commercial centre of Foshan city. The government plans to rebuild this area into the central business district of Foshan, which would include high-end retail, office, hotel, cultural facilities and residential properties. Pursuant to a Bidding Confirmation dated 30 November 2007, the Foshan government promised to handle all the related relocation work at its own cost.

Project details

We have engaged Skidmore, Owings & Merrill to prepare a master plan for the project. The proposed master plan includes a comprehensive mixed-use community comprised of Grade A offices, five-star standard hotels, high-end residential and cultural facilities, and also Foshan Tiandi, a restoration project similar to Shanghai Xintiandi. The master plan has won the following international renowned awards including American Institute of Architects (the "**AIA**") Honor Award for Regional & Urban Design 2009, AIA San Francisco Chapter — Honor Award for Urban Design 2009, AIA Hong Kong Chapter — Merit Award for Urban Design 2008 and MIPIM Architectural Review Future Project Award 2009, which reflected its high recognition by these professional institutions.

The project will be a city-core development like the Shanghai Taipingqiao project, with the following planning principles:

- developing a mixed-use district that creates a balance among live, work and play lifestyles;
- creating a development with historic assets but also serving as cultural and entertainment venues;
- utilising small blocks to create pedestrian streets;
- planning a street framework that will allow for a high degree of connectivity and phasing flexibility;
- building open space amenities that provide value to adjacent properties;
- providing a high degree of connectivity with mass transit systems (such as subways and buses);
- integrating public facilities, like schools, that will serve families in the residential community; and
- erecting a super high-rise as a landmark for the area.

The first stage of Foshan Lingnan Tiandi in Lot 1 with a GFA of 16,000 sq.m. was completed and opened in 2011.

The Marco Polo Hotel at Lot D was completed and opened to public in May 2012.

As at 30 June 2012, 41,000 sq.m. of low-rise apartments at The Regency Phase 1 in Lot 4 and 10,000 sq.m. of the townhouses at The Legendary Phase 1 in Lot 14 had been sold and delivered to buyers.

Townhouses at The Legendary Phase 2 (Lot 15) and Low-rise apartments at The Regency Phase 2 (Lot 5) were launched for pre-sale in February and July 2012, respectively. Delivery is scheduled in the second half of 2012.

Development work is in progress at Lots E, 6, 16 and 18, where a total GFA of 254,000 sq.m. will accommodate residential and retail space. The development is scheduled to be progressively completed from 2013 to 2015.

Dalian Tiandi project

Description

Located in the city of Dalian, the Dalian Tiandi project (previously called Dalian Software Park Phase 2) is a large-scale development with an expected aggregate GFA of approximately 3.6 million sq.m. according to the master planning. As at 30 June 2012, approximately 3.3 million sq.m. of aggregate GFA had been acquired by the Group together with two equity partners through public bidding. We plan to acquire the remaining GFA of approximately 0.3 million sq.m. through public bidding. Dalian is a regional economic centre in northeast China. With rapid growth over the past few years, the software and business process industries in Dalian have been designated among its pillar industries by the Dalian government. It is expected that Dalian will become one of the major information technology outsourcing and business process outsourcing centres in China.

Master planning

On 25 May 2007, our subsidiary, Innovate Zone Group Limited ("**Innovate Zone**"), entered into a shareholders agreement with Main Zone Group Limited ("**Main Zone**") and Many Gain International Limited ("**Many Gain**") to form a joint venture company incorporated in BVI, Richcoast Group Limited ("**Richcoast**"), which is owned 61.54%, 28.20% and 10.26% by Innovate Zone, Main Zone and Many Gain, respectively. Richcoast, in turn, established four subsidiaries incorporated in Hong Kong and acquired from the Yida Group a 78% equity interest in each of the four Dalian joint ventures formed by the Yida Group in the PRC (the "**PRC JV Company**"). The PRC JV Company holds the relevant Dalian project companies for development of Dalian Tiandi project. Main Zone is a subsidiary of SOCAM and Many Gain is a subsidiary of the Yida Group. Our aggregate interest in the PRC JV Company is 48%. As at 30 June 2012, Innovate Zone, Main Zone and Many Gain had injected all required fundings into the Dalian Tiandi project.

On 22 February 2011, we entered into agreement with Mitsui for the sale and purchase of 30% of the issued share capital of Many Praises Dalian Limited in connection with the land known as Lots C01, C03, B08, B09, E02A and D06 of the Dalian Tiandi project.

Other than the Designated Land for which the land use right has been granted to the Yida Group and been transferred to the Dalian joint ventures, the acquisition of the land was and will be by way of competitive bidding and there can be no assurance that the Dalian joint ventures will be successful in acquiring all or any piece of the land (other than the Designated Land). As the Yida Group has already incurred costs in reclaiming, clearing and preparing the land and has done so with the consent of the relevant government authorities in the PRC, if any part of the land is granted to a third party in the bidding process, we believe that the PRC government will compensate the Yida Group for the relevant costs incurred, even though there is no written assurance from the PRC government to that effect. The Yida Group has agreed to assign such rights to compensation to the Dalian joint ventures in such case.

Project overview

The following table sets forth the development status of the Dalian Tiandi project as at 30 June 2012:

	Approximate/Estimated leasable and saleable area							
	Residential	Office	Retail	Hotel/ serviced apartment	Subtotal GFA	Clubhouse, Carpark and other facilities	Total GFA	Group's interest
	sq.m.	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	*sq.m.*	%
Completed properties								
Site C-D22	—	42,000	—	—	**42,000**	15,000	**57,000**	48.0%
Site C-B02	—	113,000	—	—	**113,000**	4,000	**117,000**	48.0%
Site C-D14 (SO2/SO4)	—	52,000	—	—	**52,000**	10,000	**62,000**	48.0%
Site C-E06 (Villa)	25,000	—	—	—	**25,000**	—	**25,000**	48.0%
Site C-E06 (mid/high-rise)	27,000	—	—	—	**27,000**	53,000	**80,000**	48.0%
Subtotal	**52,000**	**207,000**	**—**	**—**	**259,000**	**82,000**	**341,000**	
Properties under development								
Site C-D14(SO5)	—	36,000	—	—	**36,000**	15,000	**51,000**	48.0%
Site C-E29	—	—	—	—	**—**	11,000	**11,000**	48.0%
Site C-C10	40,000	—	—	—	**40,000**	8,000	**48,000**	48.0%
Site C-D10	—	—	41,000	33,000	**74,000**	22,000	**96,000**	48.0%
Site C-C14	33,000	—	—	—	**33,000**	24,000	**57,000**	48.0%
Site C-C22	21,000	—	—	—	**21,000**	10,000	**31,000**	48.0%
Site A-B09	32,000	—	—	—	**32,000**	17,000	**49,000**	33.6%
Site A-B13	44,000	—	—	—	**44,000**	21,000	**65,000**	48.0%
Site A-C01	15,000	—	1,000	—	**16,000**	5,000	**21,000**	33.6%
Site C-E11	26,000	—	—	—	**26,000**	16,000	**42,000**	48.0%
Site C-E13	29,000	—	—	—	**29,000**	18,000	**47,000**	48.0%
Site C-E02	136,000	—	1,000	—	**137,000**	51,000	**188,000**	48.0%[2]
Site C-C02 (villa)	29,000	—	—	—	**29,000**	18,000	**47,000**	48.0%
Site C-E15	35,000	—	—	—	**35,000**	9,000	**44,000**	48.0%
Site C-E17	23,000	—	—	—	**23,000**	13,000	**36,000**	48.0%
Site C-E19	27,000	—	—	—	**27,000**	7,000	**34,000**	48.0%
Site C-C04 (W3-A)	—	14,000	—	—	**14,000**	4,000	**18,000**	48.0%
Site A-B08-a (Retail)	—	—	12,000	—	**12,000**	9,000	**21,000**	33.6%
Site A-B08-b	18,000	—	—	—	**18,000**	7,000	**25,000**	33.6%
Site A-C03-a (Retail)	—	—	13,000	—	**13,000**	11,000	**24,000**	33.6%
Site A-C03-b	26,000	—	—	—	**26,000**	7,000	**33,000**	33.6%
Site A-B05-b	17,000	—	—	—	**17,000**	—	**17,000**	48.0%
Site A-B03-a (SO)	—	20,000	—	—	**20,000**	22,000	**42,000**	48.0%
Site A-B03-b (Retail)	—	—	18,000	—	**18,000**	—	**18,000**	48.0%
Site A-C04/C06 (Int'l school)	—	12,000	—	—	**12,000**	—	**12,000**	48.0%
Site A-B02 (SO)	—	30,000	—	—	**30,000**	35,000	**65,000**	48.0%
Site A-B05-a (Mall)	—	—	104,000	—	**104,000**	—	**104,000**	48.0%
Site A-B06 (SO)	—	77,000	—	—	**77,000**	—	**77,000**	48.0%
Site A-B07-a (XTD-Phase 1)	—	—	53,000	—	**53,000**	—	**53,000**	48.0%
Subtotal	**551,000**	**189,000**	**243,000**	**33,000**	**1,016,000**	**360,000**	**1,376,000**	
Properties for future development[1]								
Subtotal	**529,000**	**936,000**	**362,000**	**49,000**	**1,876,000**	**8,000**	**1,884,000**	48.0%[2]
Total	**1,132,000**	**1,332,000**	**605,000**	**82,000**	**3,151,000**	**450,000**	**3,601,000**	

Notes:

(1) Dalian Tiandi is expected to have a landbank of 3.6 million sq.m. in GFA. As at 30 June 2012, approximately 3.3 million sq.m. had been acquired. The remaining GFA of approximately 0.3 million sq.m. is expected to be acquired through public bidding in due course.

(2) The Group has a 48% interest in Dalian Tiandi, except for Lots E02A and D06 in which the Group has a 33.6% effective interest.

The Dalian Tiandi project is a large-scale integrated development project comprising software offices, residential, commercial and retail properties, together with educational, research, outdoor recreational and environmental facilities and other public amenities. It will involve the development, construction, sale, lease, operation and management of the Dalian Software Park ("**DSP**") at Dalian. The project is planned for development in phases over a period of about 10 years.

Relocation of original residents

The Yida Group is responsible for the relocation of residents on the site of Dalian Tiandi. As at 30 June 2012, the relocation was completed and the two plots of land with an aggregate GFA of 3.3 million sq.m., for which we have obtained land use right certificates, have been handed over to us by land bureau.

Project details

Dalian Tiandi, a large scale mixed-use development, is located adjacent to the Dalian Software Park in the west of Dalian City. It is designed to serve the city's emerging information technology outsourcing and business process outsourcing industries.

The projects in Huangnichuan Road North mainly comprise the software offices, residential, IT Tiandi, training centres and supporting facilities. We plan to build an indoor area similar to Shanghai Xintiandi and other commercial facilities, a hotel, offices and high-end residential units, acting as a business hub in Hekou Bay to serve the expatriates and professionals in Dalian Tiandi, and also the people from the city centre and Northeast China.

A total of 207,000 sq.m. of GFA has been developed into office spaces with tenants including famous technology companies such as IBM, Ambow, and Chinasoft.

As at 30 June 2012, 52,000 sq.m. of townhouses and apartments in Greenville Phase 1 had been sold and delivered to buyers.

Apartments in Greenville Style (Lot C14) have been launched in November 2011 and the average selling price reached RMB9,800 per sq.m..

A total GFA of 1.4 million sq.m. is currently under development. It is planned to be developed into software office buildings, an IT Tiandi commercial complex, hotel and residential apartments.

OVERVIEW OF OUR PRINCIPAL ACTIVITIES

Our principal business activities are discussed below:

Site selection and master planning

We place a strong emphasis on the site selection process and consider it fundamental to the success of our property development projects. Our site selection process is led by members of our senior management including our chairman and other executive directors. We conduct in-depth market analysis in order to understand the spatial dynamics and relevant economic trends of a city before we proceed with site acquisition and preparation of the conceptual master plan for a property development project. In addition to accepting invitations from PRC government authorities to review development prospects in their respective cities, we continually screen cities and locations in China to identify new property development opportunities. In the city screening process, our research and strategic planning department, in conjunction with outside consultants, would undertake in-depth site feasibility analysis to evaluate its development potential. This analysis includes:

- an assessment of the economic and property market trends;
- a study of the physical characteristics of the site;
- a site positioning analysis; and
- a preliminary planning proposal to match the target development with its location and to determine the amount and mix of floor areas of office, residential, commercial and other land uses appropriate for the site.

In determining whether to enter into a new development, we consider, among others, the following factors and risks of development:

- the appropriate mix of office, residential or retail property type proposed for the development;
- the supply and demand for the various product types and the competitive landscape;
- the degree to which the proposed development fits in with our business and growth strategies, as well as the development plans of the local, provincial and central government;
- the expected financial returns arising from sales and leasing activities as well as overall capital appreciation, from the development;
- the tax and regulatory environment in the geographic area in which the development is to be located;
- the availability of suitable plots of land for the site, in terms of size and location;
- the presence of historically significant architectural details that can be preserved and incorporated into the project; and
- the convenience of transport access to the site and any benefits from features or facilities located near the site, such as natural parks, lakes, rivers, greenery, schools, universities and commercial facilities.

Land acquisition

We actively seek land suitable for our projects. We enter into master agreements or similar arrangements with respect to our projects. We seek to acquire land use rights directly by: (i) competitive bidding through public tenders, auctions or listing at a land exchange administered by the local government; and (ii) purchasing land use rights directly from third parties or acquiring companies that hold land use rights. In addition, where we are permitted by PRC law to do so, we acquire land use rights by agreement with local governments for the comprehensive redevelopment of urban areas.

Project design, interior design and product positioning

We engage independent architects and engineering consultants to provide the design services required for each of our development projects, all in accordance with the intentions of the approved master plans, the design guidelines, market positioning and the development schedules adopted by our project directors.

The services of the architects and the engineering consultants are managed by a design management team which helps project directors to organise a project consultants' team that is most appropriate for the size and nature of each project undertaken. Generally, such consultants' team consists of an architect, a structural engineering consultant, a building services consultant, a landscape designer, an interior designer and any other specialist consultants as required by each specific project. We focus on the importance of consistency and detailing in architectural design. Project architects will be commissioned to provide full design service, whenever possible.

We maintain and constantly update a list of pre-qualified architects and engineering consultants, local and international firms of good professional standing and firms that are fully committed to the Chinese market. We appoint a project consultants' team and the design management team formulates a design brief based on the proposals of the master plan and consultations with the project director, his market research advisers, if any, our in-house sales and marketing/leasing team, the construction manager, the property manager and other relevant individuals in order to position the project to respond to the demands of the prevailing market and to meet the development costs budgeted by the project director. Progress and quality of the service of the project consultants' team is closely monitored by the design management team.

Procurement and construction work

We engage independent contractors to provide construction work to our projects including, but not limited to, piling and foundation work, civil work, electrical and mechanical work, interior fitting out work. In addition to our centralised procurement of material, we have established strategic partnering with capable and reliable main contractors, electrical and mechanical contractors, interior fitting out contractors to our projects and thus enhance our efficiency, quality and cost benefits. We also engage, to a limited extent, related parties in the Shui On Group and SOCAM to carry out the construction of development projects or supply materials to our development projects. Any transactions with these related parties are carried out on an arm's-length basis on normal commercial terms. We establish and maintain approved registers of design consultants, other consultants, contractors and material suppliers to ensure that only those that are competent are permitted to participate in the tender process.

In 2010, we adopted the project-base operation model. Under such model, our procurement and quality management department in the corporate office is responsible for (i) establishing strategic partnerships with selected capable contractors and material suppliers for major trades and key material/products of construction work; (ii) formulating procurement policy and standardising procurement documents and operation procedure to ensure consistency in all projects; (iii) setting up

a project cost data bank for information sharing among projects; (iv) performing regular technical audits on projects to ensure that good quantity surveying and procurement practices and company policies are being observed. The quantity surveying and procurement department in project offices is responsible for the contract administration and cost control as well as tendering of other trade work and material/products not covered under the strategic partnership arrangement for the projects under their management. The decision to award is to be made by the procurement committee for the relevant project and is made on the basis of capability to satisfy contract requirements and reputation for quality and price.

During the construction phase, a project team is assigned for each development. These project teams, under the direction of the respective project directors, manage the project development process, ensure the quality and timely completion of each project and control the costs according to the approved budget. They are supported by external design consultants, construction supervisory consultants required by the PRC government and quantity surveying consultants as well as internal quantity surveyors, site engineers, and procurement and design staff. The project teams are further supported by sales and marketing, corporate finance and development, finance and accounting, research and strategic planning, legal, public relations and branding and communications personnel. Each project team is required to plan and perform incoming material inspection/testing and control the in-process and final inspection/testing works prior to handing over of the completed units to the customers in accordance with the ISO 9001:2008 procedures and systems developed by the procurement and quality management department.

None of our directors, their associates or any shareholders holding more than 5% of our share capital has any interest in our five largest construction contractors during any of the three years ended 31 December 2011 except for SOCAM, which holds 70% equity interest in Shui On Construction Co., Ltd, one of our five largest construction contractors in 2011. See "*Related Party Transactions — Provision of construction services by SOCAM to the Group*".

Pre-sales, sales and marketing

Upon satisfaction of certain requirements set out in the relevant laws and regulations, we typically conduct pre-sales of our property units prior to the completion of a project or a project phase. All of the proceeds from the pre-sales of our properties are required to be deposited into special accounts. Before the completion of the pre-sold properties, the proceeds deposited in the special accounts may be used for the restricted purposes of purchasing construction materials, equipment, making interim construction payments and paying taxes, with the prior approval of the relevant local authorities and/or project financing banks. See "*Regulation — The land system of the PRC — Pre-sales*" for details of regulations with which we must comply relating to pre-sales (including further details of pre-sales regulations which must be complied with in each of Shanghai, Chongqing, Wuhan, Foshan and Dalian).

We have a team of sales and marketing personnel located in Shanghai, Chongqing, Wuhan, Foshan and Dalian who are responsible for the branding, positioning and sales and marketing of our property developments. Our sales and marketing functions are delegated in part or in whole to our subsidiaries which specialise in marketing and sales. The sales and marketing staff cooperate and coordinate closely in order to determine and execute appropriate advertising and sales plans for a particular property development.

By nature, property sales generally involves sales to a diverse group of purchasers. Due to the high capital outlay involved in property purchases, we expect that sales to purchasers may not be recurrent within a single year such that any one purchaser cannot be meaningfully considered as a "major customer."

An important part of our sales and marketing process is the branding and positioning of our property developments before and after their completion. During the planning and design phase, our sales and marketing personnel work closely with our planning and business development staff to develop the branding and positioning of each property development. This process includes a determination of the target customers of each project, as well as strategies to maximise usage of and turnover from the property. In our city-core property developments, such as our Shanghai Taipingqiao and Shanghai KIC projects, the branding and positioning process is designed to build a particular type of community and lifestyle. After completion of a project, our sales and marketing staff also develop advertising, sales and rental plans for the office, retail, cultural and entertainment properties held for rental, and for the residential properties sold.

We use various advertising media to market our property developments, including newspapers, magazines, television, radio, direct mail, e-marketing and outdoor billboards. We also participate in real estate exhibitions to enhance our brand name and promote our property developments.

We set up on-site reception centres to display information relating to the relevant property development and off-site promotional centres in areas frequented by targeted customers in circumstances where on-site reception centres may not be suitable.

Property management and after sales services

We emphasise customer service and efficient and effective maintenance services for our completed projects. Our property management staff also assist the project teams in handover inspections and the follow-up work required on our completed projects.

In accordance with local regulations, we manage properties developed by us on behalf of our customers until the owners' committee of the relevant property is established and a new property manager is appointed. With respect to our completed residential property developments, the owners of units in these developments are free to choose their own property management company upon establishment of a homeowners' organisation but, to date, most of our completed residential properties are managed by Shanghai Feng Cheng Property Management Company Limited, one of our wholly owned subsidiaries. We are committed to enhancing the value of our projects on a continuing basis through comprehensive management of our properties.

We conduct customer satisfaction surveys regularly on our hand-over projects and our property management services to identify areas that could be further improved to enhance customer satisfaction.

JOINT VENTURE ARRANGEMENTS

Our joint venture partners

Each of our joint venture partners in China is an associated enterprise of the local district government in the area where the development project is located. We have established subsidiaries in Hong Kong, Mauritius and the British Virgin Islands to enter into the relevant joint venture contracts with our joint venture partners in China.

Capital contributions

Except for Hangzhou Scenic Garden Development Corporation Ltd., our cooperative joint venture partner of Hangzhou Xihu Tiandi Management Co., Ltd., which contributed the operating rights of the buildings at Phase 1 of the Hangzhou Xihu Tiandi project as its capital contribution, and our other joint venture partners make their capital contributions in cash in amounts proportionate to their percentage of equity interests specified in the relevant joint venture contracts.

In addition, the Chinese joint venture partners are generally responsible for, among other things, the following:

- assisting the project companies in applying for relevant government approvals and permits for the establishment and operation of the project companies; and

- liaising among the joint venture partners, the project companies and the relevant government authorities to ensure efficient operation of the project companies and the relevant development projects.

Apart from making cash contributions in accordance with the percentage of our equity interest in the relevant joint ventures, we are generally required to:

- prepare application documents for the establishment of the project companies, including, among others, feasibility studies, joint venture contracts and articles of association;

- establish financial reporting and accounting systems in accordance with international standards; and

- assist the project companies in obtaining the financing necessary for their operations and the relevant development projects.

Profit sharing and assets distribution

Except as described below, our joint venture partners are generally entitled to share distributable profits according to their respective percentage of ownership specified in the relevant joint venture contract.

Hangzhou Scenic Garden Development Corporation Ltd., our joint venture partner of Hangzhou Xihu Tiandi Management Co., Ltd., is entitled to a fixed annual distributable profit, or 50% of the total annual distributable profit if it exceeds a certain amount.

Trillion Full Investments Limited and Metro Land Corporation, joint venture partners of Shanghai Li Xing Hotel Co. Ltd, are not entitled to the distributable profits generated by Langham Xintiandi Hotel.

Upon the expiration of all the equity joint venture contracts (including any extension thereof), the joint venture parties will generally share the proceeds from the liquidation of the relevant project companies according to their respective percentage of ownership.

Board representation and management

The board of directors of each joint venture is the highest decision-making authority of each of our joint ventures. In general, the board of directors of our joint ventures consists of three to seven directors, and the voting power to appoint the directors correspond to the respective percentage of ownership of the joint venture partners.

We have majority interests in all of our joint ventures and can appoint the chairman of each of these joint ventures except for the four joint venture companies for the development of the Dalian Tiandi project in which we have an attributable interest of 48%.

The general managers and, in some cases, one or more deputy general managers are in charge of day-to-day operation and management of our joint ventures. We appoint the general manager of each joint venture.

Term of operation and termination

Our PRC joint ventures have a term of operation ranging from 20 to 70 years commencing from the date of establishment of the joint venture, subject to extension upon the unanimous consent of its board of directors and the approval by the original examination and approval authorities.

Each of our PRC joint ventures may be terminated upon the unanimous consent of its board of directors and the approval of the original approval authority.

Except for Hangzhou Xihu Tiandi Management Company Limited, Shanghai Rui Hong Xin Cheng Co., Ltd. and Shanghai Lixing Hotel Co. Ltd., each of our joint ventures may be terminated by either party if any of the following events occurs:

- the other party to the joint venture materially breaches the joint venture contract and fails to rectify the breach within 90 days or causes the joint venture to be inoperable or unable to achieve its business goals, as the case may be;

- the joint venture or either party to the joint venture becomes insolvent, is under liquidation or dissolution proceedings, ceases operation, or is unable to repay its debts when due;

- an event of force majeure lasts more than three months, as the case may be, and the parties to the joint venture fail to reach a fair resolution; or

- any other events as set out in the relevant PRC laws and regulations.

Hangzhou Xihu Tiandi Management Company Limited and Shanghai Rui Hong Xin Cheng Co., Ltd. may be terminated by either party to the joint venture if the other party materially breaches the joint venture contract or the articles of association, and such breach causes the joint venture to be inoperable or unable to achieve its business goals. Shanghai Lixing Hotel Co. Ltd. may be terminated if all the shares are held beneficially by one party.

TENANTS AND LEASES

We usually retain ownership of our office, retail, cultural and entertainment buildings, renting these out to tenants. We seek to maintain long-term relationships with our tenants and to maintain a good balance in their composition.

Our leases are generally for terms of 24 to 36 months (up to 120 months for anchor tenants, with rental escalation and/or review provisions) and typically require security deposits of three months' rent. The rental we receive under certain leases with restaurant and entertainment properties are based on a participation in the turnover of the businesses.

Rents are typically set based on prevailing market rates, and the rents payable by our retail tenants often include a turnover component. Our tenants are generally charged a monthly management fee, which covers building maintenance expenses and air-conditioning services. Tenants are also required to pay their own utility charges.

We regularly monitor the creditworthiness and payment history of the tenants of our retail properties. We may elect not to renew the leases of retail tenants whose creditworthiness or payment history is lagging, in order to improve our rental income.

FINANCING

We have three main sources of funding for our property development: internal resources, offerings of equity or debt securities and secured or unsecured loans. Our financing methods vary from project to project. Our project construction loans are generally secured by mortgages over the land use rights of the project companies, our equity interests in the project companies, insurance over their assets and properties, the proceeds of the rental and sale of our completed properties and bank accounts. We also obtain loans from non-controlling interest shareholders for the development of co-investment projects.

Our memorandum and articles of association do not limit the amount or percentage of indebtedness that we may incur. However, certain agreements relating to our borrowings contain customary restrictions, requirements and other limitations on our ability to incur indebtedness.

QUALITY MANAGEMENT

We establish and implement procedures and systems in accordance with the requirements of ISO 9001:2008 to monitor the different aspects of our project management activities in design, quantity surveying, procurement, construction and maintenance works. Regular audits are conducted to ensure compliance by the respective departments and projects.

The quality management of each of our projects is headed by the respective project management team and performed in accordance with approved ISO procedures and systems to ensure compliance with the specifications of our projects. We construct and approve specific mock-ups to establish the quality standard required for each project before mass construction begins. We regularly monitor and assess the performance of the design consultants, other consultants, contractors and material suppliers to ensure that they meet the specified requirements and appropriate follow-up action is taken against, and penalties imposed on, those that do not meet the required standards.

We place strong emphasis on quality management to ensure that the quality of our projects complies with relevant regulations and meets market standards and customers' expectations. Records that are necessary to provide evidence of conformity and the performance of quality control activities are required to be kept in related functional departments of each project. Each project is also subject to the supervision of the appointed construction work supervision engineer, as required by PRC government regulations. An independent inspection unit is also hired to perform the final inspection and testing works in addition to the effort by the project team. Defects found during handover inspection and during the maintenance period are recorded in the Warranty and Maintenance System for follow-up action and as a statistical tool for improvement actions. We employ a third party quality consultant to conduct regular quality assessments of each project during construction phase who reports to the respective project managers, project general managers, project directors responsible for the projects and top management. We offer a quality incentive scheme to contractors and the construction work supervision engineer when their projects achieve both our third party quality assessment target score and our project handover quality targets. The assessment scores of each project are also used as a basis for measuring performance of the responsible project team.

SUSTAINABILITY DEVELOPMENT AND SAFETY MATTERS

As a socially responsible property developer, we have always firmly believed that sustainability is key to the long-term development of both our enterprise and society. Our Sustainable Development Committee formulates and monitors sustainable initiatives. Our efforts are well recognised in society. We received the 2010 Platinum Award for **Green Office Management** and **Green Purchaswi$e** from Hong Kong Green Council, a non-profit organisation based in Hong Kong. Also, our projects have achieved various leading national and international green certifications such as the Leadership in Energy & Environment Design (LEED), Chinese Technical Standard for Performance Assessment of Residential Buildings, and the Evaluation Standard for Green Building. See "*Sustainable Development Initiatives*" table, as below.

Sustainable Development Initiatives

Corporate	Achieve/Target — Green Building Certification
1. Shui On Land Ltd HQ - 26/F, Shui On Plaza	Achieved LEED — Commercial Interiors Silver rating
2. Shui On Land Ltd HQ - 25/F, Shui On Plaza	Achieved LEED — Commercial Interiors Silver rating
3. KIC Office	Achieved LEED — Commercial Interiors Gold rating

Projects — Master Planning Stage	Achieve/Target — Green Building Certification
1. Wuhan	Achieved LEED — Neighbourhood Development Pilot Version Stage 2 Gold rating (Pre-certification)
2. Chongqing	Achieved LEED — Neighbourhood Development Pilot Version Stage 2 Gold rating (Pre-certification)
3. Dalian	Registered for LEED — Neighbourhood Development Pilot Version
4. Foshan	Achieved LEED — Neighbourhood Development Pilot Version Stage 2 Gold rating (Pre-certification)
5. Rui Hong Xin Cheng	Registered for LEED — Neighbourhood Development Pilot Version

Projects — Development Stage	Achieve/Target — Green Building Certification
1. Wuhan Tiandi Lot A4, Wuhan (Entertainment & Retail)	Achieved LEED — Core & Shell Certification Gold rating
2. Wuhan Tiandi Lot A5, Wuhan (Office)	Achieved LEED — Core & Shell Pre-certification Gold rating
3. Wuhan Tiandi Lots A1/2/3, Wuhan (Office & Hotel & Retail)	Registered for BREEAM — "Very Good" Level
4. Chongqing Tiandi Lot B3, Chongqing (Entertainment & Retail)	Achieved LEED — Core & Shell Certification Gold rating
5. Chongqing Tiandi Lot B11, Chongqing (Office, Hotel & Retail)	Achieved LEED — Core & Shell Pre-certification Gold rating

Projects — Development Stage	Achieve/Target — Green Building Certification
6. Chongqing Tiandi Lot B12, Chongqing (Office & Retail)	Achieved LEED — Core & Shell Pre-certification Gold rating
7. Chongqing Tiandi Lot B13, Chongqing (Office & Retail)	Target to achieve LEED — Core & Shell Certification Gold rating
8. Taipingqiao Lots 126/127, Shanghai (Office & Retail)	Achieved LEED — Core & Shell Pre-certification Gold rating
9. Rui Hong Xin Cheng Lot 4, Shanghai (Residential & Retail)	Achieved Chinese Green Building 2 Star rating. 15 Nov 2010, awarded allowance from Shanghai Government as an energy-saving housing project
10. Rui Hong Xin Cheng Lot 6, Shanghai (Residential & Retail)	Target to achieve Chinese Green Building 2 Star rating
11. Rui Hong Xin Cheng Lot 3, Shanghai (Retail)	Registered for LEED — Core & Shell Certification, targeting to achieve Gold rating; target to achieve Chinese Green Building 1 Star rating
12. Rui Hong Xin Cheng Lot 10, Shanghai (Retail)	Target to achieve LEED — Core & Shell Certification Gold rating; target to achieve Chinese Green Building 2 Star rating
13. KIC Plaza Phase II, Shanghai (Office)	Achieved LEED — Core & Shell Pre-certification Silver rating
14. KIC Lots 5-5/5-7/5-8, Shanghai (Office)	Achieved LEED — Core & Shell Pre-certification Gold rating
15. KIC Village Phase II, Lots 7-7/7-9, Shanghai (Office & Residential)	Achieved Chinese Green Building 2 Star rating
16. Dalian Tiandi Aspen and Maple Towers, Site D22, Dalian	Achieved LEED — Core & Shell Pre-certification Gold rating
17. Dalian Tiandi Site D14, Dalian	Achieved LEED — Core & Shell Pre-certification Gold rating
18. THE HUB Lot D17, Shanghai (Office & Hotel & Retail)	Registered for LEED — Core & Shell Pre-certification, targeting to achieve Gold rating; target to achieve Chinese Green Building 3 Star rating (for Office & Retail); target to achieve Chinese Green Building 2 Star rating (for Hotel)
19. THE HUB Lot D19, Shanghai (Office & Retail & Exhibition)	Registered for LEED — Core & Shell Pre-certification, targeting to achieve Silver rating; target to achieve Chinese Green Building 3 Star rating (for Office & Exhibition); target to achieve Chinese Green Building 2 Star rating (for Retail)
20. Foshan Lingnan Tiandi Lot 4, Foshan (Residential & Retail)	Achieved Green Community Certification of Guangdong Province

As an operator and property developer in the PRC, we are subject to various environmental laws and safety regulations set by the PRC national, provincial and local governments. These include regulations on air and noise pollution and discharge of waste and water into the environment. We incorporate such requirements into our construction contracts and our project teams monitor their implementation. In addition to the basic statutory requirements, we incorporate pay for health, environmental and safety scheme into contracts with our contractors to encourage them to enhance the health, safety and environment condition in and around their construction site during the whole construction period.

EMPLOYEES

As at 30 June 2012, the number of employees in the Group was 1,266. In addition, the headcount of the property management business was 1,338. The following table sets out the number of our employees categorised by function as at that date:

Department	No. of employees
Management	30
Sales and Marketing	161
Research and Development, Planning & Design	93
Project Construction and Engineering	287
Quantity Survey and Procurement	82
Operation Management	214
Finance & Accounting	117
Human Resources	33
Legal	30
Administration & IT	117
Corporate Development, PR and Corporate Communication & Branding	47
Food & Beverage	9
Kindergarten	46
Total	**1,266**

Employee benefits

We provide comprehensive benefit package for all employees, as well as career development opportunities. This includes retirement schemes, share option scheme, medical insurance, other insurance, in-house training, on-the-job training, external seminars and programmes organised by professional bodies and educational institutes.

We strongly believe in the principle of equality of opportunity. The remuneration policy of the Group for rewarding its employees is based on their performance, qualifications and competency displayed in achieving the corporate goals.

Training and development

We formed the Shui On Academy in 2008 to provide systematic learning programmes for our employees in four areas: core knowledge (company and industry), management, professional and personal excellence. The learning experiences cover in-house programmes, external training, e-learning and on-the-job learning. We partner with leading institutions to bring in outside best

practices. Additionally, staff have the opportunity to participate in innovative learning practices such as action learning projects that challenge learners to apply their new knowledge and skills to real-life business issues. Finally, we have several training programmes that focus on accelerating the capability of high-potential staff.

To ensure the sustainable growth of the Group, we offer different trainee programmes designed to help identify high-calibre employees at early stages in their careers and prepare them to take up management and leadership responsibilities through custom-made training programmes.

Management Cadet ("MC") Programme

This fast track development programme was established in 2002 to help employees take up core management positions in an accelerated time frame. The programme is open to all internal staff who have at least three years of working experience and have the potential for development. A rigorous, fair and transparent process is used to select the best candidates with senior management to take part as assessor. Once accepted into the programme, MCs are given challenging job assignments and/or postings to increase the breadth and depth of their understanding of our operations and business. Mentored by members of the top management, including CEO and directors, MCs are given learning opportunities through special assignments and privileged exposure to high level meetings and contacts, knowledge and experience sharing sessions, internal and external workshops, as well as overseas programmes and visits.

Functional Executive ("FE") Programme

Established in 2009, the Functional Executive Programme is designed to develop professionals and managers eventually to take on senior functional positions. A customised training programme will be designed for each Functional Executive.

Management Trainee ("MT") Programme

Established in 1997, this programme puts recent university graduates on the road to future management positions. Beginning with an intensive 6-week induction period that takes the trainees across the country to all of the cities with our projects, trainees are also given an in-depth understanding of the business through half-day seminars with each of the company's departments. These promising graduates are expected to form the backbone of our management team and must go through a three-year programme that includes personal development, management skills training and job rotations. Each trainee is assigned a senior manager as a mentor who provides guidance and career development counselling. Upon successful completion of the programme, Management Trainees are assigned to a first line management position.

Graduate Trainee ("GT") Programme

This programme was established to prepare recent graduates for professional positions by acquiring technical/professional knowledge and management skills through a structured and systematic on-the-job development programme. Graduate Trainees go through the same intensive six-week induction period as the Management Trainees, but while the duration of the GT programme varies by professional stream, all GTs are rotated to different positions within their field, including a six-to-twelve-month secondment to an external professional institution or consultancy for some streams. In 2009, we expanded the programme beyond Project Management and recruited its first batch of Commercial, Legal, Human Resources, and IT trainees. At the same time, this programme was also extended to existing employees with outstanding performance records.

Summer Internship Programme

Established in 2001, the programme provides four to eight weeks of summer internship opportunities for university students from both Hong Kong and China. Students with outstanding performance records have the opportunity to apply for the "Green Path" to obtain fast access to the MT/GT recruitment process.

Relationship with our employees

We maintain good working relations with our employees. We sponsor a number of employees' self-organised social clubs and task forces and provide support in organising and promoting staff social activities and community services. We have not suffered from any material disruption to our normal business operations as a result of any labour dispute, strike or employee dispute.

COMPETITION

We believe that the real estate market in the PRC is highly fragmented. While there are a number of competitors who may target different segments and regions of the PRC real estate market from us, we currently are not aware of other property developers with the same record of property development coupled with master planning expertise relating to large-scale integrated property projects in the PRC.

On a city and district level, however, we face varying levels of competition for our products, depending on the location and positioning of our projects. Our existing and potential competitors in each city and district include major domestic state-owned and private developers in the PRC, as well as developers from Hong Kong and elsewhere in Asia and other parts of the world. See "*Risk Factors — Risks relating to our Industry — Increasing competition in the PRC property market may adversely affect our business and financial condition*".

NON-COMPETITION AGREEMENT

We have entered into a non-competition agreement with Mr. Lo and SOCL, to govern the conduct of the following activities in the PRC between Mr. Lo and the Shui On Group on the one hand, and us on the other:

- the acquisition, development or dealing in land, real estate or investments in land or real estate, or any option or right in relation to any of such interests;

- the development of real estate projects, or acquiring or holding any right, option or other interest in such developments;

- property management; and

- acquisition, holding or dealing in any shares of, or interest in, any company, investment trust, joint venture or other entity which engages in any of the above businesses (together, the "**Defined Business**").

Under this agreement, Mr. Lo and SOCL have undertaken that we shall be the flagship company of the Shui On Group for its property development and investment business in the PRC. In particular, they have undertaken on a several basis, subject to the exceptions referred to below, that they shall not, and will ensure that no company controlled by Mr. Lo (other than SOCAM or its subsidiaries) (the "**Associated Companies**") or in the Shui On Group shall carry on or engage, invest, participate or be

interested (economically or otherwise) in any Defined Business in the PRC. Mr. Lo and SOCL have further undertaken to ensure that any business investment or other commercial opportunity in the PRC relating to the Defined Business (the "**New Opportunity**") that Mr. Lo (or his Associated Companies) or the Shui On Group identifies or that is offered to them by a third party are first referred to us.

The non-competition agreement will terminate upon the earlier of:

- In relation to SOCL, the date when SOCL ceases to control, directly or indirectly, 30% or more of our Shares;

- In relation to Mr. Lo, the date when Mr. Lo ceases to control, directly or indirectly, 30% or more of our Shares; or

- The date when our Shares cease to be listed on any internationally recognised stock exchange (provided that such delisting is voluntary and at our instigation).

LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims that arise in the ordinary course of business such as disputes with tenants of our office and commercial properties and disputes with the owners of units in our residential properties. However, as at the date of this Offering Circular, we are not subject to any material litigation which, if determined adversely ageists us, would have a material adverse effect in our results of operation or financial position.

LITIGATION, TAX AND ESTATE DUTY INDEMNITY FROM SOCL

Under a deed of indemnity dated 30 May 2006, SOCL has undertaken to us that it will indemnify and keep us indemnified against (a) any losses arising from any third party litigation, arbitration or administrative proceedings brought against any member of us with respect to acts or omissions by us before the date of our listing on the Hong Kong Stock Exchange, (b) any and all tax liabilities (including for estate duty) falling on any member of us which might be payable by us as a consequence of any event occurring, or with respect to, any income, profits or gains earned, accrued or received on or before the date of our listing on the Hong Kong Stock Exchange, and (c) any LAT liability under PRC law in relation to sales or pre-sales of properties during the year ended 31 December 2006 to the extent not disclosed in the profit forecast in the prospectus regarding our listing on the Hong Kong Stock Exchange provided no claims may be brought against SOCL for such LAT liability after the expiry of one month from the date of the signature of the auditor's report with respect to the audited consolidated financial statements of our Group as at 31 December 2006 and for the year ended 31 December 2006. As at the date of this Offering Circular, we have not brought any claims against SOCL arising out of the deed of indemnity.

SOCL will not, however, be liable under the deed of indemnity for litigation or taxation in certain circumstances including where (a) a provision or reserve has been made for such litigation or taxation in our audited accounts as of 31 December 2005, (b) the claim would not have arisen but for a voluntary act carried out by us after the date of our listing on the Hong Kong Stock Exchange, (c) the claim is disclosed in the prospectus regarding our listing on the Hong Kong Stock Exchange, or (d) we fail to act in accordance with the reasonable request of SOCL in relation to the handling of the claim. In addition, SOCL will not be liable under the deed of indemnity for taxation claims to the extent that (a) a provision or reserve in our audited accounts as at 31 December 2005 is determined to be excessive, or (b) the taxation liability or the increase in tax liability arises as a result of an increase in rates of taxation or change in law made after the date of our listing on the Hong Kong Stock Exchange with retrospective effect.

The liability of SOCL under the deed of indemnity will terminate after the expiry of 7 years from the date of the deed of indemnity.

The directors have been advised that no material liability for estate duty is likely to fall upon us or any of our subsidiaries in the Cayman Islands, Hong Kong, the British Virgin Islands, Mauritius, or the PRC, being jurisdictions in which we or one or more of our subsidiaries are incorporated.

INTELLECTUAL PROPERTY RIGHTS

We rely on a combination of trademarks, service marks, domain name registrations, copyright protection and contractual restrictions to establish and protect our brand name and logos, marketing designs and Internet domain names.

We have registered trademarks relating to our business in the PRC. Some of these marks will also be registered, or are in the process of being registered, in Hong Kong where we believe it is important to establish our right to use these marks. We have also registered the Internet domain name "shuion.com.cn" and other related domain names.

Our trademark adviser, Shanghai Changan Trademark Service Company Limited, has advised us that we cannot apply for registration in the PRC of our corporate logo in our name because the trademark is too similar to the seagull logo used by the Shui On Group, which is already registered in the name of Shui On Holdings Limited, a member of the Shui On Group, and that both logos must be registered in the name of one entity pursuant to PRC law. Shui On Holdings Limited has successfully completed the registration of our corporate logo in the PRC in its name.

We have entered into a licensing arrangement with Shui On Holdings Limited with regards to our exclusive right to use our corporate logo for all purposes in the PRC. The license is royalty-free for a term of 10 years from 30 May 2006 and can be renewed by notice from either party.

The Shui On Group has transferred certain trademarks and domain names to us. The Shui On Group is not entitled to use the same trademarks and domain names as used by the Group.

INSURANCE

We maintain insurance policies with insurance companies in the PRC which cover property damage due to natural hazards, including lightning, typhoons, tornadoes, floods, landslides and other natural phenomena, and accidents, including fire and explosion, and general liability under property all risk insurance, business interruption insurance, public liability insurance and money insurance. As at 30 June 2012, we have not experienced any significant loss or damage to our properties.

We maintain all risk and third party liabilities insurance coverage for our properties under construction, including those that have been completed and are pending delivery, subject to customary deductibles, limitations and exclusions. There are no mandatory requirements to maintain insurance coverage in the PRC with respect to our property development operations. Since 1 January 2002, we have not suffered any losses or damages or incurred any liabilities relating to our properties that had a material adverse effect on our business.

PROPERTIES OCCUPIED BY US

Our principal office and corporate headquarters are located at Shui On Plaza, 25th and 26th Floor, 333 Huai Hai Zhong Road, Shanghai, PRC. Our headquarters, which comprise approximately 5,148 sq.m., are staffed by our management and office personnel. We also maintain offices located at or close to each of our project sites, which are used by our project teams, as well as sales and rental offices. Of these offices, our headquarters, the Shanghai Taipingqiao, the Shanghai Rui Hong Xin Cheng, Shanghai KIC, Chongqing, Wuhan and Dalian offices are located on properties owned by us, THE HUB and Foshan offices are located in leased premises not owned by us.

PROPOSED SPIN-OFF OF CHINA XINTIANDI

On 28 May 2012, Shui On Land announced its plans to dispose of part of Shui On Land's interest in China Xintiandi, a wholly owned subsidiary of Shui On Land, by way of the Proposed China Xintiandi Spin-off, and has submitted a listing application to the Hong Kong Stock Exchange for the shares of China Xintiandi in connection with the Proposed China Xintiandi Spin-off.

China Xintiandi is positioned to be the premier commercial property company of the Group, focusing principally on managing, designing, leasing, marketing, enhancing and redeveloping premium retail, office, entertainment and hotel properties in affluent urban areas in the PRC. It is expected that, following the completion of the Proposed China Xintiandi Spin-off, Shui On Land will likely hold 30% or more of China Xintiandi.

There is no assurance that the Proposed China Xintiandi Spin-off will occur at all or, if it occurs, when it may occur. The Proposed China Xintiandi Spin-off is subject to, among other things, the approval by the Listing Committee of the Hong Kong Stock Exchange, the final decisions of the board of directors of Shui On Land, of the board of directors of China Xintiandi, the approval of the shareholders of Shui On Land and consents from certain of our lenders and joint venture partners and holders of our outstanding senior notes (including holders of the Securities).

DIRECTORS

Our Board currently consists of nine Directors, comprising three Executive Directors, one Non-executive Director and five Independent Non-executive Directors.

The following table sets out the name, age and position of our Directors as at the date of this Offering Memorandum:

Name	Age	Position
Mr. Vincent H. S. LO, GBS, JP	64	Chairman and Executive Director
Mr. Freddy C. K. LEE	50	Executive Director, Managing Director and Chief Executive Officer
Mr. Daniel Y. K. WAN	54	Executive Director, Managing Director and Chief Financial Officer
Mr. Frankie Y. L. WONG	63	Non-executive Director
Sir John R. H. BOND	71	Independent Non-executive Director
Dr. William K. L. FUNG, SBS, JP	63	Independent Non-executive Director
Professor Gary C. BIDDLE	61	Independent Non-executive Director
Dr. Roger L. McCARTHY	64	Independent Non-executive Director
Mr. David J. SHAW	66	Independent Non-executive Director

Executive directors

Mr. Vincent H. S. LO, GBS, JP, aged 64, has served as our Chairman since our inception in February 2004. Mr. Lo leads the Board of Directors in deciding on Shui On Land's direction and to set corporate strategies. Mr. Lo was our Chief Executive Officer from 2004 to 16 March 2011. He is also Chairman of the Shui On Group, which he founded in 1971, Chairman of SOCAM Development Limited ("**SOCAM**"), a Non-executive Director of Great Eagle Holdings Limited and a Non-executive Director of Hang Seng Bank Limited.

Mr. Lo was honoured with the "Ernst & Young China Entrepreneur Of The Year 2009" and also, as "Entrepreneur Of The Year 2009" in the China Real Estate Sector. He was also awarded the Gold Bauhinia Star (GBS) in 1998 and appointed Justice of the Peace in 1999 by the Government of the Hong Kong Special Administrative Region (HKSAR). Mr. Lo was made an Honorary Citizen of Shanghai in 1999 and Foshan in 2011. He was named Businessman of the Year at the Hong Kong Business Awards in 2001, and won the Director of the Year Award from The Hong Kong Institute of Directors in 2002 and Chevalier des Arts et des Lettres by the French government in 2005.

In addition to his business capacity, Mr. Lo has been active in community services. He participated in the preparatory works of the establishment of the Hong Kong Special Administrative Region. He currently serves as a Member of The Eleventh National Committee of the Chinese People's Political Consultative Conference, Hong Kong's representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council, the President of Council for the Promotion & Development of Yangtze, an Economic Adviser of the Chongqing Municipal Government, the Honorary Life President of the Business and Professionals Federation of Hong Kong, a Vice Chairman of the Chamber of International Commerce Shanghai and the Honorary Court Chairman of Hong Kong University of Science and Technology.

Mr. Freddy C. K. LEE, aged 50, is the Managing Director and Chief Executive Officer. Mr. Lee joined the Shui On Group in 1986 and has over 15 years of working experience in construction

management and 11 years of working experience in property development in the PRC. Besides being responsible for the operations and management of Shui On Land, Mr. Lee is responsible for the implementation of Shui On Land's Three-Year Plan. Mr. Lee holds a Master's degree in Construction Management from the City University of Hong Kong and a Bachelor's degree in Quantity Surveying from Reading University, England. He is currently a member of the Royal Institution of Chartered Surveyors in the United Kingdom and a member of the Hong Kong Institute of Surveyors.

Mr. Daniel Y. K. WAN, aged 54, is the Managing Director and Chief Financial Officer of Shui On Land responsible for all aspects relating to our finance and accounting, legal, company secretarial and information technology affairs. He is also responsible for the day-to-day management of Shui On Land together with the other senior executives. Mr. Wan joined Shui On Land in March 2009. He has extensive experience in the financial industry with over 20 years in senior management positions. Prior to joining Shui On Land, Mr. Wan was the General Manager and Group Chief Financial Officer of The Bank of East Asia, Ltd. Mr. Wan holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong and a Master of Business Administration degree from The University of Wales. He is a fellow member of The Association of Chartered Certified Accountants, fellow member of The Hong Kong Institute of Certified Public Accountants and a member of The Institute of Chartered Accountants in England and Wales. Mr. Wan was a member of the Accounting Standards Advisory Panel of the Hong Kong Society of Accountants, member of the Auditing Standards Committee of the Hong Kong Society of Accountants, member of the Board of Review (Inland Revenue), member of the Small and Medium Enterprises Committee, member of the Travel Industry Compensation Fund Management Board, Chairman of the Investment Committee of the Travel Industry Compensation Fund and part-time member of the Central Policy Unit.

Non-executive director

Mr. Frankie Y. L. WONG, aged 63, has been appointed as a Non-executive Director of Shui On Land since 17 August 2011 and is Non-executive Director of SOCAM. He was the Vice Chairman of SOCAM from 1997 to 2004 and from April 2010 to August 2011 and the Chief Executive Officer of SOCAM from July 2004 to March 2010. Mr. Wong joined the Shui On Group in 1981. He was a Director of Shui On Land from May 2004 to May 2006 prior to the listing of Shui On Land on The Stock Exchange of Hong Kong Limited in October 2006. He is also one of the Trustees of the Shui On Provident and Retirement Scheme. Prior to joining the Shui On Group, Mr. Wong had many years of banking experience with several major international banks in Hong Kong. He graduated with a Bachelor of Science degree in Economics and a Master of Arts degree from the London School of Economics and Political Science and The University of Lancaster in the United Kingdom respectively. Mr. Wong is currently an Independent Non-executive Director of Solomon Systech (International) Limited, which is listed in Hong Kong, and a Non-executive Director of Walcom Group Limited, a company listed on the Alternative Investment Market of the London Stock Exchange plc. and a director of Sichuan Shuangma Cement Co., Ltd. (四川雙馬水泥股份有限公司), a company listed on the Shenzhen Stock Exchange.

Independent non-executive directors

Sir John R. H. BOND, aged 71, has served as an Independent Non-executive Director of Shui On Land since September 2006. He was previously the Group Chairman of HSBC Holdings plc and was with HSBC from 1961 until May 2006. Sir John was the Chairman of Vodafone Group Plc until 26 July 2011. He is currently the Chairman of Xstrata plc, a Non-executive Director of A. P. Moller Maersk and an Advisory Director of Northern Trust Corporation. He is also a member of the Mayor of Shanghai's International Business Leaders' Advisory Council, a participant in the China Development Forum, a member of the International Advisory Board to the Tsinghua University School of Economics and Management and a member of the Mitsubishi International Advisory Committee.

Dr. William K. L. FUNG, SBS, JP, aged 63, has served as an Independent Non-executive Director of Shui On Land since May 2006. Dr. Fung has been the Group Chairman of Li & Fung Limited since 14 May 2012 and before that, was the Executive Deputy Chairman (2011 — May 2012) and the Group Managing Director (1986 — 2011) of Li & Fung Limited. He has held key positions in major trade associations. He is past Chairman of the Hong Kong General Chamber of Commerce, Hong Kong Exporters' Association and the Pacific Economic Cooperation Committee. He has been awarded the Silver Bauhinia Star by the Hong Kong Special Administrative Region Government in 2008. Dr. Fung graduated from Princeton University with a Bachelor of Science degree in Engineering and also holds an MBA degree from the Harvard Graduate School of Business. He was conferred Honorary Doctorate degrees of Business Administration by Hong Kong University of Science and Technology and by the Hong Kong Polytechnic University. Dr. Fung is an Independent Non-executive Director of VTech Holdings Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited and an Independent Director of Singapore Airlines Limited. He is also a Non-executive Director of other listed Fung Retailing Group companies including Convenience Retail Asia Limited and Trinity Limited. He is a director of the Fung Global Institute, an independent and non-profit think-tank.

Professor Gary C. BIDDLE, aged 61, has served as an Independent Non-executive Director of Shui On Land since May 2006. Chair Professor Gary Biddle is Chair of Accounting and PCCW Professor at the University of Hong Kong. He earned his MBA and Ph.D. degrees at the University of Chicago. He previously served as professor at University of Chicago, University of Washington, Dean of the Faculty of Business and Economics at the University of Hong Kong and Associate Dean of the School of Business and Management of Hong Kong University of Science and Technology, where he also was a member of the Council, Court, Senate and held the title of Synergis-Geoffrey Yeh Chair Professor. He also teaches at leading business school globally, including Columbia Business School (New York), London Business School (London), IMD (Switzerland) and Fudan University and CEIBS (China). Professor Biddle is a member of the American Accounting Association, American Institute of Certified Public Accountants, Washington Society of Certified Public Accountants, American Chamber of Commerce, Hong Kong Business and Professionals Federation, Hong Kong Institute of Certified Public Accountants and Hong Kong Institute of Directors and he is past President and co-founding Council Member of the Hong Kong Academic Accounting Association. Professor Biddle first visited China in 1984 and made Hong Kong home in 1996. His research appears in the premier academic journals globally and in financial publications including the *Economist* and *Wall Street Journal*. He is a recognised expert in financial accounting, economic forecasting, value creation, valuation, corporate governance and performance metrics, including EVA®. He has won over 20 teaching awards. Professor Biddle is an Independent Non-executive Director and Audit Committee Chair of leading listed companies including Kingdee International Software Group Company Limited and chairs the remuneration committee of closely-held Chinachem Group.

Dr. Roger L. McCARTHY, aged 64, has served as Independent Non-executive Director of Shui On Land since May 2006. Dr. McCarthy is currently the principal of McCarthy Engineering. He was formerly Chairman Emeritus of Exponent, Inc. (NASDAQ symbol "EXPO"). He was also Chairman of Exponent Science and Technology Consulting Co., Ltd. (Hangzhou) (毅博科技諮詢(杭州)有限公司), a wholly owned subsidiary of Exponent, Inc., which he founded in 2005 to expand Exponent Inc.'s services to the PRC. Dr. McCarthy holds five academic degrees: an Arts Bachelor (A.B.) in Philosophy and a Bachelor of Science in Mechanical Engineering (B.S.E.M.E.) from the University of Michigan; and an S.M. degree in Mechanical Engineering, the professional degree of Mechanical Engineer (Mech.E.), and a Ph.D. in Mechanical Engineering all from the Massachusetts Institute of Technology ("**MIT**"). He graduated from the University of Michigan Phi Beta Kappa, summa cum laude, the Outstanding Undergraduate in Mechanical Engineering in 1972. He was a National Science Foundation fellow. In 1992, Dr. McCarthy was appointed by the first President Bush to the President's Commission on the National Medal of Science. Dr. McCarthy is one of approximately 165 US Mechanical Engineers elected to the National Academy of Engineering. He currently serves on the

External Advisory Boards of the Department of Mechanical Engineering at the University of Michigan, and he delivered the 2008 commencement address for the University of Michigan's College of Engineering. He is currently a member of the US National Academies Panel on Air and Ground Vehicle Technology.

Mr. David J. SHAW, aged 66, has served as an Independent Non-executive Director of Shui On Land since May 2006. Mr. Shaw is employed by the HSBC Group as Adviser to the Board of HSBC Holdings plc, a London-based appointment which he took up in June 1998. Mr. Shaw is a solicitor, admitted in England and Wales and in Hong Kong. He was a partner of Norton Rose from 1973 until 1998 and during that period spent approximately 20 years working in Hong Kong. Mr. Shaw obtained a law degree from Cambridge University. He is a Non-executive Director of HSBC Private Banking Holdings (Suisse) SA, HSBC Private Bank (Suisse) SA and HSBC Bank Bermuda Limited of which are companies within the HSBC Group. He is also an Independent Non-executive Director of Kowloon Development Company Limited.

SENIOR MANAGEMENT

Mr. TANG Ka Wah, aged 52, is Director - Chongqing and is also an Executive Director of Shui On Development Limited ("**Shanghai SOD**"). He is responsible for all aspects of our project in Chongqing. He joined the Shui On Group in 1985 and has over 26 years of working experience in the construction industry. He is a member of the Institution of Structural Engineers and a member of the Hong Kong Institution of Engineers. Mr. Tang is a chartered engineer. He holds a Bachelor's degree in Engineering from The University of Hong Kong and a Master's degree in Business Administration — E-Commerce from the West Coast Institute of Management & Technology, West Australia.

Mr. Charles W. M. CHAN, aged 56, is an Executive Director of Shanghai SOD, Project Director - KIC Project as well as the Executive Director of Dalian Software Park Shui On Development Ltd. He has taken the role of Chairman of Dalian Tiandi Executive Committee and is responsible for the overall development of Dalian Tiandi project. Mr. Chan also leads the Shanghai KIC project and works closely with other directors of Shanghai SOD on the overall management and development of Shanghai SOD. He joined the Shui On Group in January 2004. Prior to joining us, Mr. Chan was Deputy Managing Director of Frasers Property (China) Limited, Executive Director of SunCorp Technologies Limited, Vice President of Citibank N.A. and Manager of PricewaterhouseCoopers. He is a fellow of the Hong Kong Institute of Certified Public Accountants and an associate of the Institute of Chartered Accountants in Australia. Mr. Chan holds a Bachelor's degree in Economics from the University of Sydney.

Mr. Albert K. B. CHAN, aged 52, is the Director of Development Planning and Design. Mr. Chan joined Shui On in 1997, and has more than 25 years of experience in planning, design and real estate development. Mr. Chan manages the conceptualisation, site feasibility studies, masterplanning and design of developments for Shui On Land. From 1997 to 2001, he led the planning and design effort for the Shanghai Xintiandi development. He also focuses on mixed-use development, new product development, product standardisation efforts, and chairs the Sustainable Development Committee of Shui On Land. Prior to joining Shui On, Mr. Chan worked at the New York City Department of Design and Construction and at Cooper, Robertson + Partners. Mr. Chan holds a Bachelor's degree in Architectural Design from the University of Minnesota, a Master's degree in Architecture from the University of California, Berkeley, and a Master's degree in Science in Architecture and Urban Design from Columbia University. He also holds an MBA from New York University. He is a Registered Architect of New York State, an associate member of the American Institute of Architects, a member of the American Planning Association, a member of the Urban Land Institute ("**ULI**") and juror of the ULI Award of Excellence.

Mr. UY Kim Lun, aged 49, is Director of Legal Affairs and Company Secretary of Shui On Land. He joined us in 2005 and is responsible for the legal, company secretarial and compliance issues of Shui On Land. Mr. Uy holds a Bachelor's degree, with honours, in Laws and a Postgraduate Certificate in Laws from The University of Hong Kong. He was admitted as a solicitor in Hong Kong in 1991 and in England and Wales in 1994. He has over 20 years of post-qualification experience and has worked in the legal departments of several bluechip companies in Hong Kong before joining us.

Mr. Bryan K. W. CHAN, aged 37, is currently the Project Director for THE HUB. He is fully in charge of the Group's mixed used development project adjacent to the Hongqiao Transportation Hub in Hongqiao, Shanghai. Mr. Chan joined us in February 2009 as Director of Corporate Development. Prior to joining us, Mr. Chan had been an adviser to the Commercial Division of Shui On Land and has extensive experience in both retail and real estate industries. Mr. Chan received a Bachelor of Arts degree in Economics from Northwestern University and a Master's of Accounting degree from the University of Southern California. He is a member of the Urban Land Institute (ULI), International Council of Shopping Centers (ICSC), Shanghai Youth Federation and Shanghai Youth Entrepreneurs Association.

Ms. Jessica Y. WANG, aged 37, is currently the Project Director for the Rui Hong Xin Cheng project. She is responsible for all aspects of our project in Rui Hong Xin Cheng, Shanghai. Ms. Wang joined the Group in August 1997 and has over 17 years of working experience in the property development industry in PRC. Prior to joining the Group, Ms. Wang was engaged in sales & marketing in one of the well-known real estate company. Ms. Wang received a Bachelor of Engineering degree in Shanghai University of Technology. Ms. Wang has completed the courses of Executive Master of Business Administration of Real Estate (EMBA) jointly organised by Shanghai Fudan University and Hong Kong University and the China New Entrepreneur Development Program in Center for Sustainable Development and Global Competitiveness in Stanford University. Ms. Wang is a member of Hong Kou District Political Consultative Committee, Chairman of Hong Kou District Association of Enterprises with Foreign Investment, Director of Shanghai Federation of Industry & Commerce Real Estate Chamber of Commerce, Vice Chairman of Hong Kou District non-Party Intellectuals Association, Chairman of Hong Kou District Overseas Returned Entrepreneurs Association, Director of Hong Kou District Overseas Chinese Friendship Association and a member of Hong Kou District Youth Entrepreneurs Association.

Mr. Matthew Q. GUO, aged 37, is currently the Project Director for the Wuhan project. He is responsible for all aspects of our Wuhan Tiandi project. Mr. Guo joined the Group in 1997 and has over 14 years of working experience in the property development industry in the PRC. In addition to the Wuhan Tiandi project, Mr. Guo was involved in other projects of the Group including Shanghai Xintiandi, Taipingqiao Park, The Lakeville Phase I and the Yangpu Knowledge and Innovation Community project in Shanghai. Mr. Guo holds a Bachelor's degree in Urban Planning from the Tongji University.

Mr. Alex H. M. WONG, aged 57, is currently the Project Director for the Foshan project. He is responsible for all aspects of this large scale city centre redevelopment project in Foshan, Guangdong. Mr. Wong initially joined the Group in 1978, left in 1994 and rejoined in 2008. Mr. Wong has over 30 years working experience in the property development and construction industry in the PRC and Hong Kong. Mr. Wong holds a Bachelor of Applied Science Degree from the University of Toronto, Canada.

Mr. Raphael S. P. PUI, aged 49, is Director - Commercial. He is responsible for the Sales & Marketing functions of the Chongqing project, Wuhan project and Dalian Tiandi project. He joined us in 2004 and has over 23 years of working experience in the real estate industry. Prior to joining our Company, Mr. Pui took the management role in the asset management function at the American International Assurance Co. Ltd., and The HongKong and Shanghai Hotels, Ltd. Mr. Pui holds a Bachelor's degree in Business Administration at the University of Texas at Austin.

Mr. Tommy W. C. CHUNG, aged 52, is Director of Corporate Development of Shanghai SOD. He joined us in 2008 and is responsible for the development of corporate strategy, management of strategic partners and JV investments, en-bloc disposal and hospitability business.

Before joining the Company, Mr. Chung was the President of Global Business of PCCW. Prior to that, Mr. Chung had served in several technology companies in Europe, Singapore and Hong Kong. Mr. Chung holds a Bachelor's degree in Civil Engineering, Master's degree in Philosophy and Master's degree in Business Administration from University of Hong Kong.

BOARD COMMITTEES

Audit Committee

We established an Audit Committee in June 2004. The Audit Committee was re-constituted in May 2006 with terms of reference in compliance with Rule 3.21 of the Rules Governing the Listing of Securities and the Code on Corporate Governance Practices ("**CG Code**"). The Audit Committee currently comprises three members, namely Professor Gary C. Biddle (Chairman), Dr. Roger L. McCarthy and Mr. Frankie Y. L. Wong, two of whom are Independent Non-executive Directors who possess the appropriate professional qualifications or accounting or related financial management expertise. To retain independence and objectivity, the Audit Committee has been chaired by an Independent Non-executive Director (with appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of our existing external auditors. The primary duties of the Audit Committee are to review and supervise Shui On Land's financial reporting process and internal control system and nominate and monitor external auditors.

Remuneration Committee

We established a Remuneration Committee in June 2004. The Remuneration Committee was re-constituted in May 2006 with terms of reference in compliance with the CG Code. The Remuneration Committee currently comprises three members, Dr. William K. L. Fung (Chairman), Mr. Lo and Professor Gary C. Biddle. The majority are Independent Non-executive Directors. The primary duties of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration package of our Directors and senior management and evaluate and make recommendations on employee benefit arrangements.

Nomination Committee

We established a Nomination Committee in April 2009. The Nomination Committee was constituted in April 2009 with terms of reference in compliance with the recommended best practices of the CG Code. The Nomination Committee currently comprises three members, Mr. Lo, Sir John R. H. Bond and Professor Gary C. Biddle. The majority are Independent Non-executive Directors. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, identify individuals suitably qualified to become members of the Board, and assess the independence of Independent Non-executive Directors.

Finance Committee

We established a Finance Committee in April 2009. The Finance Committee was also constituted in April 2009 with well-defined terms of reference that stipulate and monitor the financial strategies, policies and guidelines of the Group. The Finance Committee currently comprises seven members, Mr. Lo, Sir John R. H. Bond, Dr. William K. L. Fung, Professor Gary C. Biddle, Mr. Freddy C. K. Lee, Mr. Daniel Y. K. Wan and Mr. Frankie Y. L. Wong. The primary duties of the Finance Committee are to make recommendations to the Board on financial policies and planning.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of compensation (including fees, salaries, housing allowances, other allowances and benefits in kind) paid and granted by us to our Directors for each of the years ended 31 December 2009, 2010 and 2011 were approximately RMB15 million, RMB31 million and RMB21 million (US$3 million), respectively.

The performance related incentive payments paid to our Directors for each of the years ended 31 December 2009, 2010 and 2011 were approximately RMB5 million, RMB16 million and RMB13 million (US$2 million).

During the years ended 31 December 2009, 2010 and 2011 and other than as set out above:

- No remuneration was paid by us to or receivable by our Directors as an inducement to join or upon joining us.

- No compensation was paid by us to or receivable by our Directors or past directors for the loss of office as a director or for loss of any other office in connection with the management of our affairs.

- None of our Directors waived any compensation.

The remuneration of members of our senior management team is determined by the Remuneration Committee of our Board and is reviewed on an annual basis taking into consideration performance criteria such as Shui On Land's operating results, individual performance and comparable market statistics.

The five highest paid individuals of Shui On Land include two Directors for the year ended 31 December 2009, three Directors for the year ended 31 December 2010 and two Directors for the year ended 31 December 2011, whose aggregate compensation has been included in the aggregate compensation of our Directors above. Including the compensation of such Directors, the aggregate amount of fees, salaries, housing allowances, contribution to retirement benefits plans, bonuses paid or receivable, and other allowances and benefits in cash or in kind paid by us to the five highest paid employees during the years ended 31 December 2009, 2010 and 2011 were approximately RMB16 million, RMB10 million and RMB18 million (US$3 million), respectively. No compensation was paid by us to or receivable by such employees for the years ended 31 December 2009, 2010 and 2011 for loss of office in connection with the management of our affairs, or as an inducement to join or upon joining us.

Except as disclosed above, no other payments have been paid or are payable by us or any of our subsidiaries to our Directors, with respect to the years ended 31 December 2009, 2010 and 2011.

The following discussion summarises certain aspects of PRC laws and regulations, which are relevant to our operations and business. These include laws relating to land, real estate development, foreign investment enterprises and foreign exchange control. For a description of the legal risks relating to government regulations of our business, and in particular the land system in China, see "Risk Factors".

ESTABLISHMENT OF FOREIGN INVESTED PROPERTY DEVELOPMENT ENTERPRISES

Overview

The PRC promulgated its first joint venture law in 1979. Since then, a broad range of related laws, administrative rules and regulations have been adopted to provide a framework within which foreign investment activities can be effectively conducted and regulated. The government has encouraged foreign direct investment in order to accelerate the inward flow of foreign capital, technology and management techniques.

Foreign invested enterprises in the PRC, or FIEs, may take a number of forms, including:

- Equity joint ventures;
- Co-operative joint ventures; and
- Wholly foreign-owned enterprises.

PROCEDURES FOR ESTABLISHMENT OF A FIE

The establishment of a foreign invested enterprise requires the approval of the MOFCOM (or its delegated authorities). Certain documents including a feasibility study report, joint venture contract and articles of association of a joint venture are required to be submitted to MOFCOM or its delegated authorities for approval. Within 30 days after the issue of the approval certificate by MOFCOM, the applicant is required to apply to the State Administration Bureau for Industry and Commerce ("**SAIC**") (or its local bureau) for the issue of a business license. A joint venture entity is formally established on the date its business license is issued.

Establishment of a Property Development Enterprise

According to the Law of the People's Republic of China on Administration of Urban Real Estate (中華人民共和國城市房地產管理法) (the "**Urban Real Estate Law**"), promulgated by the Standing Committee of the National People's Congress ("**NPC**") on 5 July 1994 and effective on 1 January 1995, and amended on 30 August 2007 by the Standing Committee of the NPC, a property developer is defined as an enterprise which engages in the development and operation of property for the purpose of making profits. Under the Regulations on Administration of Development and Operation of Urban Real Estate (城市房地產開發經營管理條例) (the "**Development and Operation Regulations**"), promulgated and implemented by the State Council in July 1998, an enterprise which is to engage in property development shall satisfy the following requirements: (i) its registered capital shall be RMB 1 million or more; and (ii) have four or more full-time professional property/construction technicians and two or more full-time accounting officers, each of whom shall hold the relevant qualification certificate. The local government of a province, autonomous region or municipality directly under the central government may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a property developer. According to The Notice on Relevant Issues on Establishment and Filing of the Property Development Enterprise in Shanghai (關於房地產開發企業設立和備案有關問題的通知) promulgated jointly by Shanghai Municipal Housing, Land and Resources Administration Bureau and Shanghai Administration of Industry and Commerce,

effective as of 1 January 1995, an enterprise engaging in the property development business shall satisfy the following requirements: (i) the registered capital shall be no less than RMB 5 million; and (ii) such enterprise shall have four or more personnel with at least an intermediate professional qualification.

Under the Notice on Adjusting the Portion of Capital Fund for Fixed Assets Investment (關於調整固定資產投資項目資本金比例的通知) issued by the State Council on 25 May 2009, the minimum portion of capital fund for affordable housing and ordinary housing is 20%, while for other real estate development project, the minimum capital portion is 30%.

To establish a property development enterprise, the developer should apply for registration with the Administration for Industry and Commerce above country level according to the Development and Operation Regulations. The property developer must also report its establishment to the government authority in the jurisdiction where the registration authority is located, within 30 days of the receipt of its Business License. Where a foreign-invested enterprise is to be established to engage in the development and sale of property, the relevant requirements of the laws and administrative regulations regarding foreign-invested enterprises must also be observed and relevant examination and approvals be administered and received.

Under the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) promulgated by MOFCOM and NDRC in November 2004, effective as of 1 January 2005, foreign investment in the development and construction of ordinary residential units is encouraged, whereas, foreign investment in the development of a whole land lot which shall be operated only by a Sino-foreign equity joint venture or a Sino-foreign co-operative joint venture, and the construction and operation of high-end hotels, villas, premium office buildings, international conference centres and large theme parks are subject to restrictions, foreign investment in other property development is permitted. On 31 October 2007, MOFCOM and NDRC jointly issued the new Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) (2007年修訂), effective as of 1 December 2007, foreign investment in the development and construction of ordinary units falls in the permitted category, whereas, foreign investment in secondary market transactions in the real estate sector and the businesses of real estate intermediaries or agents is subject to restrictions. A foreign investor intending to engage in the development and sale of real estate may establish a joint venture, cooperative venture or wholly-owned enterprise by the foreign investor in accordance with the laws and administrative regulations regarding foreign-invested enterprise. Prior to its registration, the enterprise must be approved by the relevant commerce authorities, upon which an Approval Certificate for a Foreign-Invested Enterprise will be issued. On 24 December 2011, NDRC and MOFCOM jointly issued the new Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄(2011年修訂)), which will be effective as of 30 January 2012 and pursuant to which foreign investment in the construction and operation of villas is removed from the restriction category to the prohibited category.

In July 2006, the Ministry of Construction, MOFCOM, NDRC, PBOC, SAIC and SAFE promulgated the Opinion on Standardising 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). Under such opinion, when a foreign investor establishes a property development enterprise in China where the total investment amount is US$10 million or more, such enterprise's registered capital must not be less than 50 percent of its total investment amount. Foreign institutions which have no branches or representative offices in the PRC or foreign individuals who work or study in the PRC for less than one year, are prohibited from purchasing any real property in the PRC. Furthermore, the admittance and administration of foreign capital in the property market must comply with the following requirements:

- foreign institutions or individuals who buy property not for their own use in China should follow the principle of Commerce Existence and apply for the establishment of a foreign-invested

enterprise, pursuant to the regulations of foreign investment in property. After obtaining approval from the relevant authorities and upon completion of the relevant registrations, foreign institutions and individuals can then carry on their business pursuant to their approved business scope;

- where the total investment amount of a foreign-invested property enterprise is US$10 million or more, its registered capital shall be no less than 50 percent of the total investment amount; where the total investment amount is less than US$10 million, its registered capital shall follow the requirements of the existing regulations;

- for establishment of a foreign-invested property enterprise, the commerce authorities and the administration for industry and commerce take charge of the approval and registration of the foreign-invested property enterprise and the issuance of the Approval Certificate for a Foreign-Invested Enterprise (which is only effective for one year) and the Business License. Upon full payment of the land premium, the foreign-invested property enterprise should apply for a "Certificate of Land Use Rights". With a Certificate of Land Use Rights, it can obtain a formal Approval Certificate for a Foreign-Invested Enterprise from the commerce authorities, and an updated Business License which will have the same approved business period with the formal Approval Certificate for Foreign-Invested Enterprise from the administration of industry and commerce;

- transfers of projects or shares in foreign-invested property enterprises or acquisitions of domestic property enterprises by foreign investors should strictly follow the relevant laws, regulations and policies and obtain the relevant approvals. The investor should submit: (i) a written undertaking of fulfilment of the "Contract for the State-owned land use rights assignment", the "Construction Land Planning Permit" and the "Construction Works Planning Permit", (ii) a "Certificate of Land Use Rights", (iii) documents evidencing the filing for modification with the construction authorities, and (iv) documents from the relevant tax authorities evidencing the payment of tax; and

- when acquiring domestic property enterprises by way of share transfer or otherwise, or purchasing shares from Chinese parties in Sino-foreign equity joint ventures, foreign investors should make proper arrangements for the employees, handle the debts of the banks and pay the transfer price in a lump sum and with its own capital. Foreign investors with bad records shall not be allowed to undertake the aforementioned activities in the PRC.

On 14 August 2006, the General Office of MOFCOM enacted the Notice on Relevant Issues Concerning the Carrying Out Circular on Standardising the Admittance and Administration of Foreign Capital in the Property Market (商務部辦公廳關於貫徹落實關於規範房地產市場外資准入和管理的意見有關問題的通知). According to the Notice, if the total investment of a foreign-invested property development enterprise exceeds US$3 million, the registered capital must not be less than 50% of the total estimated investment; if the total investment is less than or equal to US$3 million, the registered capital must not be less than 70% of the total estimated investment. When a foreign investor merges with a domestic property development enterprise by transferring equity or other means, the original employees of the merged companies must be settled down properly, bank debts must be settled and the entire consideration for the transfer must be paid off at one time with its own capital within three months after the issue of the business license. When a foreign investor purchases the equity from other Chinese shareholders of a foreign-invested property development enterprise, the original employees of the merged companies must be settled down properly, bank debts must be settled and the entire consideration for the transfer must be paid off at one time with its own capital within three months after the effective date of the equity transfer agreement.

On 23 May 2007, MOFCOM and SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in the Real Estate Sector in the PRC (商務部、國家外匯管理局關於進一步加強、規範外商直接投資房地產業審批和監管的通知), which stipulates the following requirements for the approval and supervision of foreign investment in real estate:

- foreign investment in the PRC real estate sector relating to high-grade properties should be strictly controlled;

- before obtaining approval for the setup of real estate entities with foreign investment, (i) both the land use rights certificates and housing ownership right certificates should be obtained or, (ii) contracts for obtaining land use rights or housing ownership rights should be entered into;

- entities which have been set up with foreign investment need to obtain approval prior to the expansion of their business operations into the real estate sector, and entities which have been set up for the purpose of real estate development operation need to obtain new approvals, in case they expand their real estate business operations;

- acquisitions of real estate entities and foreign investment in the real estate sector by way of round-trip investment should be strictly regulated. Foreign investors should not avoid approval procedures by changing actual controlling persons;

- parties to real estate entities with foreign investment should not in any way guarantee a fixed investment return;

- registration shall be immediately effected according to applicable laws with MOFCOM regarding the setup of real estate entities with foreign investment approved by local PRC governmental authorities;

- foreign exchange administration authorities and banks authorised to conduct foreign exchange business should not effectuate foreign exchange settlements regarding capital account items to those who fail to file with MOFCOM or fail to pass the annual reviews; and

- for those real estate entities who are wrongfully approved by local authorities for their setups, (i) MOFCOM should carry out investigations and order punishment and corrections, and (ii) foreign exchange administrative authorities should not carry out foreign exchange registrations for them.

On 10 July 2007, the General Affairs Department of 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 MOFCOM (國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知). This new 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. The notice stipulates, among other things that:

- 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 authorisation certificates from and registered with MOFCOM on or after 1 June 2007; and

- SAFE will no longer process foreign exchange registrations (or change of such registrations) or applications for the 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 1 June 2007 but who have not registered with MOFCOM.

On 18 June 2008, MOFCOM promulgated the Notice on Record of Foreign-invested Real Estate Enterprises (商務部關於做好外商投資房地產業備案工作的通知). This new regulation aimed to strictly supervise record materials, simplify registration procedures, improve work efficiency, and further promotes the record registration. The notice stipulates that:

- MOFCOM shall authorise the provincial counterparts of commerce to supervise the record materials on foreign-invested real estate enterprises. After approval on foreign-invested real estate enterprises (including but not limited to incorporation of enterprises, increase of the registered capitals, transfer of equity interests, merger and acquisition), the competent commercial department shall present the relevant materials, which should be submitted to MOFCOM for record, to the provincial counterparts of commerce for supervising;

- the provincial counterparts of commerce shall supervise the validity, authenticity and accuracy of the following materials pursuant to requirements as stated in the Circular On Standardising 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) and the Notice On Further Strengthening and Regulating the Approval and Supervision On Foreign Investment in the Real Estate Sector in the PRC and the relevant provisions;

- the provincial counterparts of commerce shall cooperate with other relevant provincial departments to supervise relevant materials pursuant to the relevant laws and regulations, then send the fulfilled Filing Form on Foreign-invested Real Estate Enterprises with the Stamp of the General Office of provincial government and the provincial counterparts of commerce to MOFCOM for record files;

- MOFCOM shall cooperate with other relevant departments of the state council to supervise foreign-invested real estate enterprises (five to ten companies are selected at random quarterly). The provincial counterparts of commerce shall present materials of the selected companies to MOFCOM within five working days of the notice being issued; and

- provided that the selected companies fail to pass such supervision, MOFCOM shall notify SAFE to cancel their foreign exchange registration formalities and foreign investment statistics.

On 10 June 2010, MOFCOM issued the Notice Relating to Decentralising the Examination and Approval Power for Foreign Investment (商務部關於下放外商投資審批權限有關問題的通知). It stipulates that for establishment of a FIE with total investment of not more than US$300 million under the Encouraged and Permitted Category and US$50 million under the Restricted Category as specified in the Foreign Industrial Guidance Catalogue, MOFCOM's branches at provincial level shall be in charge of examination and approval. While for establishment of a FIE with total investment of more than US$300 million under the Encouraged and Permitted Category where there is no need of comprehensive balance review by the State, institutions for approval are at the local authority level.

On 22 November 2010, the General Office of MOFCOM issued the Notice on Strengthening Administration of Approval and Record of Foreign-invested Real Estate Industry (商務部辦公廳關於加強外商投資房地產業審批備案管理的通知) which aims to implement the relevant rules promulgated by State Council and to ensure the sound effect of control on the real estate industry. MOFCOM addresses the following issues in that notice:

- the local department of commerce shall strengthen the supervision on the property projects with an inflow of foreign exchange. When reviewing the record materials, the local department of commerce shall focus on the re-check on the integrity of the documents relating to the land, including the materials to prove the transfer of land use right, such as the land use right transfer contract, and the land use right certificate;

- the local department of commerce shall, together with the local relevant authorities, strengthen the supervision on cross-border investment and financing activities, prevention of the risks arising from real estate market and control on the speculative investments. The PRC property enterprises established with offshore capital shall not conduct interest arbitrage activities by purchase or sale of the real estate property which is under construction or completed; and

- the local department of commerce shall further strengthen the approval, supervision and statistics verification of the establishment and/or capital increase of real estate enterprises by way of merger and acquisition, investment by equity and so on.

THE LAND SYSTEM OF THE PRC

Overview

All land in the PRC is either state-owned or collectively-owned, depending on the location of the land. All land in the urban areas of a city is state-owned, and all land in the rural and suburban areas is, unless otherwise specified by law, collectively-owned. The state has the right to resume its ownership of land or the right to use land in accordance with law if required for the public interest.

Although all land in the PRC is owned by the state or by collectives, individuals and entities may obtain land use rights and hold such land use rights for development purposes or transfer their interests to other parties. Individuals and entities may acquire land use rights in different ways, the two most important being land grants from local land authorities and land transfers from land users who have already obtained land use rights.

Land grants

National and local legislation

In April 1988, the NPC passed an amendment to the constitution of the PRC. The amendment, which allowed for the transfer of land use rights according to the PRC Law stipulations, paved the way for reforms of the legal regime governing the use of land and transfer of land use rights.

In December 1988, the Standing Committee of the NPC also amended the Land Administration Law of the PRC to permit the transfer of land use rights for value.

In May 1990, the State Council enacted the Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State-owned Land in Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例). These regulations, generally referred to as the Urban Land Regulations, formalised the process of the grant and transfer of land use rights. Under this system, the State retains the ultimate ownership of the land. However, the right to use the land, referred to as land use rights, can be granted by the state and local governments at or above the county level for a maximum period of 70 years for specific purposes, including for residential and commercial development, pursuant to a land grant contract and upon payment to the State of a land grant fee for the grant of land use rights.

The Urban Land Regulations prescribe different maximum periods of grant for different uses of land as follows:

Use of land	Maximum period (years)
Commercial, tourism and entertainment	40
Residential	70
Industrial	50
Educational, scientific, cultural, public health and sports	50
Comprehensive utilisation or others	50

Under the Urban Land Regulations, domestic and foreign enterprises are permitted to acquire land use rights unless the relevant laws provide otherwise. The State may not resume possession of lawfully-granted land use rights prior to expiration of the term of grant. If the public interest requires the resumption of possession by the State under special circumstances during the term of corresponding grant, compensation may be paid by the State. Subject to compliance with the terms of the land grant contract, a holder of land use rights may exercise substantially the same rights as a land owner during the grant term, including holding, leasing, transferring, mortgaging and developing the land for sale or lease.

In addition to the general framework for transactions relating to land use rights set out in the Urban Land Regulations, local legislation provides for additional requirements, including those applicable to specific transactions within specific areas relating to the grant and transfer of land use rights. These local regulations are numerous and some of them are inconsistent with national legislation. Under PRC law, national laws and regulations prevail to the extent of such inconsistencies.

Methods of land grant

There are two methods by which land use rights may be granted, namely by private agreement or competitive processes (i.e., tender, auction or listing at a land exchange administered by the local government).

Under the Regulations on the Assignment of State-Owned Land Use Rights through Competitive Bidding, Auction and Listing-for-Sale (招標拍賣掛牌出讓國有土地使用權規定) promulgated by the Ministry of Land and Resources on 3 April 2002, or as the "**2002 Regulations**", amended in 2007 and effective on 1 November 2007, land for the use of industry, commerce, tourism, entertainment and commodity housing development shall be assigned by way of competitive bidding, a public auction or a listing-for-sale. The procedures are as follows:

(a) The land authority under the people's government of the city and county (the "**assignor**") shall make an announcement at least 20 days prior to the date of the proposed competitive bidding, public auction or listing-for-sale. The announcement should include basic particulars such as land parcel, the qualification requirements of the bidder and auction applicants, methods and criteria on confirming the winning tender or winning bidder, and other conditions such as the deposit for the bid.

(b) Unless it is otherwise prescribed by any law or regulation, all the natural persons, legal persons and other organisations inside and outside the territory of the PRC may apply for the participation in the assignment of state-owned construction land use rights through bid invitation, auction or quotation. No assignor may set restrictions that may affect fair and impartial competition in the announcement on the assignment through bid invitation, auction or quotation. For the assignment through quotation, the expiry date for applications in the

announcement shall be two days prior to the completion of the assignment through quotation. For the applicants complying with the requirements as set down in the announcement on the assignment through bid invitation, auction or quotation, the assignor shall notify them to participate in the bid invitation, auction or quotation.

(c) After determining the winning tender or the winning bidder by the competitive bidding, public auction or listing-for-sale, the assignor and the winning tender or winning bidder shall then enter into a confirmation. The assignor should return the bidding or tender deposit to other bidding or auction applicants within five working days after the completion of bidding, public auction or listing-for-sale.

(d) The assignor and the winning tender or winning bidder shall enter into a contract for state-owned land use right assignment according to the time and venue set out in the confirmation. The deposit of the bid paid by the winning tender or winning bidder will be used to set off part of the assignment price of the state-owned land use rights.

(e) The winning tender or winning bidder should apply for land registration after paying off the assignment price in accordance with the state-owned land use right assignment contract. The government above the city and county level should issue the "Land Use Permit for State-Owned Land".

According to the Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction on 4 September 2003 (國土資源部關於加強城市建設用地審查報批工作有關問題的通知) (the "**Notice**"), land use for luxurious commodity houses shall be stringently controlled, and applications for land use for building villas shall be stopped. On 30 May 2006, the Ministry of Land and Resources issued the Urgent Notice of Further Strengthening the Administration of the Land (國土資源部關於當前進一步從嚴土地管理的緊急通知). It is expressly prescribed in this Notice that land for property development must be assigned by way of competitive bidding, public auction or listing-for-sale; the rules for stopping the development project for villas should be strictly enforced; and all supply of land for such purpose and the handling of related land use procedure will be ceased from the date of the Notice's issuance.

Under the Urgent Notice of Further Strengthening the Administration of the Land, the land authority should rigidly execute the Model Text of the State-Owned Land Use Right Assignment Contract (國有土地使用權出讓合同示範文本) and Model Text of the State-Owned Land Use Right Assignment Supplementary Agreement (for Trial Implementation) (國有土地使用權出讓合同補充協議示範文本(試行)) jointly enacted by the Ministry of Land and Resources, and SAIC. The document of the land use rights assignment should ascertain the requirements of planning, construction and land use such as the restriction of the dwelling size, plot ratio and the time limit of starting and completion. All these should be agreed to in the Land Use Rights Assignment Contract.

Under the Regulations on the Assignment of State-Owned Construction Land Use Rights Through Competitive Bidding, Auction and Listing-for-Sale (招標拍賣掛牌出讓國有建設用地使用權規定) issued by the Ministry of Land and Resource on 28 September 2007, and enforced on 1 November 2007, land of industrial use (including the land for warehouses but not including the land for mining), commercial use, tourism, entertainment and commodity housing development or more than 2 competing users on one piece of land shall be assigned by way of competitive bidding, a public auction or a listing-for-sale. The assignee shall apply for the land registration and obtain the "Land Use Permit for State-Owned Construction Land" after paying off the assignment price in accordance with the contract on the assignment of state-owned construction land use rights. Provided that the assignee fails to do so, neither the entire "Land Use Permit for State-Owned Construction Land" nor "Land Use Permit for State-Owned Construction Land" for the land, in divided portion (based on the already paid sum), may be issued by the local government.

In June 2003, the Ministry of Land and Resources promulgated the Regulations on Grant of State-Owned Land Use Rights by Agreement (協議出讓國有土地使用權規定) (the "**2003 Regulations**"), to regulate granting of land use rights by agreement. According to the 2003 Regulations, with respect to the publicised plot, if there is only one interested land user for the same plot, the assignment of State-owned land use right may be made pursuant to these Regulations by State-owned land and resources administrative authorities under people's governments at the level of city or county, but profit-oriented land for business, tourism, recreation, and commercial housing are excluded therefrom. If there are two or more interested land users for the same plot, State-owned land and resources administrative authorities under people's governments at the level of city or county shall assign the State-owned land use right by competitive bidding, a public auction or a listing-for-sale pursuant to the Regulations on the Assignment of the State-owned Land Use Right Through Competitive Bidding, Auction or Listing-for-sale. According to the 2003 Regulations, the local land bureau, together with other relevant government departments, including the city planning authority, will formulate the plan concerning the land grant, including the specific location, boundary, purpose of use, area, term of grant, conditions of use, conditions for planning and design as well as the time for supply of land, and submit such plan to the relevant government for approval. The premium for land to be granted by agreement shall not be lower than the minimum price regulated by the State.

Afterwards, the local land bureau and the relevant party will negotiate and enter into the land grant contract based on the above-mentioned plan. If two or more parties are interested in the land use rights proposed to be granted, such land use rights shall be granted by way of tender, auction or listing on a land exchange in accordance with the 2002 Regulations.

The grantee is required to pay the land grant fee pursuant to the terms of the contract and the contract is then submitted to the relevant local bureau for the issue of the land use rights certificate. Upon expiration of the term of land grant, the grantee may apply for its renewal. Upon approval by the relevant local land bureau, a new contract shall be entered into to renew the grant, and a land grant fee shall be paid.

Model state-owned construction land grant contract

To standardise a land grant contract, in 2000, the Ministry of Land and Resources and the State Administration for Industry and Commerce published a model state-owned land grant contract ("**land grant contract**"), upon which many local governments have formulated their respective local form of land grant contracts to suit their specific local circumstances. The model land grant contract contains terms such as serial number of land, location of land, area of land, use of land, conditions of land upon delivery, term of grant, land grant fee and its payment schedule, registration of land, intensity of land investment, land use conditions and restrictions (including GFA, building plot ratio, greenbelt ratio and height and density limitations), construction of public facilities, auxiliary construction, deadline for commencement of construction, deadline for completion of construction, payment of idle fees, application for extension of the stipulated construction period, restrictions on transfer, rent and mortgage of land use rights, application of renewal, force majeure, breach of contract and dispute resolution.

If a land user wishes to change the specified use of land after the execution of a land grant contract, approvals must first be obtained from the relevant land bureau and the relevant urban planning department, and a supplemental agreement or a new land grant contract may have to be signed and the land grant fee may have to be adjusted to reflect the added value of the new terms of use. Registration procedures must be carried out after payment of the added value.

Idle land

According to the Measures on Disposing of Idle Land (閒置土地處置辦法) promulgated and implemented by MLR on 28 April 1999, and as amended on 1 June 2012, a parcel of land can be defined as idle land under any of the following circumstances:

- the development of and construction on the land have not begun after a period of one year from the construction date stipulated in the "Contract on Lease of the Right to Use State-Owned Land", or in the "Approval Letter on Land Allocation"; or

- the development of and construction on the land has begun, but the area under construction is less than one third of the total area to be developed or the invested amount is less than 25% of the total amount of investment; and the development and construction have been continuously suspended for more than one year.

The municipality or county-level municipality administrative authority shall, with regard to an identified piece of idle land, give notice to the land user containing proposals on dealing with the idle land, including, (1) extending the time period for development and construction (provided that it shall not be longer than one year); (2) changing the use and planning conditions of the land, and require the land user to fulfil the relevant procedures for the new use or planning; (3) arranging for temporary use for a period not longer than two years; (4) reaching a buy-back agreement with the land user; (5) arranging for replacement land for the land user if the delay of construction is due to planning changes by the administrative authority or (6) other measures proposed and implemented by the municipality or county-level municipality administrative authority based on the particular situation.

With respect to land which is obtained by assignment and which is within the scope of city planning, if the construction work has not yet started after one year as of the date stipulated in the assignment contract, a fine for idle land equivalent to 20% of the assignment price may be imposed on the land user. If the construction work has not yet begun after two years, the right to use the land may be forfeited by the State without any compensation. However, the above sanctions will not apply when the delay in commencement of construction is caused by force majeure or non-performance by the government or military control or preservation of cultural relics or other acts of government.

On 8 September 2007, the Ministry of Land and Resources promulgated the Notice on Strengthening the Disposing of Idle Land (關於加大閒置土地處置力度的通知) providing that the land subject to transfer shall be made ready for development before its transfer. The notice also prescribes that the State-owned land use rights certificate shall not be issued before the land grant premium has been paid in full, nor be issued separately according to the ratio of payment of land grant premium.

Termination

The land use rights terminate upon the expiry of the term of grant specified in the land grant contract and the resumption by the state of such rights.

The state generally will not withdraw the land use rights before the expiration of the term of grant and if it does so for special reasons, such as in the public interest, it must offer proper compensation to the land user.

Upon expiry, the land use rights and ownership of the related buildings erected on the land and other attachments may be acquired by the state without compensation. The land user will take steps to surrender the land use rights certificate and cancel the registration of the certificate in accordance with relevant regulations.

A land user may apply for renewal of the land use rights and, if the approval is granted, the land user is required to enter into a new land grant contract, pay a land grant fee and affect an appropriate registration for the renewed grant.

In March 2007, the NPC adopted the Property Rights Law of the People's Republic of China (中華人民共和國物權法) ("**Property Rights Law**"), which became effective on 1 October 2007. According to the Property Rights Law, when the term of the right to use construction land for residential (but not other) purposes expires, it will be renewed automatically. Unless it is otherwise prescribed by any law, the owner of construction land use rights has the right to transfer, exchange, use such land use rights as equity contributions, donations or collateral for financing. If the state takes the premises owned by entities or individuals, it must compensate the property owners in accordance with the applicable laws and protect the lawful rights and interests of the owners.

Land transfers from current land users

In addition to a direct grant from the government, an investor may also acquire land use rights from land users that have already obtained the land use rights by entering into an assignment contract or a joint venture development agreement with the land user.

The assignment contract or joint venture development agreement must be registered with the relevant local land bureau at the municipal or county level. Upon a transfer of land use rights, all rights and obligations contained in the land grant contract are deemed incorporated as part of the terms and conditions of such transfer.

Certain domestic PRC individuals or entities enjoy the right to use land allocated by the State without payment of any consideration for an indefinite period of time. This type of land use rights is generally referred to as an allocated land use right. The Urban Land Regulations state that assignment, lease or mortgage of allocated land use rights in urban areas and any buildings or attachments situated on the land is subject to the approval of the relevant land and real estate administrative departments. The conditions for approval include the following:

- the existing land user must be an individual or a company, enterprise or other economic organisation;

- the existing land user must hold a State land use rights certificate and the relevant ownership certificates for the buildings and attachments;

- a formal land grant contract must be entered into with the relevant land department; and

- the land grant fee must be paid or such payment may be made from the proceeds of such assignment, lease and mortgage.

The assignment contract or the joint venture development agreement is subject to terms and conditions specified in the land grant contract. For residential construction projects, PRC law requires that at least 25% of total construction costs have been expended before assignment can take place. A higher minimum construction and investment fee may be provided in land grant contracts entered into between the local land administration bureau and the land user. All rights and obligations of the current holder under a land grant contract will be transferred contemporaneously to the assignee of the

land use rights. The relevant local government has the pre-emptive right to acquire the land use rights to be assigned if the assignment price is significantly lower than the market price. The State shall not withdraw before the expiration of the term of use the right to the use of the land which the land user acquired in accordance with the law. Under special circumstances, the State may, based on the requirements of social public interests, withdraw the right before the expiration of the term of use in line with the relevant legal procedures and shall, based on the number of years in which the land user has used the land and actual state of affairs with respect to the development and utilisation of the land, offer corresponding compensation.

Relocation of original residents

Where the land to be developed comprises land on which buildings have been erected and/or is occupied, we are required to compensate and relocate original residents before demolition and site clearance can be carried out. As specified in our land grant contracts, either the land authorities or our project companies are responsible for relocating existing residents and demolishing existing structures on the project sites. In cases where we are responsible for relocation, we are required to compensate the owners or residents of existing buildings on land to be developed for relocation in accordance with the Regulation on the Dismantlement of Urban Houses (城市房屋拆遷管理條例) implemented on 1 November 2001 by the State Council. But this administration rules have been abolished in compliance with the Regulation on the Expropriation of Buildings on State-owned Land and Compensation (國有土地上房屋徵收與補償條例) promulgated by the State Council on 21 January 2011 ("**Expropriation and Compensation Regulation**").

The Expropriation and Compensation Regulation is formulated for purposes of regulating the expropriation of buildings on state-owned land and corresponding compensation, maintaining public interests and protecting the legitimate rights and interests of owners of the buildings to be expropriated, and it provides that, among other things:

- where a building of any entity or individual on state-owned land is expropriated for public interest, the owner of the expropriated building (the "**owner**") shall be fairly compensated, and the principle of "democratic decision-making, due process and open results" shall be followed in the building expropriation and compensation;

- a building of any entity or individual on state-owned land can only be expropriated under the certain circumstances for public interest, and the governmental authorities are the sole entities who can be in charge of resettlement activities; the real estate developers are prohibited from being involved in the relevant procedures for building demolition and relocation;

- the compensation to the owner shall be paid before the resettlement, and cannot be less than the market value of similar properties at the time of expropriation. The market values of properties shall be assessed by qualified real estate assessment agencies according to the assessment rules for property expropriation. The owner who disagree with the assessed value of property can apply for a re-assessment; and

- neither violence nor coercion may be used to force the owner to leave the property sites, nor can certain measures, such as illegally cutting off water and/or power supplies, be used in demolition and relocation procedures.

In Shanghai, the Implementing Rules for the Administration of Shanghai City Urban Housing Resettlement (上海市城市房屋拆遷管理實施細則) (implemented on 1 November 2001) and Notice on Shanghai Compensation Standard for Resettlement (關於本市城市居住房屋拆遷市場補償安置中價格補貼標準的通知) (issued on 27 December 2001) provided that the amount of the relocation compensation payable by the property developer to affected residents should be calculated in accordance with pre-set formulae provided by the relevant local authorities. In general, a property developer is required to take into account the following:

- the minimum compensation unit price (which means the average market unit price of housing in the same area regularly announced by the PRC Government at the district/county level);
- the appraised unit price of the building to be demolished;
- the price compensation index published by the PRC Government (which should not be lower than 20% and is determined by the district or county government); and
- the GFA of the buildings to be demolished.

In March 2005, the Shanghai government also issued notice of regulations specifying that a relocation and demolition permit may not be granted to property developers in Shanghai unless the relocation compensation consisted of a minimum of 70% of payment-in-kind compensation (meaning new accommodation).

In Chongqing, the Regulations on the Administration of Chongqing Urban Housing Resettlement (重慶市城市房屋拆遷管理條例) passed on 26 March 1999, implemented on 1 December 2002, amended on 29 May 2003, provided that the amount of the relocation compensation payable by the property developer to affected residents should be calculated based on the valuation conducted by the qualified valuation institute and should take into account the location, the usage and the GFA of the buildings to be demolished. The above Administrative Regulations were revoked on 27 May 2011 by the Standing Committee of the Chongqing Municipal People's Congress, and the government organs of Chongqing are prohibited from being involved in any kind of violence for demolition according to the determination of the above Committee.

In Wuhan, the Implementation Measures for the Administration of Wuhan Urban Housing Resettlement (武漢市城市房屋拆遷管理實施辦法) implemented on 1 March 2002 and amended on 15 May 2007, provided that the amount of the relocation compensation payable by the property developer to affected residents should be calculated based on the real estate valuation unit price of demolished housing (Price of construction areas/per square metre) and the construction areas of demolished housing.

Other local governments have their own local regulations. Regardless of whether we or the relevant land authorities are responsible for relocating existing residents, if any resident is dissatisfied with the relocation compensation and refuses to move, we or the land authorities may seek to resolve the dispute by: (i) negotiating with the relevant resident to reach a mutually acceptable relocation compensation arrangement; or (ii) applying to the relevant local real estate administration authority (where the existing buildings are located) for its determination of whether the relocation compensation and relocation timetable is in compliance with law. The local real estate administration authority will then make a decision based on the principle of fairness and justice as to the proper costs and timetable. Where the local real estate administration authority itself is the owner or resident of the existing building, the dispute will be submitted to the local government who will make the decision.

MOHURD promulgated Valuation Rules on Expropriation of Buildings on State-owned Land (國有土地上房屋徵收評估辦法) on 3 June 2011, which stipulates the details such as the measures on choosing a valuation institution and the procedures of valuation.

Documents of title and registration of property interests

A land use rights certificate is the evidentiary legal document to demonstrate that the registered land user has the lawful right to use the land during the term stated in the land use rights certificate. Upon the completion of construction of a building (including passing the acceptance tests by various government departments), a building ownership certificate will be issued to the owner of the building. The holder of a land use right who is issued a building ownership certificate holds the land use rights and owns the building erected on the land. All holders of land use rights, and other rights with respect to the land, such as the right to buildings erected on the land, must register all their lawful state-owned land use rights, as well as ownership rights to the buildings. In this regard, real estate registries have been established in all cities in China. In most cities, there are separate registries for land use rights and buildings. However, in Shanghai, Chongqing and some other major cities, the two registries have been combined. In places where there are separate registries, the holder of a land use right will be issued a building ownership certificate for its ownership of the building and a land use rights certificate for its land use rights in the underlying land. In the other places where registries have been combined, such as in Shanghai, the land use rights certificate and the building ownership certificate are combined into a single certificate. Under PRC law, land use rights and building ownership rights which are duly registered are protected by law.

Whether the registered land user can assign, mortgage or lease the land use rights will be subject to conditions stipulated in the original land grant contract. In addition to the requirement to register land use rights, there is also a requirement to register a mortgage of a land use right in local land registration departments. See "— *Mortgage and guarantee*".

Mortgage and guarantee

The mortgage of real property in the PRC is governed by the Security Law of the PRC (中華人民共和國擔保法), the Measures for Administration of Mortgages of Urban Real Estate, or the Real Property Law, and other relevant real estate-related laws and regulations. A real property mortgage agreement must be in writing and must contain specific provisions including (i) the type and amount of the indebtedness secured, (ii) the period of the obligation by the debtor, (iii) the name, quality, quantity, conditions, location, ownership or use right of the mortgaged property, and (iv) the scope of security. Pursuant to the Real Property Law, buildings newly-erected on a piece of urban land after a mortgage contract has been entered into shall not constitute mortgaged property. If the mortgaged property is auctioned off, the new buildings added on the land may be auctioned together with the mortgaged property, but the mortgagee shall not be entitled to priority compensation from the proceeds of the auction of the new buildings.

Pursuant to the Security Law, a real property mortgage contract becomes effective on the date of registration with the local real property department. When carrying out mortgaged property registration, the loan contract and the mortgage contract as well as the land use rights certificate or the building ownership certificate with respect to the mortgaged property must be submitted to the registration authority. If the mortgagor cannot repay the loan that is secured by the mortgaged property, the mortgagee may agree with the mortgagor to receive payment by evaluating the mortgaged property in terms of money or through the proceeds of the auction or selling off the property. If no such agreement is reached, the mortgagee may institute proceedings in a People's Court. After the mortgaged property has been evaluated in terms of value or been auctioned or sold off, any portion of the proceeds that exceeds the amount of the indebtedness shall belong to the mortgagor and any shortfall shall be paid by the mortgagor.

The Security Law also contains comprehensive provisions dealing with guarantees. Under the Security Law, guarantees may be in two forms: (i) general guarantees whereby the guarantor bears the liability when the debtor fails to perform the payment obligation; and (ii) guarantees with joint and several liability whereby the guarantor and debtor are jointly and severally liable for the payment obligation. A guarantee contract must be in writing and, unless agreed otherwise, the term of a guarantee shall be six months after the expiration of the term for performance of the principal obligation.

The Security Law further provides that where indebtedness is secured by both a guarantee and by mortgaged property, the guarantor's liability shall be limited to the extent of the indebtedness that is not secured by the mortgaged property.

Property development

Property development projects in the PRC are generally divided into single projects and large tract development projects. A single project refers to the construction of buildings on a plot of land and the subsequent sale of units. Large tract development projects consist of the comprehensive development of large areas and the construction of necessary infrastructure such as water, electricity, road and communications facilities. The developer may either assign the land use rights of the developed area or construct buildings on the land itself and sell or lease the buildings erected on it.

On 16 July 2004, the State Council promulgated the Decision on Investment System Reforms (國務院關於投資體制改革的決定) (the "**Decision**"). Prior to the implementation of the Decision, the approval for the establishment of foreign invested entities engaged in real estate development activities was governed by the minutes of a meeting that was called by the Chinese Communist Party and the State Council on 4 May 1984 to discuss the topic of opening up 14 coastal cities to foreign investors (the "**Minutes**"), and the Notice on Certain Issues About the Development of Real Estate promulgated by the State Council on 4 November 1992 (國務院關於發展房地產業若干問題的通知) (the "**Notice**").

The Notice from MOFCOM Relating to Releasing the Authorisation Level for Foreign Enterprise's Investment (商務部關於下放外商投資審批權限有關問題的通知) (the "**2010 Notice**"), promulgated on 10 June 2010, stipulates that for investment of not more than US$300 million under the Encouraged and Permitted Category and not more than US$50 million under the Restricted Category in the Catalogue Guiding the Foreign Enterprise Investment, the establishment of amendment issues will be approved or managed by the commercial departments of Provincial or Specific Cities level.

Pursuant to the Minutes, the Notice and subsequent laws and regulations, local governments have certain authority to examine and approve, on their own, non-productive type projects (such as real estate projects) using foreign investment. Pursuant to the Decision, with respect to "restricted" projects, as stipulated by the Foreign Investment Industrial Guidance Catalogue (revised version of 2007), refer to projects involving development and operation of high-class properties including high-class hotels, villas and high-end office building and international exhibition centres, approvals shall be obtained. Other projects with lower-class belonging to a "permitted" column shall be registered with competent authorities. Since PRC laws and regulations do not set out strict and clear definition on "high-class" real estate, the standard for "high-class" falls into the discretion of the relevant local authority subject to different level of local development and the local authorities are not required to apply for approval from or registration with the central level authority. On 24 December 2011, NDRC and MOFCOM jointly issued the new Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄 (2011年修訂)), which will be effective as of 30 January 2012 and pursuant to which foreign investment in the construction and operation of villas is removed from the restriction category to the prohibited category.

Pursuant to the Urban Land Regulations, foreign entities may acquire land use rights in the PRC unless the law provides otherwise. However, in order to develop the acquired land, the foreign entities need to establish foreign investment enterprises in the PRC as the project companies to develop the property. These project companies may be in the form of Sino-foreign equity or cooperative joint ventures or wholly foreign-owned enterprises. The typical scope of business of such project company includes development, construction and sales and leasing commodity properties and ancillary facilities on the specific land as approved by the government. The term of the property development company is usually the same as the term of grant of the land use rights in question.

Establishment of a project company is subject to the approval by the relevant departments of the PRC government in accordance with the following procedure. First, the PRC party to a joint venture project or the foreign investor, in the case of a wholly foreign-owned project, will submit a project application report to the central or local development and reform commission for verification and approval. If the development and reform commission considers the proposed property development project to be consistent with the prevailing national and local economic plans and foreign investment regulations, it will grant an approval to the applicant with respect to the project. NDRC and MOFCOM have been given the authority to regularly promulgate guidelines for the direction of foreign investment.

Once the project application report has been verified and approved, the PRC party and the foreign investor may proceed to prepare a joint feasibility study report that reflects their assessment of the overall economic viability of the proposed project company. At the same time, the parties may proceed to negotiate and execute the joint venture contract and articles of association for the establishment of a project company. In the case of a wholly foreign-owned project, the foreign investor may then prepare and sign the articles of association. The joint feasibility study report, the joint venture contract and/or articles of association will then, depending, among other things, on the industry to which it belongs under the Catalogue and the amount of total investment, be submitted to MOFCOM or its local counterpart, as the case may be, for approval. If MOFCOM or its local counterpart finds the application documents to be in compliance with PRC law, it will issue an approval certificate for the establishment of the project company. With this approval certificate, the foreign investor and/or the PRC party can apply to the local administration for industry and commerce for a foreign investment enterprise business license to the project company.

Once a foreign entity developer has established a project company and secured the land use rights to a piece of land for development, it has to apply for and obtain the requisite planning permits from the planning departments and have its design plan approved by, and apply for and obtain a construction permit from, the relevant construction commission for commencement of construction work on the land. When the construction work on the land is completed, the completed buildings and structures must be examined and approved by the government departments before they can be delivered to purchasers or lessors for occupancy.

Under the Provisions on Administration of Qualifications of Property Developers (房地產開發企業資質管理規定) (the "**Provisions on Administration of Qualifications**") promulgated by the Ministry of Construction in March 2000, a property developer shall apply for registration of its qualifications according to regulations stated in the Provisions on Administration of Qualifications. An enterprise may not engage in development and sale of property without a qualification classification certificate for property development. The construction authority under the State Council oversees the qualifications of property developers throughout the country, and the property development authority under a local government on or above the county level shall oversee the qualifications of local property developers.

In accordance with the Provisions on Administration of Qualifications, property developers are classified into four classes. Different classes of qualification should be examined and approved by corresponding authorities. The class 1 qualification shall be subject to preliminary examination by the

construction authority under the government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2 or lower qualifications shall be formulated by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority.

Under the Development and Operation Regulations, the property development authorities shall examine applications for registration of qualifications of a property developer when it reports its establishment, by considering its assets, professional personnel and business results. A property developer shall only undertake property development projects in compliance with the approved qualification registration.

After a newly established property developer reports its establishment to the property development authority, the latter shall issue a Provisional Qualification Certificate to the eligible developer within 30 days of its receipt of the above report. The Provisional Qualification Certificate shall be effective in one year as from its issuance, while the property development authority may extend the validity to a period of no longer than 2 years considering the actual business situation of the enterprise. The property developer shall apply for qualification classification by the property development authority within one month before expiry of the Provisional Qualification Certificate.

A developer of any qualification classification may only engage in the development and sale of property within its approved scope of business and may not engage in business which is limited to another classification. A class 1 property developer is not restricted as to the scale of property project to be developed and may undertake a property development project anywhere in the country. A class 2 property developer or lower may undertake a project with a gross floor area of less than 250,000 sq.m. and the specific scope of business shall be as confirmed by the construction authority under the government of the relevant province, autonomous region or municipality. Pursuant to the Provisions on Administration of Qualifications, the qualification of a property developer shall be inspected annually. The construction authority under the State Council or its authorised institution is responsible for the annual inspection of a class 1 property developer's qualification. Procedures for annual qualification inspection with developers of class 2 or lower shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality.

Pre-sales and sales

Pursuant to the Real Property Law and the Measures for Administration of the Pre-sale of Urban Commodity Premises (城市商品房預售管理辦法), or the Pre-sale Measures, as amended in July 2004, residential properties for sale that are under construction may be sold when the following conditions and/or requirements are satisfied:

- the land grant fee with respect to the land use rights has been paid in full and the land use rights certificate has been obtained;

- the construction works planning permit and the construction project commencement permit have been obtained;

- at least 25% of the total amount of the project investment fund has been injected into the development of the project and the progress of construction and the completion date of the project has been ascertained; and

- the pre-sale permit has been obtained.

The Shanghai local government stipulation, "Certain Opinions Relating to Enhancing Our City's Real Estate Market Restriction and Accelerating the Promotion of Housing Protection" (關於進一步加強本市房地產市場調控加快推進住房保障工作的意見) has adjusted the completion progress level for pre-sale of commodity residential housing projects that obtained the "Permit for Construction Work" after 1 July 2010. Those residential housing projects must have completed the main structural works and passed examination before they can be for pre-sale, and thus raising the standard for pre-sale. In Chongqing, similar requirements are also imposed under the Regulations for Administration of Real Estate Transactions in Urban Areas of Chongqing Municipality (重慶市城鎮房地產交易管理條例) promulgated in June 2002, and amended on 27 May 2011, which will be effective on 1 January 2012. These regulations further prescribe that, at the time of pre-sale, the units that have been presold and the land use rights to the underlying land must not be mortgaged. As for Wuhan, they have announced the Interim Regulations on the Administration of the Pre-Sale of Commodity Property in Wuhan (武漢市商品房預售方案管理暫行規定), which had made corresponding requirements.

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

Pursuant to the Circular of the General Office of the State Council on Forwarding the Opinion of the Ministry of Construction and Other Department on Doing a Good Job of Stabilising House Prices (關於做好穩定住房價格工作的意見) on 9 May 2005, there are several regulations concerning commodity properties sale:

- The buyer of a commodity building is prohibited from conducting any transfer of the pre-sale of the commodity building that he has bought but is still under construction. Before completion and delivery of a pre-sale commodity building to the buyer, and before the buyer obtains the individual property ownership certificate, the administrative department of real estate shall not handle any transfer of the commodity building.

- A real name system for house purchase should be applied; and an immediate archival filing network system should be carried out for the pre-sale contracts of commodity properties.

Pursuant to the Notice on Promoting the Steady and Healthy Development of the Real Estate Market (關於促進房地產市場平穩健康發展的通知) issued by the General Office of the State Council on 7 January 2010, local governments must decide the minimum scale of pre-sales rationally and may not issue separate pre-sale permits by floor or unit.

On 13 April 2010, the Ministry of Housing and Urban-Rural Development of the People's Republic of China issued the Notice on Further Strengthening the Supervision Over the Real Estate Market and Improving the Pre-sale System of Commodity House (關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知). It provides that, among other things, within 10 days after the real estate developers obtain the pre-sale permit for the project for sale, they shall release the information regarding the number of properties allowed for pre-sale under such pre-sale permission and the price of such property to the public at one time. They shall also sell the properties to the public at the price as published and strictly subject to the pre-sale permits.

Pursuant to the Circular of the General Office of the State Council on Issues Concerning Further Works of Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知) dated 26 January 2011, the municipalities directly under the Central

Government, cities specially designated in the State plan, provincial cities and the other cities with excessive or rapid rising real estate price shall implement strict measures with housing-purchase limitation for a specified period of time. As the general rule, (i) the individuals who sell their residential property within five years after their purchase of such property will be charged business taxes based on the full amount of the transfer income; (ii) the minimum down payment for second house of residential family using bank loans or housing provident fund loan is raised to 60% with a minimum lending interest rate of 110% of the benchmark rate; (iii) the PRC government will forfeit the land use rights if a developer fails to obtain the construction permit and commence development for more than two years from the commencement date stipulated in the land grant contract; and (iv) municipalities directly under the Central Government, cities specially designated in the State Plan, provincial capitals and cities with high housing prices shall make purchase restrictions for a specified period. In principle, (a) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for a required period is limited to purchasing one house (including the new commodity residential house and second hand one); and (b) a local residential family who holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family who cannot provide the local payment certificates of tax and/or social insurance for a required period shall be suspended from purchasing any other commodity residential houses in the relevant administrative regions.

For the purpose of implementing the Circular of the General Office of the State Council on Issues Concerning Further Works of Regulation and Control of Real Estate Market, the Shanghai Municipal Government promulgated the Notice on Further Strengthening the Macroeconomic Control over Shanghai Real Estate Market (上海市人民政府辦公廳印發關於本市貫徹《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》實施意見的通知) dated 31 January 2011, this Notice provided that (i) the minimum down payment for second house of residential family using bank loans or housing provident fund is raised to 60% with a minimum lending interest rate of 110% of the benchmark rate; (ii) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for more than one year (on a cumulative basis) with the latest 2 years is limited to purchasing one house (including the new commodity residential house and second hand one); and a local residential family who holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family who cannot provide the local payment certificates of tax and/or social insurance for the latest 2 years shall be suspended from purchasing any other commodity residential houses in Shanghai, otherwise, these newly purchased houses cannot be registered in relevant real estate authorities. In addition to Shanghai, other main cities, including Wuhan, Dalian and some other cities, have also announced their new purchase limit polices which are similar to the requirements in the Circular of the General Office of the State Council on Issues concerning Further Works of Regulation and Control of Real Estate Market.

According to the Regulation on Clearly Marking Price in the Sale of Commodity Houses (商品房銷售明碼標價規定) promulgated by NDRC on 16 March 2011, the sale of commercial houses shall mark prices on a per unit basis, and show to the public the relevant fees which will be charged and the other factors which are in relation to the sale price. A commercial house operator shall not charge any additional fees other than those clearly marked during the property sale. After the price is clearly marked, the developer cannot increase the sale price or charge any other fees.

Leasing

Both the Urban Land Regulations and the Real Property Law permit leasing of granted land use rights and the buildings or properties constructed on the land. Leasing of properties situated in urban areas is governed by the Administration Measures for Urban Buildings Leasing, or the Urban Buildings Leasing Measures. The Urban Buildings Leasing Measures were promulgated by the Ministry of Construction in May 1995 in accordance with the Real Property Law in order to strengthen the

administration of the leasing of urban buildings. The Urban Buildings Leasing Measures permit property owners to lease their properties to others for residential or commercial property uses except as otherwise prohibited by relevant laws. The landlords and tenants who are the parties to a property lease transaction are required to enter into a written lease agreement specifying all of the terms of the lease arrangement as required by statutes. Leasing of buildings and the underlying land use rights must not exceed a maximum term of 20 years. The lease agreement becomes effective upon signing; however, it must be registered with the relevant real property administration authority at the municipality or county level within 30 days after its execution for the purpose of protecting the tenant's interest against claims from third parties. A tenant may, upon obtaining consent from the landlord, assign or sublet the premises to sub-tenants.

The MOHURD promulgated the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法) (the "**Leasing Measures**") on 1 December 2010, and according to the Leasing Measures, the parties to a housing tenancy shall go through the housing tenancy registration formalities with the competent real estate authorities of the municipalities directly under the PRC central government, cities and counties where the housing is located within 30 days after the housing tenancy contract is signed. The relevant real estate authorities are authorised to impose a fine below RMB1,000 on individuals, and a fine from RMB1,000 to RMB10,000 on other violators who are not natural persons and fail to comply with the regulations within the specified time limit. The Leasing Measures came into effect as of 1 February 2011 in replacement of the Administration Measures for Urban Buildings Leasing.

According to the Real Property Law, rental income derived from the lease of buildings and the underlying land use rights from a landlord who acquired only allocated land use rights without payment of consideration for such acquisition must be turned over to the State.

Separation of markets for domestic and foreign property purchasers

When the PRC real property market first developed in the early 1990s, there was a "foreign" market in which high-end properties were designated to be sold to purchasers from Hong Kong, Macau, Taiwan and foreign countries for hard currency and a "domestic" market in which properties of domestic standards of quality were designated to be sold to local PRC purchasers for Renminbi. Such mandatory bifurcation of the real property market has been lifted in Beijing and Shanghai in recent years. For instance, Shanghai first merged the two markets in the residential sector in 2001 and subsequently, unified the two markets in the non-residential sector in 2003.

Real estate financing

PBOC issued the Circular on Further Strengthening the Management of Loans for Property Business (中國人民銀行關於進一步加強房地產信貸業務管理的通知) on 5 June 2003 to specify the requirements for banks to provide loans for the purposes of real estate development and individual house mortgage as follows:

(a) The property loan by commercial banks to real estate development enterprises shall be granted only under the title of real estate development loan and it is strictly forbidden to extend such loans as current capital loans for real estate development projects or other loan items. No lending of any type shall be granted to enterprises which have not obtained the land use rights certificates, construction land planning permit, construction engineering planning permit and construction work permit;

(b) Commercial banks shall not grant loans to property developers to pay off land premiums; and

(c) Commercial banks may only provide mortgage loans to individual buyers when the main structural buildings have been topped out. The Shanghai local government has adjusted the completion progress level for pre-sale of commodity residential housing projects that obtained the "Permit for Construction Work" after 1 July 2010. Those residential housing projects must have their main structural works completed and pass examination before they can be for pre-sale, and thus raising the standard for pre-sale.

Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks issued by the CBRC on 30 August 2004, any real estate developer applying for real estate development loans shall have at least 35% of the total amount of investment as capital fund for the development project.

According to the Circular on Standardising the Admittance and Administration of Foreign Capital in the Real Estate Market (關於規範房地產市場外資准入和管理的意見) enforced on 11 July 2006, foreign-invested real estate development enterprises which have not paid up their registered capital fully, or failed to obtain a land use rights certificate, or with under 35% of the capital for the project, will not be allowed to obtain a loan in or outside China, and foreign exchange administration departments shall not approve any settlement of foreign loans by such enterprises.

On 10 July 2007, SAFE issued a circular indicating that it would not process for foreign investment enterprises in the real estate sector any foreign debt registration or conversion of foreign debt that was approved by the local MOFCOM and filed with MOFCOM on or after 1 June 2007.

On 27 September 2007, PBOC and CBRC jointly issued a Circular on Strengthening the Administration on the Lending Practice for Commercial Properties (中國人民銀行、銀監會關於加強商業性房地產信貸管理的通知), which further tightened mortgage lending, including:

For capital sum (owners' interest) portion of projects not reaching the 35% hurdle rate or projects not obtaining the land usage certificate, the construction land planning permit, the construction engineering planning permit or work commencement permit, commercial banks shall not grant any forms of lending. Upon MLR and the Construction Authoriser's investigation and confirmation, those real estate development enterprises which have been hoarding land or properties for speculation, commercial banks shall not grant any lending. For commodity houses left idle for more than 3 years, commercial banks shall not accept such properties as collaterals for lending.

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

On 21 September 2010, MLR and CIN announced the Notice Relating to Enhancing Housing Property Land and Construction Management Restriction (關於進一步加強房地產用地和建設管理調控的通知), requiring a strict management to housing land sales, and a strict examination to the land bidders. For breaching the following requirements, MLR will forbid the land bidder and its controlling shareholders to bid land: i) forging documents and land speculation; ii) illegal transfer of land use rights; iii) letting land being idle for more than a year; and iv) breaching of the conditions prescribed by the contract of assignment of the land.

On 29 September 2010, PBOC and CBRC issued the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy (關於完善差別化住房信貸政策有關問題的通知), which prohibits commercial banks from granting or extending loans to property developers that violate laws and regulations such as (i) holding idle land; (ii) changing the land use; (iii) changing the land nature; (iv) delaying the commencement and completion of development; and (v) intentionally holding properties for future sale, for the purpose of new property development.

Property management

Under the Measures for the Administration of Qualifications Certificates of Property Management Enterprises (物業管理企業資質管理辦法) promulgated by the Ministry of Construction in March 2004, and amended by the Ministry of Construction on 26 November 2007, it provides that:

(1) a newly established property service enterprise shall, within 30 days from the date of receiving its business license, apply to the competent real estate authorities of the cities divided into districts or the municipalities directly under the Central Government for a business qualification. The departments of qualification, examination and approval will check and issue a "property service qualification certificate" corresponding to their grading assessment results; and

(2) the qualifications of a property service enterprise shall be classified as class one, class two or class three. The competent construction department of the State Council shall be responsible for issuance and administration of the qualification certificate of the class one property service enterprise. The competent construction departments of the people's governments of provinces and autonomous regions shall be responsible for the issuance and administration of the qualification certificate of the class two property service enterprises, and the competent realty departments of the people's governments of municipalities directly under the Central Government shall be responsible for issuance and administration of the qualification certificate of the classes two and three property service enterprises. The competent realty departments of the people's governments of the cities divided into districts shall be responsible for the issuance and administration of the qualification certificate of the class three property service enterprises.

According to the Regulation on Property Management (物業管理條例) enacted by the State Council on 8 June 2003 and implemented on 1 September 2003, as amended on 26 August 2007 and effective on 1 October 2007, the general meeting of owners in a property can appoint and dismiss the property service enterprise with affirmative votes of owners holding more than half of the voting rights. Before the formal appointment of a property service enterprise by the general meeting of the owners, a written temporary service contract should be signed by the construction institutions (for example, a developer) and a property service enterprise.

Insurance

There is no mandatory provision under PRC laws and regulations requiring a property developer to obtain insurance policies for its property developments. According to the common practice of the real estate industry in Guangdong, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies are required to pay for the insurance premium at their own costs and obtain insurance to cover their liabilities, such as third-party's liability risk, employer's liability risk, risk of non-performance of contract in the course of construction and risks associated with the construction and installation works during the construction period. The requirement for construction companies to obtain insurance coverage for all the aforementioned risks ceases immediately after the completion and acceptance upon inspection of construction.

Recent macroeconomic control measures

The General Office of the State Council enacted the Circular on Stabilising Housing Price on 26 March 2005, requiring measures to be taken to restrain the housing price from increasing too fast and to promote the healthy development of the real estate market.

In May 2005, the Ministry of Construction and certain other Chinese government authorities jointly issued the Opinion of Stabilising Property Prices (關於做好穩定住房價格工作的意見), followed by a set of new measures. As a result:

- as from 1 June 2005, a business tax was levied on property sales proceeds subject to the length of the period for which the property has been held and type of property concerned;
- transfer of uncompleted properties has been banned;
- planning review of residential properties which fail to commence construction within two years, which are not in compliance with their respective planning permits will be revoked; and
- land provision for villa construction was banned and land provision for high-end residential property construction was restricted.

The opinion provides that:

Intensifying the planning and control and improving the supply structure of houses

Where the housing price is growing excessively and where the supply of ordinary commodity houses in the medium or low price range, and economical houses are insufficient, construction of residential properties should mainly involve projects of ordinary commodity houses in the medium or low price range and economical houses.

The construction of low-density, upmarket houses shall be strictly controlled. With respect to construction projects of medium- or low-price ordinary commodity houses, before any grant of land, the municipal planning authority shall, according to the level of control required, set out conditions for planning and design such as height of buildings, plot ratio and green space. The real estate authority shall, in collaboration with other relevant authorities, set forth such controlling requirements as sale price, type and apartment sizes. Such conditions and requirements will be set out as preconditions of land assignment to ensure an effective supply of small or medium-sized houses at moderate and low prices. The local government must intensify the supervision of planning permits for real estate development projects. Housing projects that have not been commenced within two years must be examined again, and those that turn out to be not in compliance with the planning permits will be revoked.

Intensifying the control over the supply of land and rigorously enforcing the administration of land

Where the price of land for residential use and residential properties grows too rapidly, the proportion of land for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses in the medium or low price range and economical house should be emphatically increased. Land supply for villa construction shall continue to be suspended, and land supply for high-end housing property construction shall be strictly restricted.

Adjusting the policies of business tax on residential property house transfer and strictly regulating the collection and administration of tax

From 1 June 2005, the business tax on transfer of a residential property by an individual within two years of the purchase will be levied on the basis of the full amount of the sale proceeds. Transfer of an ordinary residential property by an individual who sells two years or more after the purchase shall be exempted from the business tax. For transfer of a house other than ordinary residential property by an individual two years or more after the purchase, the business tax will be levied on the basis of the balance between the proceeds from selling the property and the purchase price.

Strictly rectifying and regulating the market order and seriously investigating into and punishing any irregular and rule-breaking sales

The buyer of a pre-completion commodity property is prohibited from conducting any transfer of the pre-sale commodity property that he has bought but is still under construction. A real name system for property purchase should be applied, and an immediate archival filing network system for advance sales contracts of commodity properties should be carried out.

On 24 May 2006, the General Office of State Council forwarded the Opinion on Adjusting the Housing Supply Structure and Stabilising Property Prices (國務院辦公廳轉發建設部等部門關於調整住房供應結構穩定住房價格意見的通知) (the "**Opinion**") of the Ministry of Construction and other relevant government authorities. The Opinion provides the following:

Adjusting the housing supply structure

- Developers must focus on providing small- to medium-sized ordinary commodity properties at low- to mid-level prices to cater to the demands of local residents.

- As at 1 June 2006, newly approved and newly commenced building construction projects must have at least 70% of the total construction work area designated for small apartments with floor areas of 90 sq.m. or below (including economically affordable apartments). If municipalities directly under the Central Government, cities listed on state plans and provincial capital cities have special reasons to adjust such prescribed ratio, they must obtain special approval from the Ministry of Construction. Construction projects that have been approved but have not yet obtained a construction permit must follow the prescribed ratio.

Further adjustments by tax, loan and land policies

- From 1 June 2006, business tax will be levied on the full amount of the sale proceeds on conveyance of residential properties within a period of five years from the date of purchase. If an individual sells his ordinary standard apartment after five or more years from the date of purchase, the business tax will normally be exempted. If an individual sells his non-ordinary apartment after five or more years from the date of purchase, the business tax will be levied on the balance between the selling price and the purchase price.

- Commercial banks are not allowed to advance loan facilities to real estate developers who do not have the required 35% or more of the total capital for the construction projects. Banks shall not accept mortgages of commodity apartments remaining unsold for three years or more.

- At least 70% of the total land supply for residential property development must be used for developing small- to medium-sized and low- to medium-cost ordinary housing and low cost public housing. Based on the restrictions of residential property size ratio and residential property price, land supply will be granted by way of auction to the real estate developer who offers the highest bid. Land supply for villa construction shall continue to be suspended, and land supply for low-density and large-area housing property construction shall be strictly restricted.

Reasonably monitoring the scope and progress of Demolition of urban housing

- The management and reasonable control of the scope and progress of the demolition of urban housing should be strengthened to halt the excessive growth of passive housing demands.

Further rectifying and regulating the order of real estate properties market

- In order to ensure that the prescribed ratio regarding types and sizes is followed, the relevant authorities will need to re-examine the approval of those construction projects which have been granted planning permits but have not been commenced. The relevant authorities will ensure that no planning permit, construction permit or permit for pre-sale of commodity properties is issued to those construction projects which do not satisfy the regulatory requirements, in particular, the prescribed ratio requirement. If the real estate developers, without an approval, alter the architectural design, the construction items, and exceed the prescribed ratio, the relevant authorities have the power to dispose of the land and to confiscate the land in accordance with the law.

- The real estate administration authority and the administration of industry and commerce will investigate illegal dealings such as contract fraud cases in accordance with the relevant laws. The illegal conduct of pre-completion sale of commodity apartments without satisfying all the conditions will be enjoined, and a proper administrative penalty will be imposed in accordance with the law. For those real estate developers who maliciously manipulate the supply of commodity housing, the relevant authorities will impose a proper economic punishment in accordance with the law including revoking the business licenses of those serious offenders and will pursue personal liability for those concerned.

Gradually relieving the housing demands for low-income families

- To expedite the establishment of a low-cost public housing supply system in various cities and counties; to monitor and regulate the construction of economically affordable apartments; to aggressively develop the second-hand property market and property rental market.

Improving information disclosure system and system for collecting real estate statistics

On 6 July 2006, the Ministry of Construction promulgated the Certain Opinions on Carrying Out the Residential Property Size Ratio in Newly-Built Residential Buildings (關於落實新建住房結構比例要求的若干意見) (Jianzhufang 2006 No. 165) (the "**Supplemental Opinion**"). The Supplemental Opinion provides the following:

- As of 1 June 2006, of the newly approved and newly commenced construction projects in different cities including towns and counties, at least 70% of the total construction area must be used for building small apartments with unit floor area of 90 sq.m. or below (including economically affordable apartments). The relevant authorities in different localities must strictly follow the prescribed ratio requirement in their respective locality.

- The relevant authorities must ensure the conditions of newly built commodity apartments including the planning and the design are satisfied, and must ensure that the property size ratio is adhered to. If a real estate developer has not followed the ratio requirement without approval, the town planning authorities will not issue a Planning Permit. If the real estate developer has not followed the requirements of the Planning Permit, the relevant authority reviewing the planning documents will not issue a certification, the construction authority will not issue a Construction Permit, and the real estate authority will not issue a Permit for pre-completion sale of the commodity apartments.

In the case of construction projects that were granted approval before 1 June 2006 but that were not granted a construction work permit by that date, the local government shall, upon its local conditions, ascertain the specific projects that shall adjust the residential property size ratio according to its local requirements of the prescribed residential property size ratio, the different nature of land use planning and the project layout.

On 14 August 2006, the General Office of MOFCOM promulgated a Notice for the Enforcement of the Regulation on the Access and the Management of Foreign Investment in the Real Property Market, which reinforces the minimum registered capital requirements on the foreign invested real property enterprises. According to this Notice, the registered capital of a foreign invested real property enterprise must account for at least 50% of its total investment amount if its total investment amount is above US$3 million. For an enterprise whose total investment amount is less than US$3 million, its registered capital must account for at least 70% of its total investment amount.

On 23 May 2007, MOFCOM and SAFE jointly promulgated a Notice to further Strengthen and Regulate the Approval and Supervision of Foreign Direct Investment in Real Properties (關於進一步加強、規範外商直接投資房地產業審批和監管的通知), or "Circular 50", which emphasised that overseas investors cannot circumvent the governmental examination and approval requirements through the change of beneficial ownership of domestic real property enterprises. Circular 50 exerts stricter control over government approval for the establishment of foreign invested real property enterprises and requires that foreign investors must obtain land use rights or property ownerships, or have entered into purchase agreements for land use rights or for real properties with the relevant land administration authorities, land developers or owners of real properties prior to its establishment of a real property enterprise. Otherwise, its application for the establishment of a real property enterprise will not be approved.

On 30 August 2007, the Standing Committee of NPC promulgated the revised PRC Urban Real Estate Administration Law which took effect on the same day. The law stipulates that the State, for public benefit, can take back State-owned land and/or the premises, owned by enterprises or individuals, built on State-owned land. The local PRC Government will provide the enterprises or individuals with compensation for the return of the State-owned land and/or the demolition.

On 27 September 2007, PBOC and CBRC further tightened mortgage lending by PRC banks, by increasing the amount of down payment a property purchaser must make before seeking mortgage financing.

On 10 October 2007, the Ministry of Land and Resources issued a revised regulation, which reiterated that property developers must fully pay the land premium for the entire parcel under the land grant contract before they can receive a land use rights certificate and/or commence development on the land, effective 1 November 2007.

On 3 January 2008, the State Council issued the Notice to Enhance the Economical and Intensive Use of Land (關於促進節約集約用地的通知), which requires full utilisation of the market's fundamental efforts in promoting land resources distribution, and perfecting the economical and intensive usage of land mechanism; (a) to strictly enforce the industrial and operative lands' bid tender, auction and listing transfer system. For industrial usage land and operative land of commercial, traveling, entertainment and commodity housings etc. (including land usage for ancillary business operation, research and training), and for the same land lot with two or more intending land users, an open transfer by bid tender, auction and listing shall be carried out; (b) to enhance the contract system for land usage; (c) to perfect residential land structure, continue to suspend land supply for villas development of houses, confirming not less than 70% of the residential land supply used for construction of low rent housing, economical housing, fixed-price housing and medium and small sized housing, to prevent large sized housing to occupy excessive land.

On 20 December 2008, the General Office of the State Council issued the Certain Opinions on Promoting the Healthy Development of Real Estate Market (關於促進房地產市場健康發展的若干意見), which changed the period of the business tax levied on the full amount of the sale proceeds on conveyance of residential properties from five years from the date of purchase to two years from the date of purchase. If an individual sells his non-ordinary apartment after two or more years from the date of purchase, the business tax will be levied on the balance between the selling price and the purchase price. This policy is executed temporarily until 31 December 2009.

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

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

On 17 April 2010, the State Council issued the Notice on Resolutely Curbing the Rapid Rising of the House Price in Certain Cities (關於堅決遏制部分城市房價過快上漲的通知), according to which a stricter differential housing credit policy shall be enforced. It provides that, among other things, (1) for first-time family buyers (including the borrower, his/her spouse and his/her underage children, similarly hereinafter) of apartments larger than 90 square metres, a minimum 30% down payment must be paid; (2) the down payment requirement on second-home mortgages was raised to at least 50% from 40% and also reiterated that an extra 10% should be adopted on the interest rates for housing loans granted to such buyers; and (3) for those who buy three or more houses, even higher requirements on both down payments and interest rates shall be levied. In addition, the banks can suspend housing loans to buyers who own two or more housing units in places where housing prices are rising too rapidly and are too high, and housing supply is insufficient.

On 29 September 2010, PBOC and CBRC issued the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy (關於完善差別化住房信貸政策有關問題的通知), which, among other things:

- prohibits commercial banks from providing housing mortgage temporarily to any members of a family unit purchasing the third or the subsequent residential housing or non-local residents who fail to provide local one-year or longer tax payment certificates or social insurance payment certificates;

- prohibits commercial banks from granting or extending loans to property developers that violate laws and regulations such as: (i) holding idle land; (ii) changing the land use; (iii) delaying the commencement and completion of development; (iv) intentionally holding properties for future sale, for the purpose of new property development;

- increase the minimum of down payment to at least 30% of the purchase price of the property.

On 26 January 2011, the General Office of the State Council promulgated the Circular of on Issues Concerning Further Works of Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作的有關問題的通知) (the "**26 January 2011 Circular**"), as the general rule, municipalities, provincial capitals and cities with high housing prices shall make purchase restrictions for a specified period. In principle, (a) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for a required period is limited to purchasing one house (including the new commodity residential house or a second hand one); and (b) a local residential family that holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family that cannot provide the local payment of tax and/or social insurance for a required period shall be suspended from purchasing any other commodity residential houses.

On 19 July 2012, the MLR and MOHURD promulgated the Urgent Circular. It provides that the land and house administrative departments at the provincial, municipal and county level are to continue strict implementation of their adjustment and control policies in order to prevent a housing price rebound, and implementation of the 2012 Amendment in order to strengthen the supply and supervision of the land and house. It reinforces that:

- the area of the granted land shall not exceed the prescribed maximum limit and the land shall not be transferred in the form of bundled or unconsolidated sale. The ratio of the residential land to the plot area shall not be less than 1:1. The land grant contract regarding the residential project must provide that construction will commence within one year from the date of the land transfer and complete within three years of the commencement date;

- the land users may not bid for land within a certain period if the land users: i) owe the land premium; ii) hold any idle land, iii) participate in speculative land dealing; iv) develop the land over its actual ability of development; or v) breach the land use contract;

- The bidding deposit shall not be less than 20% of the minimum land premium. A land grant contract shall be entered into within 10 working days after the auction is completed, and the down payment of 50% of the land premium shall be paid within one month of signing the land grant contract, with the remaining amount to be paid in full within one year of the date of the land grant contract in accordance with the provisions of such land grant contract.

Implementation of macroeconomic control measures in major cities in the PRC

As real estate prices in Shanghai have been rising faster than the national rate, the central and local governments have also adjusted local economic policies on several occasions in an effort to curb prices and discourage speculation in Shanghai. In March and May 2005, the Shanghai local government implemented a variety of market tightening policies. In particular: (i) a business tax of 5% of the increased value on residential properties that are bought and resold in less than a year; and (ii) a ban on all mortgage transfers, as a result of which homeowners will have to pay off the balance of their existing mortgage before they can sell to the next buyer if the transfer takes place within one year from the original purchase. Other policies are aimed at expanding the supply of subsidised housing and housing aimed at low- or middle-income households.

On 5 March 2005, the local government in Shanghai issued Certain Opinions on Strengthening the Present Adjustment and Control of Real Property Market and Promoting a Sustainable and Healthy Development of the Real Property Market (上海市人民政府關於當前加強房地產市場調控促進房地產市場持續健康發展的若干意見), or the "**Opinions**", which made clear that future development of the real property market is aimed at stabilising the rapid increase in real property prices and preventing speculation by focusing on the supply of ordinary residential units to local residents. Fiscal, financial, legal, administrative and other means will be used comprehensively to achieve such ends. On 7 March 2005, in response to the Opinions, the Shanghai Local Tax Bureau issued a notice to remove the business tax exemption which had been in effect since 1 August 1999 and began imposing a 5% business tax, together with other miscellaneous levies, on gains from transfers of real properties which take place within one year from the original purchase. To support the central government's macroeconomic control measures over the local real property market, the Shanghai Banking Association issued the Guidelines for Banks in Shanghai on Further Strengthening the Administration on Granting Mortgage Loans to Individuals (關於進一步加強個人住房貸款管理的指引), or the Guidelines, on 28 March 2005. Pursuant to these Guidelines, commercial banks in Shanghai are required to increase the percentage of down payment if a borrower applies for a mortgage loan for a second property. If the same borrower applies for a mortgage loan for the third or more properties, the loan applications will be subject to strict scrutiny. The banks will substantially increase the percentage of down payment and interest rates for such mortgage loans. In addition, the banks are banned from providing bridge loans to enable sellers to transfer their properties prior to paying off the entire amount of their outstanding loan if the transfer takes place within one year from the original purchase. Further, on 31 May 2005, the Shanghai Finance Bureau, the Shanghai Local Tax Bureau, the Shanghai

Urban Planning Bureau and the Shanghai Land and Resources Bureau jointly supplemented the Notice Concerning the Strengthening of Administration of Real Property Taxes (關於加強房地產稅收管理的通知) pursuant to which ordinary housing is defined under this notice as housing with a floor area ratio of above 1.0, a GFA of less than 140 sq.m., the actual executed price is below 1.44 times of the average selling price of the residential property in the same level land and costing less than RMB17,500 per sq.m. if located within the Inner Ring Viaduct, RMB10,000 per sq.m. if located between the Inner and the Outer Ring Viaduct or RMB7,000 per sq.m. if located outside the Outer Ring Viaduct, with buyers of luxury homes after 1 June 2005 subject to a 3% deed tax.

On 13 October 2010, the Shanghai Municipal Department of Housing, Land and Resources, Shanghai Bureau of Finance and Local Taxation implemented the Notice of the Adjustment of the Preferential Policies on Deed Tax and Personal Income Tax for Real Estate Transactions (財政部、國家税務總局、住房和城鄉建設部關於調整房地產交易環節契税個人所得税優惠政策的通知) issued by the Ministry of Finance, State Administration of Taxation and the MOHURD. The said notice provides that: (1) the deed tax rate is reduced by half for first time buyers who purchase an ordinary residence

that is the family's sole property and reduced to 1% for first time buyers who purchase an ordinary residence with less than 90 sq.m. floor area which is the family's sole property and (2) the personal income tax will not be reduced or exempted for tax payers who repurchase residential properties within one year after selling their self-owned residential properties.

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

- For a family that buys its first property with a GFA larger than 90 sq.m. and applies for house accumulation fund loan, a minimum 30% down payment is required, and the maximum house accumulation fund loan shall be RMB600,000; for a family that buys its second property for the improvement of living conditions, a minimum 50% down payment is required and the maximum house accumulation fund loan shall be RMB400,000; all the Housing Fund Management Centers shall suspend making loans to families that apply for second properties which cannot be defined as an improvement of living-condition property; families who buy three or more properties are prohibited from receiving house accumulation fund loans.

- Since the issuance of the several opinions, no family (including both the husband and wife, and their minor children) can buy more than one property in Shanghai in a certain term.

- Land value appreciation tax shall be levied according to the ratio of the average price of properties to be sold to the average price of all newly built properties in the same area of the previous year: if this ratio is less than 1.0, land value appreciation tax shall be levied at the rate of 2%; if this ratio is between 1.0 and 2.0, land value appreciation tax shall be levied at the rate of 3.5%; if this ratio is higher than 2.0, land value appreciation tax shall be levied at the rate of 5%.

- As to any real estate project which obtained its construction license after 1 July 2010, the requirements for it to apply for pre-sale permits shall be adjusted. Those residential housing projects should have completed the main structural works and passed for examination before they can be for pre-sale, and thus has raised the standard for pre-sale.

- Separate grants of planning permits, construction permits and pre-sale permits are restricted. The scale of construction and pre-sale of a real estate project shall be no less than 30,000 sq.m. GFA. Real estate projects with less than 30,000 sq.m. GFA are required to obtain a construction planning permit, construction license and pre-sale permit at the same time.

Other local governments in the PRC, including those in Wuhan and Chongqing, have issued similar notices to specify their respective standards of "ordinary residential property" and supplement the requirements set out in the Opinion.

On 13 February 2012, the Shanghai Municipal Department of Housing, Land and Resources, Shanghai Bureau of Finance and Local Taxation issued the Notice of Adjustment of Ordinary Housing Standards in Shanghai (關於調整本市普通住房標準的通知), effective on 1 March 2012. The said notice provides that to benefit from the preferential policies for transactions and personal income tax, an ordinary residence must meet the following requirements: (1) it must be in a high-rise building of five storeys or more, an old fashioned building of no more than five storeys or an old-style lane or new-style lane; (2) it must have a GFA of less than 140 sq.m.; and (3) the actual price must be below 1.44 times the average price of the houses of the same type and be less than RMB3,300,000 per unit if located within the Inner Ring Viaduct or RMB2,000,000 per unit if located between the Inner and the Outer Ring Viaduct or RMB1,600,000 per unit if located outside the Outer Ring Viaduct.

Furthermore, according to the Notice on Further Implementation the Macroeconomic Control Policies over Shanghai Real Estate Market (上海市人民政府辦公廳關於進一步嚴格執行房地產市場各項調控政策的通知), promulgated by Shanghai Municipal Government on 26 July 2012, Shanghai shall continue strict implementation of the differential housing consumer credit policy, property tax reform and purchase restriction.

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

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

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

Local legislation

While the Urban Land Regulations set out a general framework for transactions relating to land use rights, local legislation regulates specific transactions within specified areas relating to the grant and transfer of land use rights. These local regulations are numerous. Some of them are inconsistent with national legislation. The central authorities have taken the position that if there are inconsistencies, the national legislation will prevail.

REGULATION OF FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

Foreign currency exchange

The principal regulations governing foreign currency exchange in the PRC are the Regulations of the PRC on Foreign Exchange (中華人民共和國外匯管理條例), or the Foreign Exchange Regulations, promulgated by the State Council in January 1996, as amended in August 2008. Under the Foreign

Exchange Regulations, a domestic institution or individual makes direct investment or issues or trades negotiable securities or derivative products overseas shall handle the registration formalities at SAFE. If the relevant state provisions require it to get the approval of the competent department or archive the issue with the competent department, it shall do so before handling the registration formalities.

The State shall implement the scale management of foreign debts. Any institution or individual borrowing foreign debts shall abide by the relevant State provisions and handle the foreign debt registration formalities at a foreign exchange administrative organ. SAFE shall take charge of collecting statistical data about and monitoring the foreign debts of the whole nation, and publish the foreign debt situations on a regular basis.

An institution shall apply to the SAFE or its local branches before providing foreign guarantee. SAFE or its local branches shall make a decision of approval or disapproval according to the asset-liability situation of the institution. If the relevant State provisions provide that its scope of business shall be subject to the approval of the competent department, it shall get the approval before applying to SAFE or its local branches. The institution shall, after concluding a foreign guarantee contract, handle the foreign guarantee registration formalities at SAFE or its local branches. The provisions of the preceding paragraph shall not apply where an institution, upon the approval of the State Council, provides foreign guarantee for a loan with the money borrowed from a foreign government or an international financial organisation.

On 29 August 2008, the General Affairs Department of SAFE promulgated the Notice on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知), or "**Circular 142**". Circular 142 regulates the conversion, by a foreign-invested company, of foreign currency into Renminbi by restricting the usage of the converted Renminbi. Circular 142 requires that Renminbi converted from foreign currency-denominated capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless otherwise specifically provided for in its business scope. In addition, SAFE strengthened its oversight of the flow and use of Renminbi funds converted from the foreign currency denominated capital of a foreign-invested company. The usage of such Renminbi may not be changed without approval from SAFE, and such Reminbi may not be used to repay Renminbi loans if the proceeds of such loans have not been used for purposes within the company's approved business scope. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Regulations.

Dividend distribution and remittance

The principal PRC regulations governing the distribution of dividends by our PRC subsidiaries are (i) The Company Law, as amended in 2005 and became effective on 1 January 2006, (ii) The Wholly Foreign-Owned Enterprise Law (1986), as amended in 2000 and its Implementation Regulation (2001); and (iii) The Chinese-foreign Equity Joint Venture Law (1979), as amended in 1990 and 2001 and its Implementation Regulation (2001).

Under these PRC laws and regulations, our subsidiaries in China may only pay dividends out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a subsidiary in China is required to set aside at least 10.0% of its after-tax income each year, if any, to fund a reserve fund until the accumulated reserve amounts to 50.0% of its registered capital. It is also required to set aside funds for the employee bonus and welfare fund or discretionary common reserve from its after-tax income each year at percentages determined at its sole discretion. These reserves are not distributable as cash dividends.

For overseas remittance of the current year's dividends, a WFOE is required, under the Circular on Relevant Questions Concerning the Remittance of Profits, Dividends and Bonuses Out of China Through Designated Foreign Exchange Banks (關於外匯指定銀行辦理利潤、股息、紅利匯出有關問題的通知) which was issued on 22 September 1998 and amended on 21 September 1999, to submit the following documents to a designated foreign exchange bank:

- Proof of tax payment and declaration form of tax (WFOEs enjoying tax reductions or exemptions shall provide certification of tax reduction and exemption issued by the local tax authorities);
- An auditor's report on the profit and dividend situation for the current year issued by an accounting firm;
- The resolution of the board of directors relating to the dividends distribution;
- The foreign investment enterprise's foreign exchange registration certificate;
- The capital verification report issued by an accounting firm; and
- Other documents SAFE may require.

In addition, for overseas remittance of the preceding years' dividends, such WFOE shall appoint an accounting firm to conduct an audit for the year(s) in which the dividend-related profits were generated and shall present the auditor's report to the bank as a required supplemental document.

In the case of foreign investment companies, the registered capital of which has not been fully paid up in accordance with the joint venture contract and/or articles of association, the dividends in foreign currency may not be remitted out of the PRC. If there are special circumstances under which the registered capital cannot be contributed within the time limit as specified in the joint venture contract and/or articles of association, the foreign investment company shall apply for approval with the original approving authority. With the approval of the original approving authority and the above-mentioned required documents, the dividends in foreign currency shall be remitted out of the PRC in proportion to the registered capital that has actually been contributed.

Shareholder loan

A shareholder loan made by foreign investors as shareholders to foreign investment enterprises such as cooperative joint ventures, equity joint ventures and WFOEs is regarded as foreign debt in China, which is subject to a number of PRC laws and regulations, including the Foreign Exchange Regulations of 2008, the Interim Measures on Foreign Debts (外債管理暫行辦法) of 2003 or, the Interim Measures, the Statistical Monitoring of Foreign Debts Tentative Provisions of 1987 (外債統計監測暫行規定) and its Implementing Rules of 1998, the Administration of the Settlement, Sale and Payment of Foreign Exchange Provisions of 1996 (結匯、售匯及付匯管理規定) and the Notice of SAFE with respect to Perfection of Issues Relating to Foreign Debts, dated 21 October 2005 (國家外匯管理局關於完善外債管理有關問題的通知).

Under these regulations, a shareholder loan of a foreign debt nature made to cooperative joint ventures, equity joint ventures and WFOEs does not require the prior approval of SAFE. However, such foreign debt must be registered with and recorded by SAFE or its local branch in accordance with relevant PRC laws and regulations.

A foreign investment enterprise can legally borrow foreign exchange loans up to their borrowing limits, which is the difference between their respective amounts of "total investment" and "registered capital" as approved by MOFCOM or its local counterparts. "Total investment" is the projected

amount of funds necessary for a foreign-invested enterprise to attain the production or operational capacity set out in its joint venture contract and/or articles of association, whereas, "registered capital" refers to the equity or capital contributions to be paid in full by the foreign investors and their Chinese partners (if any).

Pursuant to Article 18 of the Interim Measures, the summation of the accumulated medium-term and long-term debts borrowed by enterprises with foreign investment and the balance of short-term debts shall not exceed the surplus between the total investment in projects approved by the verifying departments and the registered capital. Within the range of the surplus enterprises with foreign investment may borrow foreign loans at their own will. If the loans exceed the surplus, the total investment in projects shall be re-examined by the original examination and approval departments.

The procedures for registration of the foreign debt and remittance of foreign currency for related interest, principal and other payments are as follows:

- Within 15 days after formal execution of a shareholder loan agreement, borrowers shall present relevant documents to SAFE or its local branch and complete registration procedures and collect a seriatim Foreign Debt Registration Certificate (外債登記證). The submission includes (i) a signed application, (ii) an original and copy of the shareholder loan agreement, (iii) a completed Form with Information on Execution of Foreign Debt Agreement, (iv) Foreign Exchange Registration Certificate for Foreign Investment; the joint venture contract and/or articles of association relating to establishment of the foreign investment enterprise and a capital verification report, and (v) other documents that SAFE or its local branch may require.

- When borrowers transfer foreign currency into China pursuant to foreign loan agreements, upon presentation of their Foreign Debt Registration Certificate, they shall open a Foreign Debt Spot Exchange Special Account with a bank in the PRC designated or approved by the State Administration for Foreign Exchange.

- When borrowers repay principal and interest, they should make an application to the State Administration for Foreign Exchange or its local branch based on the specified valid vouchers for the issuance of a Verification Certificate. The submission includes (i) a signed application form, (ii) Foreign Debt Registration Certificate, (iii) shareholder loan agreement, (iv) notices of repayment of principal and interest issued by lender, which shall include the total amount of the principal and interest for repayment, amount of the principal to be repaid, interest rate and the method and period for calculating interest, (v) notification of the transfer into account of the related portion of the loan and the current foreign currency account statement, (vi) proof of tax payment and tax returns for the payment of interest and fees and (vii) other documents that the State Administration for Foreign Exchange or its local branch may require.

- The bank which has opened the account for such borrowers shall rely on the Verification Certificate and Foreign Debt Registration Certificate as provided by borrowers and effect payment through the Foreign Debt Spot Exchange Special Account.

- In accordance with the bank payment documentation, borrowers shall record the amount of the payment in a Foreign Debt Variation and Repayment Form and file a copy with the State Administration for Foreign Exchange or its local branch that issued the Foreign Debt Registration Certificate.

In accordance with the Notice of the State Administration for Foreign Exchange on Improving the Examination of the Settlement of Foreign Exchange on the Capital Account by Foreign-Invested Enterprises and Administration of the Registration of Their Foreign Debts (國家外匯管理局關於改進外商投資企業資本項目結匯審核與外債登記管理工作的通知) on 17 May 2004, local branches of the

State Administration for Foreign Exchange and authorised designated foreign exchange banks shall, when handling the approval of settlement of foreign debts and the formalities for the verification of foreign exchange settlement of the foreign debt capital of foreign investment enterprises, and in the case of a single transaction for an amount of more than US$200,000 which is used for such settlement of foreign exchange, request from the relevant foreign investment enterprise such written instructions of payment regarding the use of the capital for such settlement and make payment directly to the designated recipient.

With regard to payment of small amounts, including payment of salaries, setting aside of reserves or for amounts of foreign exchange settlement capital of US$200,000 or less, the local branches of the State Administration for Foreign Exchange and authorised designated foreign exchange banks may choose not to request the relevant foreign investment enterprise to provide written payment instructions, but to transfer the foreign exchange settlement capital into the RMB bank account of such foreign investment enterprise. However, the foreign investment enterprise shall provide a detailed list of the uses of the previous foreign exchange settlement capital in connection with the subsequent foreign exchange settlement.

Restrictions on offshore funding of PRC property developers

On 10 July 2007, the General Affairs Department of 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 MOFCOM (國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知). The notice stipulates, among other things, (i) that SAFE will no longer process foreign debt registrations or applications for purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained authorisation certificates from and registered with MOFCOM on or after 1 June 2007 and (ii) that 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 1 June 2007 but who did not register with MOFCOM. This new regulation restricts the ability of foreign-invested real estate companies to raise funds offshore for the purpose of injecting such funds into the companies by way of shareholder loans.

MAJOR TAXES RELATING TO OUR BUSINESS IN CHINA

Income tax

According to the PRC Enterprise Income Tax Law (the "**EIT Law**", 中華人民共和國企業所得税法) promulgated by NPC on 16 March 2007, which came into effect on 1 January 2008, a uniform income tax rate of 25% is applied equally to domestic enterprises, as well as foreign investment enterprises. Pursuant to this new EIT Law, dividends and interests payable to a foreign investor are subject to a 20% withholding tax unless the jurisdiction of incorporation for the foreign investor has a tax treaty with China that provides for a different withholding arrangement.

According to the "Implementation Rules of the PRC on the Enterprise Income Tax Law" (中華人民共和國企業所得税法實施條例) promulgated by the State Council on 6 December 2007 and effective 1 January 2008, a reduced income tax rate of 10% is applicable to any dividends payable to non-PRC enterprise investors from FIEs.

The EIT Law also provides a five-year transition period starting from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential lower income tax rate under the then effective tax laws or regulations. The income tax rate of such enterprises will gradually be transiting to the uniform tax rate within the

transition period in accordance with implementing rules issued by the State Council. On 26 December 2007, the State Council issued the Circular to Implement the Transition Preferential Policies for the Enterprise Income Tax (關於實施企業所得税過渡優惠政策的通知), under which, for those enterprises then entitled to a preferential income tax rate of 15% and established before 16 March 2007, the transition income tax rate should be 18%, 20%, 22%, 24% and 25%, respectively in 2008, 2009, 2010, 2011 and 2012.

On 11 April 2008, the State Administration of Taxation issued the Notice of Prepayment of Corporate Income Tax of Real Estate Development Enterprises (關於房地產開發企業所得税預繳問題的通知), requiring real estate developers to prepay enterprise income tax every quarter (or month) according to their current, actual profit. Under this notice, for income generated from pre-sale (before completion of construction) of buildings for residential or commercial use or other kinds, the tax shall be prepaid in the amount of the estimated quarterly or monthly profit calculated on the present estimated profit rate, which shall be adjusted according to the actual profit after completion of construction of the buildings and settlement of the taxable cost.

According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排), or the Avoidance of Double Taxation Agreement, dividend payments to shareholders in Hong Kong would be withheld at a rate of 5% if their investment ratio in invested entities in China is above 25%, or 10% if their investment ratio in invested entities in China is below 25%.

On 10 December 2009, the State Administration of Taxation issued the Circular on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises' Share Transfer (關於加強非居民企業股權轉讓所得企業所得税管理的通知), effective as of 1 January 2008, under which, where a foreign investor (actual controller) indirectly transfers equity interests in a Chinese resident enterprise by transferring the shares of the offshore holding company that is located in a country (jurisdiction) where the effective tax burden is less than 12.5%, or where the offshore income of the residents is not taxable, the foreign investor shall provide the relevant tax authority in charge with reports containing relevant information within 30 days of the transfers, and where a foreign investor (actual controller) indirectly transfers equity interests in a Chinese resident enterprise through the abuse of form of organisation and there are no reasonable commercial purposes such that the corporate income tax liability is avoided, the tax authority shall have the power to re-assess the nature of the equity transfer in accordance with the "substance-over-form" principle and deny the existence of the offshore holding company that is used for tax planning purposes. "Income derived from equity transfers", as mentioned in this circular refers to income derived by non-resident enterprises from direct or indirect transfers of equity interest in China resident enterprises, excluding shares in Chinese resident enterprises that are bought and sold openly on the stock exchange.

Business tax

Business tax is payable in respect of certain business activities in China as set out in the Provisional Regulations Concerning Business Tax (中華人民共和國營業税暫行條例) promulgated by the State Council on 13 December 1993 and implemented on 1 January 1994, amended on 10 November 2008 and implemented on 1 January 2009 and the Detailed Implementation Rules on the Provisional Regulations of PRC on Business Tax (中華人民共和國營業税暫行條例實施細則) issued by the Ministry of Finance on 25 December 1993, amended on 15 December 2008 and 28 October 2011 and implemented on 1 January 2009. The activities to which the business tax applies include supply of service as specified in the aforesaid regulations in PRC, transfer of intangible assets, leases, and sales

of real estate properties in China. No deduction of the tax incurred on purchased services or materials is allowed except that the State Council make the decision of deduction or exemption of the tax. The rate of business tax payable for property sale and leasing transactions is 5% of the proceeds from the sale or leasing of real estate/immovable properties in China.

On 27 May 2005, the State Administration of Taxation, MOFCOM and Ministry of Construction jointly issued a Notice on Strengthening the Administration of Taxes in Connection with Real Estate (關於加強房地產稅收管理的通知). According to the notice, from 1 June 2005, business tax shall be imposed on the full amount of the sales income for an individual, upon the transfer of the ownership of a residential house by an individual within two years from the purchase date. However, transfer of an ordinary residential property may be exempted from business tax upon tax authorities' approval of application for such exemption. According to the Circular on Forwarding Opinions of the Ministry of Construction and other Departments on Stabilising Housing Prices issued by the General Office of the State Council (國務院辦公廳轉發建設部等部門關於做好穩定住房價格工作意見的通知) on 9 May 2005, in the case of a house other than an ordinary residential house, business tax shall be imposed on the difference between the sales income and the purchase price, provided that the transfer occurs after two years from the purchase date. Ordinary residential house refers to a residential unit, of which (i) the plot ratio is more than 1.0; (ii) the GFA is less than 120 sq.m.; and (iii) the price is lower than 1.2 times of the average selling price of residential properties on the land of the same category. The provincial-level government may set its own GFA and price requirements with a deviation no more than 20% of the above-mentioned standards.

On 20 December 2008, according to the Certain Opinions on Promoting the Healthy Development of Real Estate Market (關於促進房地產市場健康發展的若干意見), the period of the business tax levied on the full amount of the sale proceeds on conveyance of residential properties from five years from the date of purchase to two years from the date of purchase. This policy was executed temporarily until 31 December 2009.

On 22 December 2009, the Ministry of Finance and State Administration of Taxation issued the Notice on Adjusting the Business Tax Policies on Individual Housing Transfer. The notice provides, effective from 1 January 2010, that where any individual sells non-ordinary residential housing within five years of the original purchase date, the business tax thereon shall be collected on the full sale price; where any individual sells non-ordinary residential housing more than five years after the original purchase date or sells an ordinary housing unit within five years after the original purchase date, the business tax thereon shall be collected on the basis of the difference between the sale price and the original purchase price; where any individual sells an ordinary housing unit more than five years after the original purchase date, it shall be exempted from business tax. The notice was replaced by the Notice on Adjusting the Business Tax Policies on Individual Housing Transfer (the "**New Notice**") issued by the Ministry of Finance and State Administration of Taxation on 27 January 2011. Under the New Notice, for the sale of an ordinary housing unit or non-ordinary residential housing within five years after the original purchase date, the business tax thereon shall be collected on the full sale price; for the sale of non-ordinary residential housing more than five years after the original purchase date, the business tax thereon shall be collected on the basis of the difference between the sale price and the original purchase price; for the sale of ordinary housing unit more than five years after the original purchase date, it shall be exempted from business tax.

LAT

According to the requirements of the Provisional Regulations of PRC on Land Appreciation Tax (the "**Provisional Regulations**", 中華人民共和國土地增值稅暫行條例) promulgated on 13 December 1993 and effective on 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of PRC on Land Appreciation Tax (the "**Detailed Implementation Rules**", 中華人民共和國土地增值稅暫行條例實施細則) promulgated and effective on 27 January 1995, any appreciation

amount gained from taxpayer's transfer of property shall be subject to LAT. LAT is levied according to four progressive rates: 30% for the appreciation amount not exceeding 50% of the sum of deductible items; 40% for the appreciation amount exceeding 50% but not exceeding 100% of the sum of deductible items; 50% for the appreciation amount exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% for the appreciation amount exceeding 200% of the sum of deductible items. The related deductible items aforesaid include the following:

- amount paid for obtaining the land use rights;
- costs and expenses for land development;
- costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;
- related tax payable for transfer of property; and
- other deductible items as specified by the Ministry of Finance.

According to the requirements of the Provisional Regulations and the Detailed Implementation Rules, LAT shall be exempted under any one of the following circumstances:

- Taxpayers constructing ordinary standard residences for sale (*i.e.*, the residences built in accordance with the local standard for general use residential properties, excluding deluxe apartment, villas or resorts) in which the appreciation amount does not exceed 20% of the sum of deductible items;
- Property taken over and repossessed according to laws due to the construction requirements of the government.

According to the Circular Regarding the Levy and Exemption of Land Appreciation Tax for Development and Transfer Contracts Signed before 1 January 1994 (關於對一九九四年一月一日前簽訂開發及轉讓合同的房地產徵免土地增值稅的通知) issued by the Ministry of Finance and the State Administration of Taxation on 27 January 1995:

- For property assignments which were signed before 1 January 1994, whenever the properties are transferred, the LAT shall be exempted;
- Either when the property development contracts were signed before 1 January 1994 or when the project proposal has been approved and that capital was injected for development in accordance with the conditions agreed, the LAT shall be exempted if the properties are transferred within five years after 1 January 1994 for the first time. The date of signing the development contracts shall be the date of signing the Sale and Purchase of Land Agreement. In the case of particular property projects which are approved by the government for the development of the whole piece of land and long-term development, of which the properties are transferred for the first time after the five-year tax-free period, after being examined and approved by the local financial and tax authorities, and in the case of a FIE, by local financial authorities and state tax bureaus, and approved by the Ministry of Finance and State Administration of Taxation, the tax-free period would then be appropriately prolonged.
- However, the LAT shall be collected if properties are transferred twice or in violation of the abovesaid provisions such as by transferring properties exceeding the permitted time limit for transfer contracts or changing the transfer contract.

On 24 December 1999, the Ministry of Finance and the State Administration of Taxation issued the "Notice With Respect to the Extension of the Period for the Land Appreciation Tax Exemption Policy" (關於土地增值税優惠政策延期的通知) which extended the period for the LAT exemption policy as mentioned hereinabove to the end of 2000.

After the enactment of the Provisional Regulations and the Detailed Implementation Rules, due to the longer period for the property development and transfer, many local tax authorities in the course of implementing the regulations and rules did not force the property developers to declare and pay the LAT. Therefore, in order to assist the local tax authorities in the collection of LAT, the Ministry of Finance, State Administration of Taxation, Ministry of Construction and State Land Administration Bureau had separately and jointly issued several notices to restate the requirement that after the assignment contracts are signed, the taxpayers should declare the tax to the local tax authorities with jurisdiction over the underlying property, and pay LAT in accordance with the amount calculated by the tax authority and the time as required. For those who fail to acquire proof as regards the tax paid or the tax exemption from the tax authorities, the real estate administration authority shall not process the relevant title change and shall not issue the property ownership certificate.

The State Administration of Taxation also issued the Circular on Well Operation of Collections Administration on Land Appreciation Tax (關於認真做好土地增值税徵收管理工作的通知) on 10 July 2002 to request local tax authorities to modify the management system of LAT collection and operation details, to build up a sound taxpaying declaration system for LAT, and to modify the methods of pre-levying for property. Such notice also pointed out that either for the property development contracts which were signed before 1 January 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 1 January 1994 for the first time is expired, and such tax shall be levied again.

On 2 August 2004, the State Administration of Taxation issued the Circular on Enhancing the Administration of Land Appreciation Tax (關於加強土地增值税管理工作的通知) in order to further clarify the taxpayers' duties in relation to filing of periodic tax returns. On 5 August 2004, the State Administration of Taxation issued the Circular on Further Enhancing the Administration on Collection of Urban Land Use Tax and Land Appreciation Tax (關於進一步加強城鎮土地使用税和土地增值税徵收管理工作的通知) to further enhance the administrative efforts relating to the collection of LAT. It is stipulated in this notice that the waiver of LAT on any land grant contracts and property development contracts executed prior to 1 January 1994 has expired, and that appreciation in land value shall be subject to LAT irrespective of the time of assignment.

On 2 March 2006, the State Administration of Taxation and the Ministry of Finance issued the Circular on Several Issues Concerning Land Appreciation Tax (財政部、國家税務總局關於土地增值税若干問題的通知). The Circular stipulated the following:

- Taxpayers constructing both ordinary residential properties and other commodity houses should calculate the appreciation value of the land separately, and declare the tax to the local tax authorities where the properties are located.

- Local authorities shall determine, and adjust as appropriate, the provisional LAT rates considering the relevant real property market, the type of buildings constructed and any other applicable factors.

- A taxpayer who fails to prepay the LAT within the stipulated time frame may be liable to a penalty under the "Administrative Law of the People's Republic of China on the Levying and Collection of Taxes" (中華人民共和國税收徵收管理法).

- In relation to completed property projects, if 85% or more of the saleable GFA has been assigned or transferred, then the local tax authority may require the taxpayer to settle the LAT payment from the assigned or transferred property.

- For any investment made or joint operation conducted with land (or real estate) priced as consideration for shares, the provisions on temporary exemption of land appreciation tax shall not apply if the invested enterprise or the enterprise involved in the joint operation engages in real estate development, or if a real estate development enterprise uses commercial properties built to make an investment or enter into joint operation.

On 28 December 2006, the State Administration of Taxation issued the Circular on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (關於房地產開發企業土地增值税清算管理有關問題的通知) which came into effect on 1 February 2007.

Pursuant to the Circular, a property developer shall settle and clear the LAT payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable LAT tax rates. The LAT shall be settled for projects approved by the competent authorities; and for projects developed in different stages, the LAT shall be settled in stages. LAT must be settled if (1) the property development project has been completed and fully sold; (2) the property developer transfers the whole incomplete development project; or (3) the land-use rights with respect to the project is transferred. In addition, the relevant tax authorities may require the developer to settle the LAT if any of the following criteria is met: (1) for completed property development projects, the transferred GFA represents more than 85% of total saleable GFA, or the proportion represented is less than 85%, but the remaining saleable GFA has been leased out or used by the developer; (2) the project has not been sold out for more than three years after obtaining the sale or pre-sale permit; (3) the developer applies for cancellation of the tax registration without having settled the relevant LAT; or (4) other conditions stipulated by the provincial tax authorities.

The Notice also indicated that if a property developer satisfies any of the following circumstances, the tax authorities shall levy and collect LAT as per the levying rate no lower than the pre-payment rate with reference to the bearing rate of LAT of local enterprises with a similar development scale and income level: (i) failure to maintain account book required by law or administrative regulation; (ii) destroying the account book without authorisation or refusing to provide taxation information; (iii) the accounts are in a state of mess or cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine transferred income or amount of deductible items; (iv) failure to go through LAT settlement within the prescribed period, and such failure is not cured within the period required by the relevant tax authorities; (v) the basis for tax calculation as submitted is obviously low without justifiable cause. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situation.

On 19 May 2010, the State Administration of Taxation issued the Circular on Relevant Issues of the Settlement of Land Appreciation Tax (國家税務總局關於土地增值税清算有關問題的通知), which details the relevant issues concerning the income verification about the settlement of land appreciation tax, and the calculation about exemption issues under certain circumstances.

On 25 May 2010, the State Administration of Taxation promulgated the Notice on Strengthening the Collection of Land Appreciation Tax (國家税務總局關於加強土地增值税征管工作的通知) and imposed further requirements on the collection of LAT. This notice provides that, except for indemnificatory housing, the minimum LAT prepayment rate shall be no less than 2% for properties in the eastern region of the PRC, no less than 1.5% for properties in the central or northeast region of the PRC and no less than 1% for properties in the western region of the PRC. The LAT prepayment rates will be determined by the local authorities based on the different types of properties in the locality.

Deed tax

Pursuant to the Interim Regulations of the People's Republic of China On Deed Tax (中華人民共和國契稅暫行條例) promulgated by the State Council in July 1997, the transferee, whether an individual or otherwise, of the title to a land site or building in the PRC shall be responsible for the payment of deed tax. The rate of deed tax is 3%-5% of the purchase price. The governments of provinces, autonomous regions and municipalities may, within the foresaid range, determine and report their effective tax rates to the Ministry of Finance and the State Administration of Taxation for the record.

On 22 October 2008, the Ministry of Finance, and the State Administration of Taxation jointly announced the Circular on Revising the Tax Expenses of Housing Transactions (關於調整房地產交易環節稅收政策的通知) which provided that, effective 1 November 2008, the deed tax were temporarily reduced to 1% for individuals who purchase the ordinary residence with a GFA of less than 90 sq.m. floor areas for the first time, and temporarily exempt stamp duty and LAT for purchase or sales of housing by individuals, as applicable.

On 9 March 2010, the Ministry of Finance, and the State Administration of Taxation further announced the Circular on Deed Tax Policy Relevant to First-time Purchase of Ordinary Residential Premises (關於首次購買普通住房有關契稅政策的通知) which stipulated that for two or more people collectively purchasing common housing with a GFA of less than 90 sq.m., and one or more of the buyers have house purchasing record before. The collective buyers of the captioned common house cannot enjoy the preferential deed tax policy applicable to first time purchaser.

On 29 September 2010, Ministry of Finance, State Administration of Taxation and Ministry of Housing and Urban-rural Development jointly announced the Circular on Revising the Preferential Policies for Deed Tax and Individual Income Tax Relating to Real Property Transactions (關於調整房地產交易環節契稅、個人所得稅優惠政策的通知) which stipulated that deed tax shall be levied at half the applicable rate on an individual who purchases an ordinary residential property that is the only housing belonging to the family (members include the purchaser, his/her spouse and their minor children, the same below), and shall be levied at a reduced rate of 1% on an individual who purchases an ordinary residential property of no larger than 90 square metres that is the only housing belonging to the family. Individuals shall not enjoy the aforesaid preferential policies where the ordinary residential property they purchase fails to meet the above requirements.

Urban land use tax

Pursuant to the Interim Regulations of the People's Republic of China On Land Use Tax with respect to Urban Land (中華人民共和國城鎮土地使用稅暫行條例) promulgated by the State Council in September 1988 and as amended in December 2006, the land use tax with respect to urban land is levied according to the area of relevant land. The annual tax on every sq.m. of urban land shall be from RMB0.6 to RMB30. Any foreign investment enterprise using urban land is required to pay the tax on urban land use accordingly from 1 January 2007.

Stamp duty

Under the Interim Regulations of the People's Republic of China on Stamp Duty (印花税暫行條例) promulgated by the State Council in August 1988, for building property transfer instruments, including those with respect to property ownership transfer, the duty rate shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including property title certificates and land use rights certificates, stamp duty shall be levied on an item basis of RMB5 per item.

Real estate tax

In pursuance of the Provisional Regulations of the PRC on Real Estate Tax promulgated by the State Council in September 1986, the real estate tax is 1.2% if it is calculated on basis of the residual value of a building and 12% if it is calculated on the basis of the rental.

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

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

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

Municipal maintenance tax

Under the Interim Regulations of the People's Republic of China on Municipal Maintenance Tax (城市維護建設稅暫行條例) promulgated by the State Council in 1985, a taxpayer, whether an individual or otherwise, of consumption tax, value-added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

And according to the Notice on Unifying the Municipal Maintenance Tax and Education Surcharge System of Domestic Enterprises, Foreign-Invested Enterprises and Individuals (關於統一內外資企業和個人城市維護建設稅和教育附加制度的通知) issued by the State Council on 18 October 2010, the municipal maintenance tax will become applicable to foreign-invested enterprises as of 1 December 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 28 April 1986 and as amended on 7 June 1990 and 20 August 2005, a taxpayer, whether an individual or otherwise, of consumption tax, value-added tax or business tax shall pay an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas (國務院關於籌措農村學校辦學經費的通知).

And according to the Notice on Unifying the Municipal Maintenance Tax and Education Surcharge System of Domestic Enterprises, Foreign-Invested Enterprises and Individuals (關於統一內外資企業和個人城市維護建設稅和教育附加制度的通知) as issued by the State Council on 18 October 2010, the education surcharge will become applicable to foreign-invested enterprises as of 1 December 2010.

SUBSTANTIAL SHAREHOLDERS

At 30 November 2012, the persons or corporations (other than a Director or chief executive of Shui On Land) who had interests or short positions in the shares or underlying shares of Shui On Land pursuant to Part XV of the SFO were as follows:

Name of shareholders	Capacity/Nature of interests	Total number of ordinary shares and underlying shares	Approximate percentage of shareholding to the issued share capital of Shui On Land
Ms. Loletta CHU ("**Mrs. Lo**")	Family and Personal	3,692,960,559 (1)(3)	61.53%
HSBC International Trustee Limited ("**HSBC Trustee**")	Trustee	3,691,573,418 (2)(3)	61.51%
Bosrich Holdings (PTC) Inc. ("**Bosrich**")	Trustee	3,691,573,418 (2)(3)	61.51%
SOCL	Interests of controlled corporation	3,691,573,418 (2)(3)	61.51%

Notes:

(1) In respect of such interests, 3,413,268,905 shares were comprised of 1,387,141 shares beneficially held by Mrs. Lo and 3,411,881,764 shares in which Mr. Lo, the spouse of Mrs. Lo, had a deemed interest under Part XV of the SFO mentioned in note (2) below. Accordingly, Mrs. Lo was also deemed to be interested in 3,411,881,764 shares under Part XV of the SFO.

(2) In respect of such interests, 3,411,881,764 shares were beneficially owned by Shui On Company Limited ("**SOCL**") through its controlled corporations. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings (PTC) Inc. ("**Bosrich**"). The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. Lo is a discretionary beneficiary and HSBC International Trustee Limited ("**HSBC Trustee**") is the trustee. Accordingly, Mr. Lo, Mrs. Lo, Bosrich and HSBC Trustee were deemed to be interested in such shares under Part XV of the SFO.

(3) In respect of such interests, 3,508,943 shares were beneficially owned by Chester International Cayman Limited ("**Chester International**"), and Chester International was also taken to be interested in 276,182,711 shares as a result of the equity swap transactions entered into between Chester International as equity swap receiver and Standard Chartered Bank, Singapore Branch as equity swap payer on 7 September 2010 and 8 September 2010 respectively. Chester International is an indirect wholly-owned subsidiary of SOCL. Accordingly, each of Mrs. Lo, HSBC Trustee, Bosrich and SOCL was deemed to be interested in such 279,691,654 shares under Part XV of the SFO.

(4) All the interests stated above represent long positions.

Save as disclosed above, at 30 November 2012, the Directors are not aware of any other person or corporation (other than a Director or chief executive of Shui On Land) having an interest or short position in the shares or underlying shares of Shui On Land pursuant to Part XV of the SFO.

*The following discussion describes certain material related party transactions between our consolidated subsidiaries and our Directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. It also includes the transactions with connected persons (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")) which were required to be disclosed in accordance with Chapter 14A of the Listing Rules, certain of which are ongoing.*

Provision of project management services by Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd. ("SYKIZ") to KIC Development

Pursuant to an agreement between the Group and SYKIZ which commenced on 26 August 2003, SYKIZ provides KIC Development, a subsidiary of Shui On Land, with advisory services including assisting with obtaining the relevant regulatory and government approvals and permits as well as the marketing and administrative aspects for the Shanghai KIC project.

SYKIZ owned 30% of KIC Development upon its incorporation. Pursuant to an agreement signed with SYKIZ, KIC Development increased its registered capital by US$77 million from US$60.5 million to US$137.5 million, whereby SYKIZ did not participate in injecting the additional capital of US$77 million into KIC Development. As a result of the completion of this agreement, SYKIZ's interest was diluted from 30% to 13.2% by 16.8%. As SYKIZ is a substantial shareholder of KIC Development, SYKIZ is a connected person of Shui On Land under the Listing Rules.

The total services fee payable by KIC Development to SYKIZ for the advisory services is fixed at 0.9% of the construction costs for the Shanghai KIC project incurred by KIC Development. Our Directors believe that the advisory services agreement is on normal commercial terms.

An amount of RMB1.1 million was paid and/or is payable by KIC Development to SYKIZ for the advisory services for the year ended 31 December 2011. The relevant annual caps for the three years ended 31 December 2011 have not been renewed upon the expiry on 31 December 2011.

Acquisition of the issued share capital in Rimmer Investments Limited ("Rimmer") and Magic Garden Investments Limited ("Magic Garden")

On 9 September 2011, Rich Bright Holdings Limited, an indirect wholly-owned subsidiary of Shui On Land, entered into an agreement with Cassidy Enterprises Corp. ("**Cassidy**") and SOI in relation to the sale and purchase of the entire issued share capital of Rimmer and 66.7% of the entire issued share capital of Magic Garden ("**Acquisition of RI Shares and MGI Shares**").

SOI, being a substantial shareholder of Shui On Land, is a connected person of Shui On Land for the purpose of the Listing Rules. Cassidy, being a subsidiary of SOI, is also a connected person of Shui On Land for the purpose of the Listing Rules. Given Cassidy and SOI are connected persons of Shui On Land, the Acquisition of RI Shares and MGI Shares constituted connected transactions of Shui On Land under the Listing Rules. In addition, with effect from the completion of the Acquisition of RI Shares and MGI Shares on 16 March 2012, the Langham Xintiandi Hotel Related Transactions (as defined in the circular of Shui On Land dated 6 October 2011) have become continuing connected transactions of Shui On Land.

Lease of property by the Group from the subsidiaries of SOCL

In the ordinary course of the Group's business, Shui On Land or its subsidiaries, as tenant, have entered into a number of property leasing agreements with the Shui On Group. As SOCL is a substantial shareholder of Shui On Land, SOCL and each of its subsidiaries are connected persons of Shui On Land under the Listing Rules.

In Shanghai, the Group has entered into property leasing agreements with Shanghai Jiu Hai Rimmer Properties Co., Ltd. ("**Shanghai Jiu Hai Rimmer**"), which was an indirect 80% owned subsidiary of SOCL until 16 March 2012, for various units in Shui On Plaza for use as offices at market rent. In Hong Kong, a subsidiary of Shui On Land has entered into property leasing and licensing agreements with Shui On Centre Company Limited and SOI, both of which are wholly-owned by SOCL, for various units in Shui On Centre at prevailing market rent. These properties are for uses as offices.

Shui On Land entered into a framework lease agreement with SOCL on 30 May 2006, the term of which was extended to 31 December 2009 by a supplemental agreement dated 4 September 2007 and further extended to 31 December 2012 by a second supplemental agreement dated 15 January 2010.

The amounts of RMB27.7 million for the properties in Shanghai and HK$2.6 million for the properties in Hong Kong, respectively, were paid and/or are payable by the Group to the Shui On Group for leasing and/or licensing of the premises under the property leasing agreements and the framework lease agreement for the year ended 31 December 2011.

Subsequent to the completion of the acquisition of interest of Shui On Plaza by the Group from SOI on 16 March 2012 (details of the transaction are set out in the circular of Shui On Land dated 6 October 2011), Shanghai Jiu Hai Rimmer has become a subsidiary of Shui On Land and the property leasing arrangements between Shanghai Jiu Hai Rimmer and the Group relating to Shui On Plaza have become intra-group transactions instead of connected transactions of Shui On Land. For the avoidance of doubt, the property leasing and licensing agreements in respect of Shui On Centre in Hong Kong shall continue to be connected transactions between the Group and the Shui On Group (excluding Shui On Land and its subsidiaries) under the framework lease agreement with SOCL.

Provision of construction services by SOCAM to the Group

In the ordinary course of the Group's business, the Group entered into a number of construction contracts with Shui On Construction Co., Ltd. ("**SOCC**") and Pat Davie (China) Limited (together, the "**SOCAM Contractors**"), which are the subsidiaries of SOCAM, as the contractors for construction works in relation to our projects in the PRC. The construction contracts include renovation works, building decoration works, mechanical and electrical system materials procurement and building materials procurement. Mr. Lo and his associates are together currently holding more than a 30% equity interest in SOCAM. Thus, SOCAM and its subsidiaries, including the SOCAM Contractors, are the associates of a connected person of Shui On Land.

On 4 June 2006, Shui On Land entered into a construction services framework agreement with SOCC in respect of the provision of construction services as supplemented by a supplemental agreement dated 15 December 2008 to extend the term for three financial years to 31 December 2011. On 9 December 2011, Shui On Land and Shui On Contractors Limited ("**SOC**"), a wholly-owned subsidiary of SOCAM, entered into a new framework agreement (the "**New Construction Services Framework Agreement**") to provide new guidelines and basis of annual caps on the provision of construction services by SOC and its subsidiaries (which form part of SOCAM group and include SOCC as one of its members) to the Group for a further term of three financial years expiring on 31 December 2014.

Under the New Construction Services Framework Agreement, for contracts with a contract sum of RMB5 million or more, construction contracts will generally put out to tender and contractors selected through a bidding process under which each potential contractor will be assessed on its qualifications, reputation for reliability, quality and price. The construction contracts with SOCAM Contractors of over RMB5 million will be entered into pursuant to and on the basis of bids tendered. For contracts with a contract sum of less than RMB5 million, the price shall be agreed with SOCAM Contractors with reference to the prevailing market rates.

An amount of RMB816 million was paid and/or is payable by the Group to SOCC for construction services for the year ended 31 December 2011.

Provision of management services by Shanghai SOD to Richcoast and its subsidiaries (collectively as the "Dalian Group")

On 28 April 2008, Shanghai SOD, a wholly-owned subsidiary of Shui On Land, Max Clear Holdings Limited ("**Max Clear**"), a wholly-owned subsidiary of SOCAM, Yida and certain onshore companies of the Dalian Group entered into a management services agreement (the "**Management Services Agreement**") pursuant to which each of Shanghai SOD, Max Clear and Yida agreed to provide management services to the onshore companies of the Dalian Group for a term of three years commencing from 1 January 2008 to 31 December 2010. On 28 December 2010, Shanghai SOD, Max Clear, Yida and the then onshore companies of the Dalian Group (the "**Dalian Onshore Group**") entered into a renewed management services agreement to extend the term of the Management Services Agreement for three years to 31 December 2013.

In accordance with the Management Services Agreement as supplemented by the renewed management services agreement dated 28 December 2010, each of Shanghai SOD, Max Clear and Yida is entitled to receive an annual management services fee from the Dalian Onshore Group to be calculated at 1%, 1.5% and 1%, respectively of the annual total budgeted construction cost for the Dalian Tiandi project with respect to the provision of management services.

The Dalian Group is effectively held as to 48% by the Group, 22% by SOCAM (a connected person of Shui On Land) and 30% by Yida and thus, a connected person of Shui On Land under the Listing Rules. In addition, the companies constituting the Dalian Group are the subsidiaries of Shui On Land for the purposes of the Listing Rules, and Max Clear and Yida are connected persons of Shui On Land by virtue of being the substantial shareholders of Richcoast.

The amounts of RMB19 million, RMB28.5 million and RMB19 million were paid and/or are payable to Shanghai SOD, Max Clear and Yida respectively for the management services fees for the year ended 31 December 2011.

On 29 October 2012, Shanghai SOD, Max Clear, Yida and the Dalian Onshore Group entered into a further renewed management services agreement to, among other things, (a) further extend the term of the Management Services Agreement so that it will end on 31 December 2014 instead of 31 December 2013; (b) revise the scope of management services to be provided by Shanghai SOD and Max Clear to the Dalian Onshore Group; and (c) revise the relevant percentage ratios for calculating the annual management services fees payable by the Dalian Onshore Group (i) from 1% to 1.5% as to Shanghai SOD and (ii) from 1.5% to 1% as to Max Clear, in each case of the annual total budgeted construction cost for the Dalian Tiandi project. The revisions in (b) and (c) above are effective from 29 October 2012.

Provision of construction services by the Yida Group for Dalian Tiandi

On 7 August 2008, Richcoast and Yida entered into a framework construction agreement, pursuant to which the Yida Group may enter into contracts with the Dalian Group to perform site formation and construction works, which include excavation and/or filling, clearance of the construction site, removal of the construction garbage, setting up a drainage system and construction of the main structures on the land area constituting Dalian Tiandi, for a term expiring no later than 31 December 2010. The term of the agreement was subsequently extended to 31 December 2011 by a supplemental agreement dated 17 July 2009 and further extended to 31 December 2012 by a second supplemental agreement dated 26 August 2010.

Yida, through its wholly-owned subsidiary, is a substantial shareholder of Richcoast, a subsidiary of the Group for the purpose of the Listing Rules. Therefore, Yida and its subsidiaries are connected persons of Shui On Land under the Listing Rules.

An amount of RMB946 million was paid and/or is payable by the Dalian Group to the Yida Group for the construction services fees for the year ended 31 December 2011.

On 23 November 2012, Richcoast and Yida entered into the third supplemental agreement to the framework construction agreement to provide guidelines and basis of annual caps for the provision of construction services by the Yida Group to the Dalian Group for a further term of three financial years ending on 31 December 2015.

Use of aircraft owned by a subsidiary of SOCL

On 4 September 2009, Shui On Land entered into an agreement with Top Dynasty Investment Limited ("**Top Dynasty**") pursuant to which the Group may use an aircraft owned by Top Dynasty for the purpose of transporting passengers for business of the Group. As Top Dynasty is a subsidiary of SOCL, the transactions contemplated under the agreement constitute continuing connected transactions of Shui On Land under the Listing Rules.

The term of the agreement was extended to 31 December 2013 by a supplemental agreement dated 2 November 2010. The fees are calculated based on the actual travelling schedules of the passengers.

An amount of RMB11.2 million was paid and/or is payable by the Group to Top Dynasty and its affiliates for the use of aircraft for the year ended 31 December 2011.

Continuing connected transactions with respect to certain projects of Chongqing Shui On Tiandi Property Development Company Limited ("Chongqing Tiandi Development")

On 25 September 2009, the Issuer, Winnington Land Limited ("**WLL**") and Chongqing Tiandi Development entered into a project services framework agreement (the "**CQ(NA) Agreement**") pursuant to which Chongqing Tiandi Development may enter into separate service contracts with the Group and/or WLL and its associates (the "**WLL Group**") to perform services with respect to the property development projects (excluding the Super High Rise project) of Chongqing Tiandi Development, from time to time in accordance with the terms of the CQ(NA) Agreement for the three years ended 31 December 2011.

The ultimate controlling shareholder of WLL is an associate of Mr. Lo pursuant to Rule 14A.11(4)(c) of the Listing Rules, and is therefore an associate of a connected person of Shui On Land. Accordingly, WLL, together with the WLL Group, are connected persons of Shui On Land and the services fees payable by Chongqing Tiandi Development to the WLL Group under the CQ(NA) Agreement constitute continuing connected transactions of Shui On Land under the Listing Rules.

An amount of RMB9 million was paid and/or is payable by Chongqing Tiandi Development to the WLL Group for the project services fees for the year ended 31 December 2011. The relevant annual caps under the CQ(NA) Agreement for the three years ended 31 December 2011 have not been renewed upon their expiry on 31 December 2011.

Continuing connected transactions with respect to the Super High Rise project of Chongqing Tiandi Development

On 24 May 2011, WLL and Chongqing Tiandi Development entered into a project services framework agreement (the "**CQ(SHR) Agreement**") pursuant to which Chongqing Tiandi Development may enter into separate service contracts with the WLL Group to perform services with respect to the Super High Rise project of Chongqing Tiandi Development, from time to time in accordance with the terms of the CQ(SHR) Agreement for the three years ending 31 December 2013.

The ultimate controlling shareholder of WLL is an associate of Mr. Lo pursuant to Rule 14A.11(4)(c) of the Listing Rules, and is therefore an associate of a connected person of Shui On Land. Accordingly, WLL, together with the WLL Group, are connected persons of Shui On Land and the services fees payable by Chongqing Tiandi Development to the WLL Group under the CQ(SHR) Agreement constitute continuing connected transactions of Shui On Land under the Listing Rules.

For the year ended 31 December 2011, Chongqing Tiandi Development has not paid or incurred any project services fees to the WLL Group under the CQ(SHR) Agreement.

Continuing connected transactions with respect to the projects of Shanghai Rui Hong Xin Cheng Co., Ltd. ("RHXC")

On 27 October 2009, the Issuer, WLL and RHXC entered into a project services framework agreement pursuant to which RHXC may enter into separate service contracts with the Group and/or the WLL Group to perform services with respect to the property development projects of RHXC, from time to time in accordance with the terms of the framework agreement for the three years ended 31 December 2011. On 23 February 2012, RHXC and WLL entered into a new framework agreement to provide guidelines and basis of annual caps on the provision of services by the WLL Group to RHXC for a further term of three financial years expiring on 31 December 2014.

The ultimate controlling shareholder of WLL is an associate of Mr. Lo pursuant to Rule 14A.11(4)(c) of the Listing Rules, and is therefore an associate of a connected person of Shui On Land. Accordingly, WLL, together with the WLL Group, are connected persons of Shui On Land and the services fees payable by RHXC to the WLL Group under the project services framework agreements constitute continuing connected transactions of Shui On Land under the Listing Rules.

An amount of RMB1.8 million was paid and/or is payable by RHXC to the WLL Group for the project services fees for the year ended 31 December 2011.

Provision of services by Shanghai SOD to Shanghai Li Xing Hotel Company Limited ("Li Xing")

On 1 January 2007, Shanghai SOD and Li Xing entered into a services agreement (the "**Li Xing Services Agreement**") in relation to the provision of the services by Shanghai SOD to Li Xing, including but not limited to, construction management and construction site office administration for the property development projects at Lot 107 and Lot 108 owned by Li Xing.

On 24 December 2009, SOI acquired 100% equity interest of Li Xing. SOI is an associate of Mr. Lo, a director of Shui On Land, and therefore Li Xing (being a subsidiary of SOI at the date of the relevant announcement) became a connected person of Shui On Land. Accordingly, the provision of services by Shanghai SOD to Li Xing constituted continuing connected transactions of Shui On Land under the Listing Rules. On 18 January 2010, Shanghai SOD and Li Xing entered into the supplemental agreement to restrict the term of the original agreement dated 1 January 2007 to not more than 3 years.

An amount of RMB10 million was paid and/or is payable by Li Xing to the Group for the services fees for the year ended 31 December 2011.

The Li Xing Services Agreement was terminated effective 31 March 2012.

Provision of guarantee and counter indemnity with respect to the Dalian Tiandi project

Under the joint venture arrangement as disclosed in the announcement of Shui On Land dated 28 February 2011, Richcoast sold its 30% interest in Many Praises Dalian Limited ("**Many Praises**") to Mitsui so that Many Praises is held as to 70% by Richcoast and 30% by Mitsui.

For the purpose of the joint venture arrangement, the Issuer and SOCAM entered into a guarantee with Mitsui and Many Praises pursuant to which the Issuer and SOCAM agreed to severally (but not jointly) provide a guarantee to Mitsui and Many Praises (the "**Dalian Guarantee**"). The aggregate amount to be guaranteed by the Issuer and SOCAM under the Dalian Guarantee shall be capped at and shall not exceed RMB500 million.

In connection with the guaranteed obligations of the Issuer and SOCAM to Mitsui and Many Praises under the Dalian Guarantee, Many Gain International Limited ("**Many Gain**", a member of the Yida Group) executed a counter indemnity in favour of the Issuer and SOCAM (the "**Counter Indemnity**") pursuant to which Many Gain agreed to guarantee that whenever the Issuer and SOCAM are required to pay any amount of their guaranteed obligations to Mitsui and Many Praises under the Dalian Guarantee when due, Many Gain shall immediately on demand pay to the Issuer and SOCAM 30% of such amount as if it were the principal obligor.

Mr. Lo and his associates are together currently holding more than 30% equity interest in SOCAM. Thus, SOCAM is a connected person of Shui On Land. Therefore, the provision of the Dalian Guarantee by the Issuer and SOCAM to Mitsui and Many Praises for the benefit of certain subsidiaries in the Dalian Group constitutes a connected transaction of Shui On Land under the Listing Rules.

In addition, Richcoast is a subsidiary of Shui On Land for the purposes of the Listing Rules, Many Gain is a connected person of Shui On Land by virtue of being a substantial shareholder of Richcoast. Therefore, the provision of Counter Indemnity by Many Gain to the Issuer also constitutes a connected transaction of Shui On Land under the Listing Rules.

Acquisition of 24.75% effective rights and interests pertaining to the Non-Retail Portion of Lot 6 of the Shanghai Rui Hong Xin Cheng project

On 1 April 2011, the Issuer, EPL, FPL, Silomax Limited, Selfers Limited and Hollyfield Holdings Limited (collectively as the "**Parties**") entered into contractual agreements pursuant to which EPL agreed to dispose of, and the Issuer agreed to acquire from EPL, all of the 24.75% effective rights and interests owned by EPL pertaining to the non-retail portion of Lot 6 of the Shanghai Rui Hong Xin Cheng project at an aggregate cash consideration of RMB378.3 million or its equivalent amount in U.S. dollars.

As EPL is a substantial shareholder of FPL, a subsidiary of Shui On Land, for the purposes of the Listing Rules, EPL is a connected person of Shui On Land. Therefore, the acquisition constituted a connected transaction of Shui On Land under the Listing Rules.

Connected transactions with the Langham Hospitality Group with respect to the 88 Xintiandi project

On 22 August 2011, the Issuer entered into a joint venture arrangement with Langham Hospitality Group Limited and its subsidiaries (the "**Langham Hospitality Group**") in relation to the 88 Xintiandi project for the purposes of owning and holding the 88 Xintiandi brand and trademarks for use by hotels and branded residences in the PRC as contemplated under the shareholders' deed dated 22 August 2011 and the related agreements.

Pursuant to the shareholders' deed and in furtherance of the 88 Xintiandi project, the Issuer and the Langham Hospitality Group further entered into the master agreement on 22 August 2011 pursuant to which the members of the Langham Hospitality Group may enter into separate services contracts with the Group for the provision of fitting-out, centralised services, marketing and management services, and the granting of licenses to the hotels and branded residences developed and/or owned by the Group or third parties under the 88 Xintiandi brand.

The Langham Hospitality Group is owned by Great Eagle Holdings Limited which is an associate of Mr. Lo for the purposes of the Listing Rules. Accordingly, the transactions contemplated under the shareholders' deed and the master agreement constituted connected transactions of Shui On Land under the Listing Rules. Details of the transactions are set out in the announcement of Shui On Land dated 22 August 2011.

An amount of RMB0.2 million was paid and/or is payable by the Group to the Langham Hospitality Group for the services for the year ended 31 December 2011.

Disposal of 49% interests in Value Land to Mitsui and future buyback of Mitsui's interests in Value Land in relation to Lot 18 of Foshan Lingnan Tiandi project

On 29 November 2011, the Issuer and Mitsui entered into an agreement (the "**Lot 18 Sale and Purchase Agreement**") pursuant to which the Issuer agreed conditionally to sell and Mitsui agreed conditionally to purchase the 49% equity interests of the entire issued share capital of Value Land and the related shareholder's loans (the "**Lot 18 Disposal**"). Upon completion of the Lot 18 Disposal in accordance with the terms and conditions of the Lot 18 Sale and Purchase Agreement, Value Land will be held as to 51% by the Issuer and 49% by Mitsui.

Upon occurrence of the buyback triggering event as stipulated in the announcement of Shui On Land dated 29 November 2011 and the circular dated 3 January 2012, Mitsui will receive economic interest through dividend distribution (the "**Lot 18 Buyback**"). The Group expected that the price for the Lot 18 Buyback payable by the Issuer to Mitsui shall not exceed RMB730 million.

As at the date of the relevant announcement of Shui On Land, Mitsui was a connected person of Shui On Land by virtue of its 30% shareholding interest in Many Praises which is an indirect non wholly-owned subsidiary of Shui On Land. Accordingly, each of the Lot 18 Disposal and the Lot 18 Buyback constituted a connected transaction of Shui On Land under the Listing Rules.

Subscription of new shares in FPL in relation to the Rui Hong Xin Cheng project

On 20 June 2012, the Issuer applied to FPL, a 75%-owned subsidiary of the Company, for the issuance of new shares at a total cash consideration of approximately RMB950.9 million (the "**RHXC Subscription**"). Following the completion of the RHXC Subscription, the Issuer's equity interest in the enlarged issued share capital of FPL was increased by approximately 4.81% from 75% to 79.81%, while EPL's equity interest in FPL was diluted by approximately 4.81% from 25% to 20.19%. FPL remains as an indirect non wholly-owned subsidiary of Shui On Land and its financial results will continue to be consolidated in Shui On Land's financial statements.

Since the holding company of EPL holds a 49% interest in another subsidiary of Shui On Land, EPL is an associate of a controller (as defined under Chapter 14A of the Listing Rules). The RHXC Subscription involves a transaction where EPL, a substantial shareholder of FPL, is an associate of a controller. Therefore, the RHXC Subscription constituted a connected transaction of Shui On Land for the purposes of the Listing Rules.

Disposal of 49% interests in Glory Land to Mitsui and future buyback of Mitsui's interests in Glory Land with respect to Lots 6 and 16 of Foshan Lingnan Tiandi project

On 22 August 2012, the Issuer and Mitsui entered into an agreement (the "**Lots 6 and 16 Sale and Purchase Agreement**") pursuant to which the Issuer agreed conditionally to sell and Mitsui agreed

conditionally to purchase the 49% equity interests of the entire issued share capital of Glory Land and the related shareholder's loans (the "**Lots 6 and 16 Disposal**"). Upon completion of the Lots 6 and 16 Disposal on 9 November 2012 in accordance with the terms and conditions of the Lots 6 and 16 Sale and Purchase Agreement, Glory Land is held as to 51% by the Issuer and 49% by Mitsui.

Upon occurrence of the buyback triggering event as stipulated in the announcement of Shui On Land dated 22 August 2012, Mitsui will receive economic interest through dividend distribution (the "**Lots 6 and 16 Buyback**"). The Group expected that the price for the Lots 6 and 16 Buyback payable by the Issuer to Mitsui shall not exceed RMB400 million.

Mitsui is a connected person of Shui On Land by virtue of its 30% shareholding interest in Many Praises and its 44.1% shareholding interest in Value Land, whereby Many Praises and Value Land are the indirect non wholly-owned subsidiaries of Shui On Land. Accordingly, each of the Lots 6 and 16 Disposal and the Lots 6 and 16 Buyback constituted a connected transaction of Shui On Land under the Listing Rules.

THE ISSUER

GENERAL

The Issuer was incorporated in the Cayman Islands on 27 July 2005 as an exempted company with limited liability, with a registration number of WK-152519. Its principal place of business in the PRC is at 26/F, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, 200021, PRC. Its principal place of business in Hong Kong is at 34/F, Shui On Centre 6-8 Harbour Road, Wan Chai, Hong Kong. Its registered office is located at 87 Mary Street, George Town, Grand Cayman KY1-9005, Cayman Islands.

MANAGEMENT

The Issuer is managed by its board of directors. The current directors of the Issuer are as follows:

Name	Business Address
Mr. Vincent H. S. LO	34/F, Shui On Centre, 6-8 Harbour Road, Hong Kong
Mr. Daniel Y. K. WAN	26/F, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, the PRC
Mr. Freddy C. K. LEE	26/F, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, the PRC
Mr. K. W. TANG	26/F, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, the PRC
Mr. Charles W. M. CHAN	26/F, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, the PRC

INDEBTEDNESS

We undertake our project developments through project subsidiary companies. The operations of our project companies are financed through a combination of capital contributions, project construction loans and mortgage loans. We finance our property developments, most of which are large-scale projects, with property-specific construction loans because of the time associated with the development of these projects. These project construction loans are generally secured by mortgages over the land use rights and construction of the project companies, our equity interests in the project companies, insurance over their assets and properties, the proceeds of the rental and sale of our completed properties and bank accounts. Upon completion of investment property projects, we generally seek to refinance such project construction loans with mortgage loans having a normal term of five to ten years.

We issue guarantees to banks with respect to some project construction loans during the project development and mortgage loans after project completion of our subsidiary project companies.

From time to time the Group has been required to seek amendments, waivers and consents in connection with financial and other covenants under the Group's debt facilities. Such amendments, waivers and consents have all been granted by the applicable creditors and such incidents have not caused any material adverse impact on our operation and financial conditions.

As at 30 June 2012, our bank borrowings and derivative financial instruments designated as hedging instruments totalled RMB16,425 million (US$2,585 million) comprising bank borrowings of RMB16,366 million and derivative financial instruments designated as hedging instruments of RMB59 million. As at 30 June 2012, there were RMB2,885 million (US$455 million) of loans from and amounts due to non-controlling shareholders of subsidiaries.

During the five months ended 30 November 2012, the Group repaid a total of RMB890 million of its bank borrowings and incurred a total of RMB3,131 million of additional bank borrowings.

INDEBTEDNESS OF THE SUBSIDIARIES OF THE ISSUER

The following table sets out a summary of the outstanding bank borrowings of the Issuer's subsidiaries as at 30 June 2012:

Borrower	Property	Principal amount outstanding	Principal amount unutilised and available	Maturity date	Guarantor	Location
		(RMB in millions)	*(RMB in millions)*			
Shanghai Xin-Tian-Di Plaza Co., Ltd. Shanghai Xing-Qi Properties Co., Ltd Shanghai Ji-Xing Properties Co., Ltd. Shanghai Bai-Xing Properties Co., Ltd	Shanghai Xintiandi	347	—	29 March 2015	The Issuer	Onshore
Marble Way Limited	Shanghai Xintiandi	1,709	—	29 March 2015	The Issuer	Offshore
Shanghai Xing Bang Properties Co., Ltd.	Phase 1 of Corporate Avenue	362	—	20 December 2012	The Issuer	Onshore
Brixworth International Limited	Phase 1 of Corporate Avenue	1,299	—	20 December 2012	The Issuer	Offshore
Shanghai Fu-Xiang Properties Co., Ltd.	Lot 113 — Shanghai Taipingqiao	50	—	27 October 2013	The Guarantor	Onshore
East Trend Limited	Lot 113 — Shanghai Taipingqiao	889	—	27 October 2013	Nil	Offshore
Shanghai Xing-Qiao Properties Co., Ltd.[1]	Lot 126 — Shanghai Taipingqiao	5	995	25 May 2015	Nil	Onshore
Shanghai Rui Hong Xin Cheng Co., Ltd.[2]	Shanghai Rui Hong Xin Cheng	—	1,200	20 June 2015	The Guarantor	Onshore
Shanghai Rui Hong Xin Cheng Co., Ltd.	Shanghai Rui Hong Xin Cheng	300	—	20 June 2022	Nil	Onshore
Hollyfield Holdings Limited[3]	Shanghai Rui Hong Xin Cheng	530	163	20 June 2015	The Guarantor	Offshore
Shanghai Rui Hong Xin Cheng Co., Ltd.	Shanghai Rui Hong Xin Cheng	700	—	18 February 2013	The Guarantor	Onshore
Shanghai Yangpu Centre Development Co., Ltd.[4]	Shanghai KIC	487	228	26 December 2017	The Guarantor	Onshore
Shanghai Yangpu Centre Development Co., Ltd.[5]	Shanghai KIC	230	111	16 June 2015	Nil	Onshore
Shanghai Yangpu Centre Development Co., Ltd.	Shanghai KIC	495	—	20 April 2014	Nil	Onshore
Shanghai Yangpu Centre Development Co.,Ltd.[6]	Shanghai KIC	79	—	1 June 2020	Nil	Onshore
Shanghai Rui Qiao Property Development Co., Ltd.[7]	Shanghai Hongqiao	274	3,271	28 October 2016	Nil	Onshore
Shanghai Jiu Hai Rimmer Property Co., Ltd	Shui On Plaza	16	—	20 February 2014	Nil	Onshore

Notes:

(1) The loan has been fully repaid during the five months ended 30 November 2012.

(2) RMB452 million has been drawn down during the five months ended 30 November 2012.

(3) An additional RMB163 million has been drawn down during the five months ended 30 November 2012.

(4) RMB39 million has been repaid during the five months ended 30 November 2012.

(5) An additional RMB29 million has been drawn down during the five months ended 30 November 2012.

(6) RMB7 million has been repaid during the five months ended 30 November 2012.

(7) An additional RMB306 million has been drawn down during the five months ended 30 November 2012.

Borrower	Property	Principal amount outstanding	Principal amount unutilised and available	Maturity date	Guarantor	Location
		(RMB in millions)	*(RMB in millions)*			
Rimmer Investments Ltd[8]	Shui On Plaza	867	—	14 February 2014	The Guarantor	Offshore
Shanghai Li Xing Hotel Co., Ltd[9]	Shanghai Langham Hotel	204	—	15 February 2013	The Guarantor	Offshore
Wuhan Shui On Tiandi Property Development Co., Ltd.	Wuhan Tiandi	350	—	8 June 2020	Nil	Onshore
Wuhan Shui On Tiandi Property Development Co., Ltd.	Wuhan Tiandi	300	—	4 & 11 June 2019	Nil	Onshore
Wuhan Shui On Tiandi Property Development Co., Ltd.[10]	Wuhan Tiandi	35	295	19 June 2015	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd.[11]	Chongqing Tiandi	60	—	27 May 2013	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd.	Chongqing Tiandi	495	—	2 August 2013	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd.[12]	Chongqing Tiandi	150	275	5 March 2013	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd.	Chongqing Tiandi	235	260	10 December 2014	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd	Chongqing Tiandi	400	—	15 December 2015	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd.[13]	Chongqing Tiandi	348	—	10 August 2021	Nil	Onshore
Foshan Shui On Property Development Co., Ltd.[14]	Foshan Lingnan Tiandi	130	—	28 November 2014	Nil	Onshore
Foshan An Ying Property Development Co., Ltd.[15]	Foshan Lingnan Tiandi	250	66	27 August 2014	Nil	Onshore
Foshan Shui On Property Development Co., Ltd.	Foshan Lingnan Tiandi	125	135	27 August 2019	Nil	Onshore
Foshan Yi Kang Property Development Co., Ltd.	Foshan Lingnan Tiandi	400	250	3 January 2018	Nil	Onshore
Foshan An Ying Property Development Co., Ltd.[16]	Foshan Lingnan Tiandi	420	—	10 March 2014	Nil	Onshore
King Concord Limited	Shanghai Hongqiao	998	—	20 April 2014	The Guarantor	Offshore
Total Bank Borrowings of the Issuer's Subsidiaries		13,539	7,249			

Notes:

(8) RMB30 million has been repaid during the five months ended 30 November 2012.

(9) The loan has been fully repaid during the five months ended 30 November 2012.

(10) The loan has been fully repaid during the five months ended 30 November 2012.

(11) RMB10 million has been repaid during the five months ended 30 November 2012.

(12) RMB91 million has been repaid during the five months ended 30 November 2012.

(13) RMB10 million has been repaid during the five months ended 30 November 2012.

(14) RMB10 million has been repaid during the five months ended 30 November 2012.

(15) The loan has been fully repaid during the five months ended 30 November 2012.

(16) RMB30 million has been repaid during the five months ended 30 November 2012.

The following table sets out a summary of the additional bank borrowings of the Issuer's subsidiaries since 30 June 2012:

Borrower	Property	Principal amount outstanding	Principal amount unutilised and available	Maturity date	Guarantor	Location
		(RMB in millions)	*(RMB in millions)*			
Shanghai Knowledge and Innovation Community Development Co., Ltd	Shanghai KIC	48	750	9 August 2015	Nil	Onshore
Wuhan Shui On Tiandi Property Development Co., Ltd.	Wuhan Tiandi	600	200	10 July 2017	Nil	Onshore
Shanghai Xing Bang Properties Co., Ltd.	Phase 1 of Corporate Avenue	—	356	19 October 2015	The Issuer	Onshore
Brixworth International Limited	Phase 1 of Corporate Avenue	—	1,719	19 October 2015	The Issuer	Offshore
Chongqing Shui On Tiandi Property Development Co., Ltd.	Chongqing Tiandi	290	110	4 September 2015	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd.	Chongqing Tiandi	200	200	17 October 2015	Nil	Onshore
Shanghai Li Xing Hotel Co., Ltd	Shanghai Langham Hotel	172	753	22 October 2022	Nil	Onshore
Shanghai Xing-Qiao Properties Co., Ltd	Lot 126 — Shanghai Taipingqiao	59	841	30 October 2015	Nil	Onshore
Shanghai Jun Xing Property Development Co., Ltd.	Lot 116 — Shanghai Taipingqiao	587	113	1 September 2014	Nil	Onshore
Additional Bank Borrowings of the Issuer's Subsidiaries since 30 June 2012		1,956	5,042			

INDEBTEDNESS OF THE ISSUER AND THE GUARANTOR

Bank Borrowings

The following table sets out a summary of the outstanding bank borrowings of the Issuer and the Guarantor as at 30 June 2012:

Borrower	Principal amount outstanding	Principal amount unutilised and available	Maturity date	Guarantor	Location
	(RMB in millions)	*(RMB in millions)*			
Shui On Development (Holding) Limited	326	—	30 March 2014	The Guarantor	Offshore
Shui On Development (Holding) Limited	245	—	4 February 2013	The Guarantor	Offshore
Shui On Development (Holding) Limited[1]	163	—	28 July 2012	The Guarantor	Offshore
Shui On Development (Holding) Limited	404	—	16 December 2012	The Guarantor	Offshore
Shui On Development (Holding) Limited	190	—	24 March 2013	The Guarantor	Offshore
Shui On Development (Holding) Limited	243	—	25 March 2013	The Guarantor	Offshore

Borrower	Principal amount outstanding	Principal amount unutilised and available	Maturity date	Guarantor	Location
	(RMB in millions)	*(RMB in millions)*			
Shui On Development (Holding) Limited	—	245	1 February 2013	The Guarantor	Offshore
Shui On Development (Holding) Limited	185	—	30 April 2014	The Guarantor	Offshore
Shui On Development (Holding) Limited[2]	—	95	20 June 2014	The Guarantor	Offshore
Shui On Development (Holding) Limited[3]	245	—	13 August 2013	The Guarantor	Offshore
Shui On Development (Holding) Limited[4]	385	—	18 March 2014	The Guarantor	Offshore
Shui On Development (Holding) Limited[5]	251	—	27 June 2014	The Guarantor	Offshore
Shui On Development (Holding) Limited	190	—	8 December 2014	The Guarantor	Offshore
Total Bank Borrowings of the Issuer and the Guarantor	2,827	340			

The following table sets out a summary of the additional bank borrowings of the Issuer's subsidiaries since 30 June 2012:

Borrower	Principal amount outstanding	Principal amount unutilised and available	Maturity date	Guarantor	Location
	(RMB in millions)	*(RMB in millions)*			
Shui On Development (Holding) Limited	130	195	1 November 2015	The Guarantor	Offshore
Additional Bank Borrowings of the Issuer and the Guarantor since 30 June 2012	130	195			

Notes:

(1) The loan has been extended with the new maturity date as 30 December 2012.

(2) The loan has been fully drawn down during the five months ended 30 November 2012.

(3) RMB41 million has been repaid during the five months ended 30 November 2012.

(4) RMB97 million has been repaid during the five months ended 30 November 2012.

(5) RMB31 million has been repaid during the five months ended 30 November 2012.

Debt Securities issued by the Guarantor, the Issuer and its subsidiaries

The following sets out a summary of the debt securities issued by the Guarantor, the Issuer and its subsidiaries as at the date of this Offering Circular.

4.5% Convertible Bonds due 2015

On 29 September 2010, the Guarantor had successfully completed issuance of unsecured RMB denominated US$ settled 4.5% Convertible Bonds due 2015 in an aggregate principal amount of RMB2,720 million (equivalent to approximately US$428 million).

So long as any such Convertible Bond remains outstanding, the Guarantor will not, and will ensure that none of its Subsidiaries will, create or having outstanding, any encumbrance, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any indebtedness.

The Guarantor will at the option of the holder of any such Convertible Bond redeem all or some only of such holder's Convertible Bonds on 29 September 2013 (the "**Put Option Date**") together with interest accrued to the date fixed for redemption.

The Convertible Bonds can be converted at the adjusted conversion price of HK$4.47 (Initially at HK$4.87) on and after 9 November 2010 if such Convertible Bonds shall have been called for redemption by the Guarantor before the maturity date.

6.875% Senior Notes due 2013

On 23 December 2010, the Issuer successfully completed issuance of unsecured RMB denominated US$ settled 6.875% Senior Notes due 2013 in an aggregate principal amount of RMB3,000 million (equivalent to approximately US$472 million).

At any time prior to the maturity date of the 6.875% Senior Notes, the 6.875% Senior Notes may be redeemed at 100% of the principal amount of the 6.875% Senior Notes plus an applicable premium.

The 6.875% Senior Notes may be redeemed upon the occurrence of a change of control and changes in tax laws.

The 6.875% Senior Notes are governed by a set of covenants, including the restriction on guarantees of other indebtedness of certain restricted subsidiaries.

7.625% Senior Notes due 2015

On 26 January 2011, the Issuer successfully completed issuance of unsecured RMB denominated US$ settled 7.625% Senior Notes due 2013 in an aggregate principal amount of RMB3,500 million (equivalent to approximately US$551 million).

At any time prior to the maturity date of the 7.625% Senior Notes, the 7.625% Senior Notes may be redeemed at 100% of the principal amount of the 7.625% Senior Notes plus an applicable premium.

The 7.625% Senior Notes may be redeemed upon the occurrence of a change of control and change in tax laws.

The 7.625% Senior Notes are governed by a set of covenants, including the restriction on guarantee of other indebtedness of certain restricted subsidiaries.

8% Senior Notes due 2015

On 26 January 2012, Shui On Development (Singapore) Pte. Ltd. successfully completed issuance of unsecured 8% Senior Notes due 2015 in an aggregate principal amount of S$250 million (equivalent to approximately US$193 million).

At any time prior to the maturity date of the 8% Senior Notes, the 8% Senior Notes may be redeemed at 100% of the principal amount of the 8% Senior Notes plus an applicable premium.

The 8% Senior Notes may be redeemed upon the occurrence of a change of control and change in tax laws.

The 8% Senior Notes are governed by a set of covenants, including the restriction on guarantee of other indebtedness of certain restricted subsidiaries and restrictions on the activities of Shui On Development (Singapore) Pte. Ltd.

9.75% Senior Notes due 2015

On 16 February 2012 and 29 February 2012, the Issuer successfully completed issuance of unsecured 9.75% Senior Notes due 2015 in an aggregate principal amount of US$400 million and US$75 million, respectively.

On 6 August 2012, the Issuer successfully completed issuance of additional unsecured 9.75% Senior Notes due 2015 amounted to US$400 million.

OFF-BALANCE SHEET ARRANGEMENTS

As at 30 June 2012, we have issued a guarantee amounting to RMB265 million (US$42 million) to banks with respect to banking facilities granted to an associate for RMB250 million (US$39 million).

TERMS AND CONDITIONS OF THE SECURITIES

The following, subject to amendment and save for the paragraphs in italics, are the Terms and Conditions of the Securities, substantially as they will appear on the reverse of each of the definitive certificates evidencing the Securities:

The issue of the US$500,000,000 Senior Perpetual Capital Securities Callable 2017 (the "**Securities**", which term shall include, unless the context requires otherwise, any further securities issued in accordance with Condition 15 and consolidated and forming a single series therewith) of Shui On Development (Holding) Limited (the "**Issuer**") was authorised by the board of directors of the Issuer on 5 November 2012. The guarantee of the Securities by Shui On Land Limited (the "**Guarantor**") was authorised by its board of directors on 5 November 2012. The Securities are constituted by the trust deed (as amended or supplemented from time to time, the "**Trust Deed**") dated on or about 10 December 2012 (the "**Issue Date**") made between the Issuer, the Guarantor and DB Trustees (Hong Kong) Limited as trustee for the Holders of the Securities (the "**Trustee**", which term shall, where the context so permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Deed) and are subject to the agency agreement dated on or about 10 December 2012 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, the Trustee, Deutsche Bank AG, Hong Kong Branch as principal paying agent and transfer agent (in such capacities collectively, the "**Principal Agent**"), Deutsche Bank Luxembourg S.A. as registrar (the "**Registrar**"), Deutsche Bank AG, Hong Kong Branch as calculation agent (the "**Calculation Agent**") and the other paying agents and transfer agents appointed under it (each a "**Paying Agent**" or "**Transfer Agent**" and, together with the Registrar, the Calculation Agent and the Principal Agent, the "**Agents**") relating to the Securities. References to the "**Principal Agent**", the "**Registrar**" and the "**Agents**" below are references to the principal agent, registrar and agents for the time being for the Securities. These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Securities. Unless otherwise defined, terms used in these Conditions have the meanings specified in the Trust Deed. Copies of the Trust Deed and of the Agency Agreement are available for inspection during usual business hours at the principal office for the time being of the Trustee (presently at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified offices for the time being of the Principal Agent. The Holders are entitled to the benefit of and are bound by all the provisions of the Trust Deed, and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

1 Form, Denomination and Title

(A) *Form and Denomination*

The Securities are issued in registered form in the denomination of US$200,000 each and higher integral multiples of US$1,000. A certificate (each a "**Certificate**") will be issued to each Holder in respect of its registered holding of Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the Register.

Upon issue, the Securities will be represented by the Global Certificate registered in the name of a nominee of, and deposited with a common depositary for, Euroclear and Clearstream. The Conditions are modified by certain provisions contained in the Global Certificate. See "The Global Certificate".

(B) *Title*

Title to the Securities passes only by transfer and registration in the Register as described in Condition 4. Except as ordered by a court of competent jurisdiction or as required by law, the Holder of any

Security will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Holder.

2 Guarantee

The Guarantor has irrevocably guaranteed on a senior basis the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Securities. The obligations of the Guarantor in that respect (the "**Guarantee**") are contained in the Trust Deed.

3 Status of the Securities and the Guarantee

(A) *Status of the Securities*

The Securities constitute direct, unsubordinated and (subject to Condition 5(A)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Securities shall, save for such exceptions as may be provided by applicable law and subject to Condition 5(A), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

(B) *Status of the Guarantee*

The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law and subject to Condition 5(A), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

4 Transfers of Securities; Issue of Certificates

(A) *Register*

The Issuer will cause the Register to be kept at the specified office of the Registrar outside Hong Kong and the United Kingdom and in accordance with the terms of the Agency Agreement on which shall be entered the names and addresses of the Holders and the particulars of the Securities held by them and of all transfers of the Securities. Each Holder shall be entitled to receive only one Certificate in respect of its entire holding of Securities.

(B) *Transfer*

Subject to Conditions 4(E) and 4(F) and the terms of the Agency Agreement, a Security may be transferred by delivery of the Certificate issued in respect of that Security, with the form of transfer on the back duly completed and signed by the Holder or his attorney duly authorised in writing, to the specified office of either the Registrar or any Transfer Agent. No transfer of a Security will be valid unless and until entered on the Register.

Transfers of interests in the Securities evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(C) *Delivery of New Certificates*

Each new Certificate to be issued upon a transfer of Securities will, within five Business Days of receipt by the Registrar or, as the case may be, any Transfer Agent of the original certificate and the

form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the Holder entitled to the Securities (but free of charge to the Holder and at the Guarantor's expense) to the address specified in the form of transfer.

Except in the limited circumstances described herein (see "The Global Certificate"), owners of interests in the Securities will not be entitled to receive physical delivery of Certificates.

Where only part of a principal amount of the Securities (being that of one or more Securities) in respect of which a Certificate is issued is to be transferred, a new Certificate in respect of the Securities not so transferred will, within five Business Days of delivery of the original Certificate to the Registrar or the relevant Transfer Agent, be made available for collection at the specified office of the Registrar or such Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the Holder of the Securities not so transferred (but free of charge to the Holder and at the Guarantor's expense) to the address of such Holder appearing on the Register.

(D) ***Formalities Free of Charge***

Registration of a transfer of Securities and issuance of new Certificates will be effected without charge to Holders by or on behalf of the Issuer by the Registrar or any Transfer Agent, but (i) upon payment by the relevant Holder (or the giving of such indemnity and/or security and/or pre-funding as the Issuer or the Registrar or such Transfer Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer and (ii) subject to Condition 4(F).

(E) ***Closed Periods***

No Holder may require the transfer of a Security to be registered (i) during the period of fifteen days ending on (and including) the due date for redemption of that Security; (ii) during the period of fifteen days prior to (and including) any date on which Securities may be called for redemption by the Issuer at its option pursuant to Condition 8(C); (iii) after any such Security has been called for redemption; or (iv) during the period of fifteen days ending on (and including) any Distribution Record Date (as defined in Condition 7(A)). Each such period is a "**Closed Period**".

(F) ***Regulations***

All transfers of Securities and entries on the Register will be made subject to the detailed regulations concerning transfer of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Holder who asks for one.

5 Restrictive Covenants

(A) ***Limitation on Liens***

Each of the Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Issue Date or thereafter acquired, except Permitted Liens, unless the Securities are equally and ratably secured by such Lien.

(B) ***Use of Proceeds***

Each of the Guarantor and the Issuer will not, and will not permit any Subsidiary to, use the net proceeds from the sale of the Securities, 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 the 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.

(C) ***Limitation on Indebtedness and Preferred Stock***

Each of the Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), *provided* that each of the Guarantor and the Issuer may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness or Permitted Subsidiary Indebtedness and the receipt and application of the proceeds therefrom, the Fixed Charge Coverage Ratio would be not less than 3.0 to 1.0. Notwithstanding the foregoing, each of the Guarantor and the Issuer and any Restricted Subsidiary may Incur any Permitted Indebtedness.

(D) ***Limitation on Asset Sales***

Each of the Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(1) no default under the Trust Deed and no Breach under these Conditions shall have occurred and be continuing or would occur as a result of such Asset Sale;

(2) the consideration received by the Guarantor, the Issuer or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and

(3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Guarantor, the Issuer or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US$20.0 million (or the Dollar Equivalent thereof), the Guarantor shall deliver to the Trustee an opinion as to the fairness to the Guarantor, the Issuer or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:

    (a) any liabilities, as shown on the Guarantor 's most recent consolidated balance sheet, of the Guarantor, the Issuer or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Securities, or the Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Guarantor, the Issuer or such Restricted Subsidiary from further liability; and

    (b) any securities, notes or other obligations received by the Guarantor, the Issuer or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Guarantor, the Issuer 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 Guarantor, the Issuer or the applicable Restricted Subsidiary, as the case may be, may apply such Net Cash Proceeds to:

(1) permanently repay Senior Indebtedness of the Guarantor or the Issuer or any Indebtedness of a Restricted Subsidiary (and, if such Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Guarantor, the Issuer or a Restricted Subsidiary;

(2) pay land, relocation, construction and other development costs relating to the construction of projects of any Restricted Subsidiary;

(3) acquire Replacement Assets (which acquisition may be effected through the Guarantor, the Issuer or any Restricted Subsidiary); or

(4) in the case of any Net Cash Proceeds from a sale of shares of Capital Stock of a Person that is not a direct or indirect Subsidiary of the Guarantor, make Investments constituting Permitted Investments under clause (17) of the definition thereof.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) through (4) in the immediately preceding paragraph will constitute "**Excess Proceeds**". Excess Proceeds of less than US$20.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US$20.0 million (or the Dollar Equivalent thereof), within ten days thereof, the Issuer must make an Offer to Purchase Securities having a principal amount equal to:

(1) accumulated Excess Proceeds, multiplied by

(2) a fraction (x) the numerator of which is equal to the Dollar Equivalent of the outstanding principal amount of the Securities and (y) the denominator of which is equal to the Dollar Equivalent of the outstanding principal amount of the Securities 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 Distribution to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Issuer may use those Excess Proceeds for any purpose not otherwise prohibited by the Trust Deed. If the aggregate principal amount of Securities (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Securities (and such other *pari passu* Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

(E) ***Limitation on Transactions with Shareholders and Affiliates***

Each of the Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of the Guarantor or (y) any Affiliate of the Guarantor or the Issuer (each an "**Affiliate Transaction**"), unless:

(1) the Affiliate Transaction is on fair and reasonable terms that are no less favourable to the Guarantor or the Issuer or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Guarantor, the Issuer or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Guarantor or the Issuer; and

(2) the Guarantor delivers to the Trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$15.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Guarantor, the Issuer or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees to directors of the Guarantor or the Issuer who are not employees of the Guarantor or the Issuer;

(2) transactions between or among the Guarantor, the Issuer and any of the Issuer 's Wholly Owned Restricted Subsidiaries or between or among such Wholly Owned Restricted Subsidiaries;

(3) any declaration or payment of any dividend or making any distribution on or with respect to the Guarantor's, the Issuer's or any Restricted Subsidiary's Capital Stock (other than Disqualified Stock or Preferred Stock);

(4) any purchase, call for redemption or redemption, retirement or acquisition for value of any shares of Capital Stock of the Guarantor, the Issuer or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Issuer;

(5) any sale of Capital Stock of the Guarantor (other than Disqualified Stock);

(6) the payment of compensation to employees, officers, directors and other designated persons pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of the Hong Kong Stock Exchange, which as of the Issue Date require a majority shareholder approval of any such scheme; and

(7) the payment of compensation (including cash bonuses) to executive directors of the Guarantor or the Issuer in their capacity as employees of the Guarantor or the Issuer.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments), (ii) transactions pursuant to agreements in effect on the Issue Date and described in the Offering Circular, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Guarantor, the Issuer and its Restricted Subsidiaries than the original agreement in effect on the Issue Date and (iii) any transaction between or among any of the Guarantor, the Issuer or any of the Issuer's Wholly Owned Restricted Subsidiaries and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary of the Issuer or between or among Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries of the Issuer; *provided* that in the case of clause (iii) of this paragraph (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.

(F) ***Sale and Leaseback Transactions***

Each of the Guarantor and the Issuer will not, and will not permit any Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that each of the Guarantor and the Issuer may enter into a Sale and Leaseback Transaction if:

(1) the Guarantor or the Issuer, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the first paragraph of Condition 5(C) and (b) granted a Lien to secure such Indebtedness pursuant to Condition 5(A), in which case, the corresponding Indebtedness will be deemed incurred and Lien will be deemed granted 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 Guarantor or the Issuer, as the case may be, applies the proceeds of such transaction in compliance with Condition 5(D).

(G) ***Financial Statements***

So long as any of the Securities remain outstanding, the Guarantor will provide to the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than ten calendar days after they are filed with The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") or any other recognised exchange on which the Guarantor's common shares are at any time listed for trading, true and correct copies of any financial report in the English language filed with such exchange.

(H) ***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 under the Trust Deed or Breach under these Conditions shall have occurred and be continuing at the time of or after giving effect to such designation; (2) none of the Guarantor, the Issuer and any Restricted Subsidiary provides credit support for the Indebtedness of such Restricted Subsidiary, except with respect to Indebtedness Incurred of the type as described in paragraph (q) of the definition of Permitted Indebtedness and to the extent permitted to be Incurred under Condition 5(C); (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Guarantor, the Issuer or any Restricted Subsidiary; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Guarantor or the Issuer or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any

Lien on any property of, the Guarantor, the Issuer or any Restricted Subsidiary, if such Disqualified Stock or Preferred Stock or Indebtedness could not be Incurred under Condition 5(C) or such Lien would violate Condition 5(A); and (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.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no default under the Trust Deed or Breach under these Conditions shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under Condition 5(C); (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 Condition 5(A); and (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary). All designations must be evidenced by resolutions of the Board of Directors, delivered to the Trustee certifying compliance with the preceding provisions.

6 **Distribution**

(A) ***Accrual of Distribution***

Subject to Condition 6(E), the Securities confer a right to receive distributions (each a "**Distribution**") from the Issue Date at the Distribution Rate in accordance with this Condition 6.

Subject to Condition 6(E), Distributions shall be payable on the Securities semi-annually in arrear on each Distribution Payment Date in U.S. dollars.

Unless otherwise provided for in these Conditions, each Security will cease to confer the right to receive any Distribution from the due date for redemption unless, upon due presentation, payment of the full amount due is improperly withheld or refused. In such event, the right to a Distribution will continue to accrue at the applicable Distribution Rate (after as well as before any judgment) up to but excluding whichever is the earlier of (a) the date on which all sums due in respect of any Security are received by or on behalf of the relevant Holder and (b) the day which is seven days after the Principal Agent or the Trustee has notified the Holders that it has received all sums due in respect of the Securities up to such seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Holders under these Conditions).

If any Distribution is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

Distributions payable under this Condition 6 will be paid in accordance with Condition 7(A).

(B) ***Rate of Distribution***

The rate of distribution ("**Distribution Rate**") applicable to the Securities shall be:

(i) in respect of the period from, and including, the Issue Date to, but excluding, the First Call Date (as defined in Condition 8(C)), the Initial Distribution Rate; and

(ii) in respect of the periods (A) from, and including, the First Call Date to, but excluding, the immediately following Reset Date and (B) from, and including, each Reset Date falling after the First Call Date to, but excluding, the immediately following Reset Date, the Relevant Reset Distribution Rate.

(C) ***Step up after Breach of Covenant or Change of Control***

(i) Notwithstanding any other provision of this Condition 6, if: (x) the Issuer fails to comply with any of the covenants set out in Condition 5 (a "**Breach**") and such 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 Securities (as the case may be), or (y) the Issuer does not redeem the Securities in accordance with Condition 8(F) following the occurrence of a Change of Control or failure to make or consummate an Offer to Purchase in the manner described in Condition 5(D), the then-prevailing Distribution Rate, and (subject to Condition 6(C)(ii) and 6(C)(iii)) each subsequent Distribution Rate otherwise determined in accordance with the provisions of this Condition 6, shall be increased by 3.00 per cent. per annum with effect from (and including) the date on which such Change of Control occurs or the date falling 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Securities (as the case may be); *provided* that the maximum aggregate increase in the Distribution Rate pursuant to this Condition 6(C) shall be 3.00 per cent. per annum. For the avoidance of doubt, any increase in the Distribution Rate pursuant to this Condition 6(C) is separate from and in addition to any increase in the Distribution Rate pursuant to Condition 6(B)(ii).

(ii) If following an increase in the Distribution Rate after a Breach or a Change of Control pursuant to Condition 6(C)(i): (a) the relevant Breach is cured or (b) in the case of a Change of Control, the combined shareholding of the Controlling Shareholders in the Guarantor is larger than the beneficial shareholding of any other single shareholder of the Guarantor, upon written notice of such facts being given to the Holders and the Trustee:

(x) in the case where the Trustee receives evidence to its satisfaction (aa) of the cure of such Breach or (bb) in the case of a Change of Control, that the combined shareholding of the Controlling Shareholders in the Guarantor is larger than the beneficial shareholding of any other single shareholder of the Guarantor, on a date within 30 days of the date on which such Breach or Change of Control occurred, the Distribution Rate shall be decreased by 3.00 per cent. per annum with effect from (and including) such date and any additional Distribution accrued due to the increase in the Distribution Rate pursuant to Condition 6(C)(i) up to and excluding such date shall be deemed waived by the Holders and the Issuer shall have no obligation to pay any such accrued Distribution; and

(y) in all other cases, the Distribution Rate shall be decreased by 3.00 per cent. per annum with effect from (and including) (aa) in the case of a Breach, the date falling 30 days after the date the Trustee receives evidence to its satisfaction of the cure of such Breach or (bb) in the case of a Change of Control, the combined shareholding of the Controlling Shareholders in the Guarantor is larger than the beneficial shareholding of any other single shareholder of the Guarantor, the date falling 30 days after the date the Trustee receives evidence to its satisfaction of the same,

provided that the maximum aggregate decrease in the Distribution Rate pursuant to this Condition 6(C) shall be 3.00 per cent. per annum.

(iii) If a Distribution Payment Date shall fall within 30 days of the date on which any such Breach or Change of Control occurs, subject to Condition 6(C)(ii)(a)(x), any additional Distribution accrued up to (but excluding) such Distribution Payment Date pursuant to Condition 6(C)(i) shall be payable only on the next following Distribution Payment Date.

(D) ***Calculation of Distribution Rate***

The Calculation Agent will, on the second New York Business Day prior to each Reset Date, calculate the Relevant Reset Distribution Rate payable in respect of each Security. The Calculation Agent will cause the applicable Distribution Rate determined by it to be notified to the Paying Agents, the Trustee and the Issuer as soon as practicable after the date on which it has been calculated. Notice thereof shall also promptly in turn be given to the Holders by the Issuer. All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 6(D) by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Agents, the Trustee and the Holders and (subject as aforesaid) no liability to any such person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(E) ***Distribution Deferral***

(i) *Deferral*: The Issuer may, unless a Compulsory Distribution Payment Event has occurred, at its sole discretion, elect to defer a Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice (a "**Deferral Election Notice**") of such election to the Holders in accordance with Condition 16, the Trustee and the Principal Agent not more than ten nor less than five Business Days prior to the relevant Distribution Payment Date (a "**Deferral Election Event**"). For the avoidance of doubt, this Condition 6(E) shall be applicable to any additional Distribution payable pursuant to Condition 6(C).

(ii) *No obligation to pay*: The Issuer shall have no obligation to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) on any Distribution Payment Date if it validly elects not to do so in accordance with Condition 6(E)(i).

(iii) *Requirements as to Notice*: Each Deferral Election Notice shall be accompanied, in the case of the notice to the Trustee and the Principal Agent, by a certificate in the form scheduled to the Trust Deed signed by two directors of the Issuer confirming that no Compulsory Distribution Payment Event has occurred.

The Trustee shall be entitled to accept such certificate as sufficient evidence of the occurrence of a Deferral Election Event (and that no Compulsory Distribution Payment Event has occurred) in which event it shall be conclusive and binding on the Holders.

(iv) *Cumulative Deferral*: Any Distribution deferred pursuant to this Condition 6(E) shall constitute "**Arrears of Distribution**". The Issuer may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the foregoing notice requirement applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limits as to the number of times Distributions and Arrears of Distribution can be deferred pursuant to this Condition 6 except that Condition 6(E)(v) shall be complied with until all outstanding Arrears of Distribution have been paid in full.

Each amount of Arrears of Distribution shall bear interest at the prevailing Distribution Rate and the amount of such interest (the "**Additional Distribution Amount**") with respect to Arrears of Distribution shall be due and payable as if it were a Distribution pursuant to this Condition 6 and shall be calculated by applying the applicable Distribution Rate to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in the foregoing provisions of this Condition 6. The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added (for the purpose of calculating the Additional Distribution Amount accruing thereafter) to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.

(v) *Restrictions in the case of Deferral*: If on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of this Condition 6(E), each of the Issuer and the Guarantor shall not, and the Guarantor shall procure that (in relation to any Parity Securities) any other person which is the issuer thereof shall not:

(a) declare or pay any dividends, distributions or make any other payment on, and will procure that no dividend or other payment is made on any Junior Securities, preference shares or Parity Securities; or

(b) redeem, reduce, cancel, buy-back or acquire for any consideration any Junior Securities, preference shares or Parity Securities,

unless and until (a) the Issuer or the Guarantor, as the case may be, satisfies in full all outstanding Arrears of Distribution and any Additional Distribution Amounts; or (b) it is permitted to do so by an Extraordinary Resolution of the Holders.

(vi) *Satisfaction of Arrears of Distribution by payment*: The Issuer may satisfy any Arrears of Distribution (in whole or in part) and any Additional Distribution Amounts at any time by giving notice of such election to the Holders (in accordance with Condition 16), the Trustee and the Principal Agent not more than twenty nor less than ten Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution and any Additional Distribution Amounts on the payment date specified in such notice); and in any event shall satisfy any outstanding Arrears of Distribution (in whole but not in part) and any Additional Distribution Amounts on the earlier of (a) the date of redemption of the Securities in accordance with Condition 8; (b) the next Distribution Payment Date on the occurrence of a breach of Condition 6(E)(v) or the occurrence of a Compulsory Distribution Payment Event; (c) the date such amount becomes due under Condition 10 or on a Winding-Up of the Issuer or the Guarantor; and (d) the date of any substitution or variation in accordance with Condition 13(B). Any partial payment of outstanding Arrears of Distribution and any Additional Distribution Amount by the Issuer shall be shared by the Holders of all outstanding Securities on a *pro-rata* basis.

(vii) *No default*: Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of any Distribution payment pursuant to this Condition 6(E) shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 10) on the part of the Issuer under the Securities, the Guarantor under the Guarantee or for any other purpose.

7 Payments

(A) *Method of Payment*

Payment of principal, premium and Distributions (including Arrears of Distribution and any Additional Distribution Amount) due other than on a Distribution Payment Date will be made by transfer to the registered account of the Holder or by U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of the Holder if it does not have a registered account. Payment of principal and premium will only be made after surrender of the relevant Certificate at the specified office of the Principal Agent or any of the other Paying Agents.

Distributions due on a Distribution Payment Date will be paid on the due date for the payment of such Distribution to the Holder shown on the Register at the close of business on the seventh day before the due date for the payment of Distribution (the "**Distribution Record Date**"). Payments of Distributions on each Security will be made by transfer to the registered account of the Holder or by U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of the Holder if it does not have a registered account.

(B) ***Registered Accounts***

For the purposes of this Condition 7, a Holder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank in New York City, details of which appear on the Register at the close of business on the second Business Day before the due date for payment, and a Holder's registered address means its address appearing on the Register at that time.

(C) ***Fiscal Laws***

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Holders in respect of such payments.

(D) ***Payment Initiation***

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a Business Day, for value on the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the Holder otherwise than by ordinary mail, expense of the Holder) on the due date for payment (or, if it is not a Business Day, the immediately following Business Day) or, in the case of a payment of principal or premium, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

(E) ***Delay In Payment***

Holders will not be entitled to any Distribution or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Holder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

(F) ***Partial Payment***

If an amount which is due on the Securities is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

8 **Redemption, Purchase and Cancellation**

(A) ***No Fixed Redemption Date***

The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 3 and without prejudice to Condition 10) only have the right to redeem or purchase them in accordance with the following provisions of this Condition 8.

(B) ***Redemption for Taxation Reasons***

The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on the Issuer giving not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Holders in accordance with Condition 16 and the Trustee (which notice shall be irrevocable) at their principal amount together with all outstanding Arrears of Distribution and Additional Distribution Amount (if any) and any Distribution accrued to the date fixed for redemption (the "**Tax Redemption Date**"), if the Issuer or the Guarantor satisfies the Trustee immediately prior to the giving of such notice that (i) the Issuer (or if the Guarantee were called, the Guarantor) has or will become obliged

to pay Additional Tax Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands, Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 3 December 2012, and (ii) such obligation cannot be avoided by the Issuer (or, as the case may be, the Guarantor) taking reasonable measures available to it (a "**Gross-Up Event**"), *provided* that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer (or, as the case may be, the Guarantor) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Securities (or, as the case may be, the Guarantee) then due. Prior to the publication of any Tax Redemption Notice pursuant to this Condition 8(B), the Issuer (or, as the case may be, the Guarantor) shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer (or, as the case may be, of the Guarantor) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or, as the case may be, the Guarantor) taking reasonable measures available to it and (b) an opinion of independent legal or tax advisers of recognised standing, in form and substance satisfactory to the Trustee, to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective). The Trustee shall be entitled to accept and rely on such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Holders. Upon the expiry of the Tax Redemption Notice, the Issuer will be bound to redeem the Securities at their principal amount together with all outstanding Arrears of Distribution and Additional Distribution Amount (if any) and any Distribution accrued up to (but excluding) the date fixed for redemption.

(C) ***Redemption at the Option of the Issuer***

The Issuer may at its option, on giving not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16 and the Trustee (which notice will be irrevocable), redeem all, but not some only, of the Securities:

(i) on 10 December 2017 (the "**First Call Date**"); or

(ii) on any Distribution Payment Date after the First Call Date,

(each, a "**Call Date**").

On expiry of any such notice as is referred to in this Condition 8(C), the Issuer shall be bound to redeem the Securities on the relevant Call Date at their principal amount together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount).

(D) ***Redemption in the case of Minimal Outstanding Amount***

The Issuer may at its option, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16 and the Trustee (which notice will be irrevocable), redeem, in whole but not in part, the Securities at: (i) their applicable Early Redemption Amount, if such redemption occurs prior to the First Call Date; or (ii) their principal amount together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if such redemption occurs on or after the First Call Date, *provided* that prior to the date of such notice at least 90 per cent. in principal amount of the Securities originally issued has already been redeemed or purchased and cancelled.

(E) ***Redemption on an Equity Disqualification Event***

The Issuer may at its option, at any time, on giving not less than 30 nor more than 60 days' notice (an "**Equity Disqualification Event Notice**") to the Holders in accordance with Condition 16 and the Trustee (which notice shall be irrevocable) redeem, in whole but not in part, the Securities at: (i) their applicable Early Redemption Amount if such redemption occurs prior to the First Call Date or (ii) their principal amount together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and Additional Distribution Amount) if such redemption occurs on or after the First Call Date, if an Equity Disqualification Event has occurred and is continuing immediately prior to the giving of the Equity Disqualification Event Notice and the Issuer complies with the requirements under this Condition 8(E).

For the purposes of this Condition 8(E), an "**Equity Disqualification Event**" is deemed to have occurred if as a result of any changes or amendments to, or any changes or amendments to the interpretation of, the International Financial Reporting Standards issued by the International Accounting Standards Board as amended from time to time, the Securities would cease to qualify as equity in the financial statements of the Guarantor.

No Equity Disqualification Event Notice shall be given at any time before 90 days before the amendment or change constituting an Equity Disqualification Event becoming effective in respect of the Issuer or the Guarantor (as the case may be). Prior to the publication of any Equity Disqualification Event Notice pursuant to this Condition 8(E), the Guarantor shall deliver to the Trustee (a) a certificate signed by two directors of the Guarantor stating that the Equity Disqualification Event has occurred and such event cannot be avoided by the Issuer (or, as the case may be, the Guarantor) taking reasonable measures available to it; and (b) an opinion, in form and substance satisfactory to the Trustee, of the Guarantor's independent auditors or of a recognised accountancy firm of international standing to the effect that such Equity Disqualification Event has occurred (irrespective of whether such amendment or change is then effective). The Trustee shall be entitled to accept and rely on such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Holders.

Upon the expiry of any Equity Disqualification Event Notice, the Issuer shall be bound to redeem the Securities on such date as is specified therein for redemption (the "**Equity Disqualification Event Redemption Date**") in accordance with this Condition 8(E).

(F) ***Redemption for Change of Control***

The Issuer may at its option, at any time, on giving not more than 60 nor less than 30 days' notice to the Holders in accordance with Condition 16 and the Trustee (which notice shall be irrevocable), redeem, in whole but not in part, the Securities at (i) their applicable Early Redemption Amount if such redemption occurs prior to the First Call Date or (ii) their principal amount, together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if such redemption occurs on or after the First Call Date, if immediately before giving such notice, a Change of Control has occurred and is continuing.

Upon the expiry of any such notice as is referred to in this Condition 8(F), the Issuer shall be bound to redeem the Securities on such date as is specified therein for redemption (the "**Change of Control Redemption Date**") in accordance with this Condition 8(F).

The Trustee shall not be required to take any steps to ascertain whether a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred and shall not be liable to the Holders or any other person for any failure to do so.

(G) ***Redemption for Breach of Covenant***

The Issuer may at its option, at any time, on giving not more than 60 nor less than 30 days' notice to the Holders in accordance with Condition 16 and the Trustee (which notice shall be irrevocable), redeem, in whole but not in part, the Securities at (i) their applicable Early Redemption Amount if such redemption occurs prior to the First Call Date or (ii) their principal amount, together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if such redemption occurs on or after the First Call Date, if immediately before giving such notice, a Breach has occurred and is continuing.

Upon the expiry of any such notice as is referred to in this Condition 8(G), the Issuer shall be bound to redeem the Securities on such date (the "**Breach of Covenant Redemption Date**") in accordance with this Condition 8(G).

The Trustee shall not be required to take any steps to ascertain whether a Breach or any event which could lead to the occurrence of a Breach has occurred and shall not be liable to the Holders or any other person for any failure to do so.

(H) ***Holders' Tax Option***

If the Issuer gives a Tax Redemption Notice pursuant to Condition 8(B), each Holder will have the right to elect that its Security(ies) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of principal or Distribution to be made in respect of such Security(ies) which falls due after the relevant Tax Redemption Date, whereupon no Additional Tax Amounts shall be payable in respect thereof pursuant to Condition 9 and payment of all amounts shall be made subject to the deduction or withholding of the relevant Cayman Islands and/or Hong Kong taxes, duties, assessments or governmental charges required to be withheld or deducted. To exercise a right pursuant to this Condition 8(H), the relevant Holder must deposit a duly completed and signed notice of exercise, in the form for the time being currently obtainable from the specified office of any Paying Agent, together with the Certificate evidencing the Securities to be redeemed, on or before the day falling 15 days prior to the Tax Redemption Date at the specified office of any Paying Agent.

(I) ***Purchase***

The Guarantor or any of its Subsidiaries may at any time and from time to time purchase Securities at any price in the open market or otherwise.

(J) ***Cancellation***

All Securities which are redeemed or purchased by the Guarantor or any of its Subsidiaries will forthwith be cancelled. Certificates in respect of all Securities cancelled will be forwarded to or to the order of the Registrar and such Securities may not be reissued or resold.

9 **Taxation**

All payments made by the Issuer or the Guarantor under or in respect of the Securities and/or the Guarantee will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Cayman Islands or Hong Kong or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In such event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts (the "**Additional Tax Amounts**") as will

result in the receipt by the Holders of the net amounts after such deduction or withholding equal to the amounts which would otherwise have been receivable by them had no such deduction or withholding been required except that no such additional amount shall be payable in respect of any Security:

(i) *Other connection*: to a Holder (or to a third party on behalf of a Holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Security by reason of his having some connection with the Cayman Islands or Hong Kong, otherwise than merely by holding the Security or by the receipt of amounts in respect of the Security;

(ii) *Surrender more than 30 days after the relevant date*: (in the case of a payment of principal) if the Certificate in respect of such Security is surrendered more than 30 days after the relevant date except to the extent that the Holder would have been entitled to such additional amount on surrendering the relevant Certificate for payment on the last day of such period of 30 days; or

(iii) *Payment to individuals*: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

For the purposes hereof, "**relevant date**" means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, seven days after the date on which, the full amount having been so received, notice to that effect shall have been given to the Holders and cheques despatched or payment made.

References in these Conditions to principal, Distribution, premium, Arrears of Distribution and/or Additional Distribution Amount shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10 **Non-Payment**

(A) ***Non-Payment when due***

Notwithstanding any of the provisions below in this Condition 10, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distribution, such Distribution will not be due if the Issuer has elected to defer that Distribution pursuant to Condition 6(E).

In addition, nothing in this Condition 10, including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee, the Agents or any of their respective directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer and/or the Guarantor, as the case may be, in respect of any costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed, the Agency Agreement, the Securities or the Guarantee.

(B) ***Proceedings for Winding-Up***

If (i) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or the Guarantor or (ii) the Issuer or the Guarantor shall not make payment in respect of the Securities or the Guarantee, as the case may be, for a period of ten days or more after the date on which such

payment is due, the Issuer and the Guarantor shall be deemed to be in default under the Trust Deed, the Securities and the Guarantee and the Trustee may subject to the provisions of Condition 10(D), institute proceedings for the Winding-Up of the Issuer, the Guarantor or both of them (as applicable) and/or prove in the Winding-Up of the Issuer, the Guarantor or both of them (as applicable) and/or claim in the liquidation of the Issuer, the Guarantor or both of them (as applicable) for such payment.

(C) ***Enforcement***

Without prejudice to Condition 10(B) but subject to the provisions of Condition 10(D), the Trustee may without further notice to the Issuer and/or the Guarantor institute such proceedings against the Issuer, the Guarantor or both of them (as applicable) as it may think fit to enforce any term or condition binding on the Issuer and/or the Guarantor under the Trust Deed, the Securities or the Guarantee (other than any payment obligation of the Issuer or the Guarantor under or arising from the Securities, the Guarantee or the Trust Deed, including, without limitation, payment of any principal or premium or satisfaction of any Distributions (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities or the Guarantee, including any damages awarded for breach of any obligations) but in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

Nothing in this Condition 10(C) shall, however, prevent the Trustee from instituting proceedings for the winding-up of the Issuer, the Guarantor or both of them, proving in any winding-up of the Issuer, the Guarantor or both of them and/or claiming in any liquidation of the Issuer, the Guarantor or both of them in respect of any payment obligations of the Issuer or the Guarantor arising from the Securities, the Guarantee or the Trust Deed (including any damages awarded for breach of any obligations).

(D) ***Entitlement of Trustee***

The Trustee shall not, and shall not be obliged to, take any of the actions referred to in Condition 10(B) or Condition 10(C) against the Issuer, the Guarantor or both of them (as applicable) to enforce the terms of the Trust Deed, the Securities or the Guarantee (as applicable) unless (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the Holders of at least 25 per cent. in principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(E) ***Right of Holders***

No Holder shall be entitled to proceed directly against the Issuer or the Guarantor or to institute proceedings for the winding-up or claim in the liquidation of the Issuer or the Guarantor (as the case may be) or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder shall have only such rights against the Issuer or the Guarantor as those which the Trustee is entitled to exercise as set out in this Condition 10.

(F) ***Extent of Holders' remedy***

No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 10, shall be available to the Trustee or the Holders, whether for the recovery of amounts owing in respect of the Securities or the Guarantee or under the Trust Deed or in respect of any breach by the Issuer or the Guarantor of any of its other obligations under or in respect of the Securities or the Guarantee or under the Trust Deed, as the case may be.

11 Prescription

Claims in respect of amounts due in respect of the Securities will become prescribed unless made within ten years (in the case of principal and premium) and five years (in the case of Distributions) from the relevant date (as defined in Condition 9) in respect thereof.

12 Meetings of Holders

The Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Securities or the Guarantee or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50 per cent. in principal amount of the Securities for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Holders whatever the principal amount of the Securities so held or represented unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the due date for any payment in respect of the Securities, (ii) to reduce or cancel the amount of principal, premium, Distributions (including any Arrears of Distribution or Additional Distribution Amount) payable in respect of the Securities (other than a reduction in the Distribution Rate as a result of the waiver of a Breach), (iii) to change the currency of payment of the Securities, (iv) to cancel or modify the Guarantee or (v) to modify the provisions concerning the quorum required at any meeting of the Holders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 66 per cent., or at any adjourned such meeting not less than 33 per cent., in principal amount of the Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting. The Trust Deed provides that a written resolution signed by or on behalf of the Holders of not less than 90 per cent. of the principal amount of Securities for the time being outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

13 Modification, Waiver and Substitution or Variation

(A) *Modification and Waiver*

The Trustee may agree, without the consent of the Holders, to (i) any modification (except as mentioned in Condition 12) to, or the waiver or authorisation of any breach or proposed breach of, the Securities, the Guarantee, the Agency Agreement or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Holders or (ii) any modification to the Securities, the Guarantee, the Agency Agreement or the Trust Deed which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver or authorisation will be binding on the Holders and, unless the Trustee agrees otherwise, any such modification, waiver and authorisation will be notified by the Issuer to the Holders as soon as practicable thereafter.

(B) *Substitution or Variation*

If a Special Event has occurred and is continuing, then the Issuer may, subject to Condition 6 (without any requirement for the consent or approval of the Holders) and subject to it having satisfied the Trustee immediately prior to the giving of any notice referred to in this Condition 13(B) that the provisions of this Condition 13(B) have been complied with, and having given not less than 30 nor more than 60 days' irrevocable notice to the Trustee, the Principal Agent and, in accordance with Condition 16, the Holders, at any time either (i) substitute all, but not some only, of the Securities for,

or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities, and the Trustee shall (subject to the following provisions of this Condition 13(B) and subject to the receipt by it of the certificate of the directors of the Guarantor referred to in the definition of Qualifying Securities) agree to such substitution or variation.

Upon expiry of such notice, the Issuer shall either vary the terms of or, as the case may be, substitute the Securities in accordance with this Condition 13(B).

In connection therewith, any outstanding Arrears of Distribution (including any Additional Distribution Amount) shall be satisfied in full in accordance with the provisions of Condition 6(E)(vi).

In connection with any substitution or variation in accordance with this Condition 13(B), the Issuer shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

Any such substitution or variation in accordance with the foregoing provisions of this Condition 13(B) shall not be permitted if any such substitution or variation would itself give rise to a Special Event with respect to the Securities or the Qualifying Securities.

(C) ***Interests of Holders***

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those in relation to any proposed modification, authorisation, waiver, variation or substitution), the Trustee shall have regard to the interests of the Holders as a class and shall not have regard to the consequences of such exercise for individual Holders and the Trustee shall not be entitled to require on behalf of any Holder, nor shall any Holder be entitled to claim, from the Issuer, the Guarantor or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Holders except to the extent provided for in Condition 9 and/or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

(D) ***Certificates/Reports***

Any certificate or report of any expert or other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of these Conditions or the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts therein (and shall, in absence of manifest error, be conclusive and binding on all parties) notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee and/or the Issuer and/or the Guarantor and/or any other person in connection therewith contains a monetary or other limit on the liability of the relevant expert or person in respect thereof.

In the event of the passing of an Extraordinary Resolution in accordance with Condition 12, a modification, waiver or authorisation in accordance with Condition 13(A) or a substitution in accordance with Condition 13(B), the Issuer will procure that the Holders are notified in accordance with Condition 16.

14 Replacement of Certificates

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Transfer Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity and security as the Issuer and/or the Registrar or such Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time, without the consent of the Holders, create and issue further securities having the same terms and conditions as the Securities in all respects (or in all respects except for the first payment of Distribution in respect of them) and so that such further issue shall be consolidated and form a single series with the Securities. Such further securities shall be constituted by a deed supplemental to the Trust Deed.

16 Notices

Notices to the Holders shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

So long as the Securities are represented by the Global Certificate) and the Global Certificate is held on behalf of Euroclear, Clearstream or any Alternative Clearing System, notices to Holders shall be given by delivery of the relevant notice to Euroclear, Clearstream or any Alternative Clearing System, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

17 Agents

The names of the initial Registrar and other initial Agents and their specified offices are set out below. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Registrar or any other Agent and to appoint a replacement Registrar or additional or other Agent. The Issuer will at all times maintain (a) a Principal Agent, (b) as necessary, a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Directive 2003/48/EC or any other European Directive on the taxation of savings income or any law implementing or complying with, or introduced in order to conform, to such Directive, (c) an Agent having a specified office in Singapore where the Securities may be surrendered for payment or redemption, so long as the Securities are listed on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and the rules of that exchange so require and (d) a Registrar which will maintain the Register outside Hong Kong and the United Kingdom. Notice of any such termination or appointment, of any changes in the specified offices of the Registrar or any other Agent and of any change in the identity of the Registrar or the Principal Agent will be given promptly by the Issuer to the Holders in accordance with Condition 16 and in any event not less than 45 days' notice will be given.

18 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

19 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Securities or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999 except to the extent expressly provided for in these Conditions and in the Trust Deed.

20 Governing Law and Submission to Jurisdiction

The Securities, the Guarantee, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England. In relation to any legal action or proceedings arising out of or in connection with the Trust Deed, the Guarantee or the Securities, each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the non-exclusive jurisdiction of the courts of England and in relation thereto has appointed Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London, EC2V 7EX, United Kingdom as its agent for service of process in England.

21 Definitions

In these Conditions:

"**2013 Note Indenture**" means the indenture entered into by the Issuer and the Guarantor and DB Trustees (Hong Kong) Limited on 23 December 2010 in connection with the issuance by the Issuer of RMB3,000,000,000 US$ Settled 6.875% Senior Notes due 2013;

"**2015 RMB Note Indenture**" means the indenture entered into by the Issuer and the Guarantor and DB Trustees (Hong Kong) Limited on 26 January 2011 in connection with the issuance by the Issuer of RMB3,500,000,000 US$ Settled 7.625% Senior Notes Due 2015;

"**2015 SGD Note Indenture**" means the indenture entered into by Shui On Development (Singapore) Pte. Ltd and DB Trustees (Hong Kong) Limited, on 26 January 2012 in connection with the issuance by Shui On Development (Singapore) Pte. Ltd of S$250,000,000 8% Senior Notes due 2015;

"**2015 USD Note Indenture**" means the indenture entered into by the Issuer and the Guarantor and DB Trustees (Hong Kong) Limited on 16 February 2012 in connection with the issuance by the Issuer of US$400,000,000 9.75% Senior Notes Due 2015;

"**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;

"**Additional Tax Amounts**" has the meaning ascribed to it in Condition 9;

"**Affiliate**" means, with respect to any Person, any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person, (ii) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (i) of this definition or (iii) 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 (i) or (ii) of this definition. 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;

"**Arrears of Distribution**" has the meaning ascribed to it in Condition 6(E)(iv);

"**Asset Acquisition**" means (1) an investment by the Guarantor, the Issuer or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Guarantor, the Issuer or any Restricted Subsidiary; or (2) an acquisition by the Guarantor, the Issuer or any Restricted Subsidiary of the property and assets of any Person other than the Guarantor, the Issuer or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person;

"**Asset Disposition**" means the sale or other disposition by the Guarantor, the Issuer or any Restricted Subsidiary (other than to the Guarantor, the Issuer or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Guarantor, the Issuer or any Restricted Subsidiary;

"**Asset Sale**" means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock by the Issuer or a Restricted Subsidiary) in one transaction or a series of related transactions by the Guarantor, the Issuer or any Restricted Subsidiary to any Person; *provided* that "Asset Sale" shall not include:

(1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;

(2) sales, transfers or other dispositions of assets constituting a Permitted Investment;

(3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;

(4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Guarantor, the Issuer or any Restricted Subsidiary;

(5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien; and

(7) any sale, transfer or other disposition by the Guarantor, the Issuer or any Restricted Subsidiary, including the sale or issuance by the Guarantor, the Issuer or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Guarantor, the Issuer 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;

"**Board of Directors**" means the board of directors elected or appointed by the stockholders of the Guarantor to manage the business of the Guarantor or any committee of such board duly authorized to take the action purported to be taken by such committee;

"**Board Resolution**" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors;

"**Breach**" has the meaning ascribed to it in Condition 6(C)(i);

"**Breach of Covenant Redemption Date**" has the meaning ascribed to it in Condition 8(G);

"**Business Day**" means:

(i) in respect of Condition 4, any day other than a Saturday or Sunday on which banks are open for business in the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer) or the Agent with whom a Certificate is deposited in connection with a transfer is located;

(ii) in respect of Condition 6, any day, excluding a Saturday and a Sunday on which banks are open for general business (including dealings in foreign currencies) in Hong Kong, New York and London; and

(iii) in respect of Condition 7, any day other than a Saturday or Sunday on which commercial banks are open for business in New York, Hong Kong and the city in which the specified office of the Principal Agent is located and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered;

"**Calculation Date**" means, for the purpose of calculating:

(a) the Relevant Reset Distribution Rate, the commencement date of the relevant Reset Distribution Period; and

(b) any applicable Make Whole Amount, the applicable date fixed for redemption under any of Conditions 8(D), 8(E), 8(F) or 8(G);

"**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 Issue Date or issued thereafter, including, without limitation, all common shares and preference shares, but excluding debt securities convertible into such equity;

"**Capitalised 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;

"**Capitalised Lease Obligations**" means the discounted present value of the rental obligations under a Capitalised Lease;

"**Certificate**" has the meaning ascribed to it in Condition 1(A);

"**Change of Control**" means the occurrence of one or more of the following events:

(1) the merger, amalgamation or consolidation of the Guarantor or the Issuer with or into another Person or the merger or amalgamation of another Person with or into the Guarantor or the Issuer, or the sale of all or substantially all the assets of the Guarantor or the Issuer to another Person;

(2) the Controlling Shareholders are the beneficial owners of less than 35.0% of the total voting power of the Voting Stock of the Guarantor or the Issuer;

(3) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the U.S. Exchange Act of 1934, as amended (the "**Exchange Act**")) is or becomes the "beneficial owner" (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Issuer or Guarantor is greater than such total voting power held beneficially by the Controlling Shareholders;

(4) individuals who on the Issue Date constituted the board of directors of the Guarantor or the Issuer, as the case may be, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Guarantor or the Issuer, as the case may be, then in office; or

(5) the adoption of a plan relating to the liquidation or dissolution of the Guarantor or the Issuer;

"**Change of Control Redemption Date**" has the meaning ascribed to it in Condition 8(F);

"**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;

"**Comparable Treasury Issue**" means (a) in relation to calculating the Relevant Reset Distribution Rate, the US Treasury security selected by the Calculation Agent as having a maturity of five years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of five years and (b) in relation to calculating a Make Whole Amount, the US Treasury security selected by the Calculation Agent as having a maturity comparable to the Remaining Life that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most closely corresponding to the Remaining Life;

"**Comparable Treasury Price**" means, with respect to any redemption date:

(1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for US Government Securities"; or

(2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations;

"**Compulsory Distribution Payment Event**" means circumstances in which during the 12 month period ending on the day before the relevant Distribution Payment Date either or both of the following have occurred:

(a) a discretionary dividend, distribution or other payment has been paid or declared by the Guarantor (or in the case of any Parity Securities, the issuer thereof) on or in respect of any Junior Securities, preference shares or Parity Securities of the Guarantor (other than any discretionary dividend, distribution or other payment paid or declared by a wholly-owned Subsidiary of the Guarantor to either (i) the Guarantor or (ii) another Subsidiary of the Guarantor); or

(b) the Issuer or the Guarantor (or in the case of Parity Securities, the issuer thereof) has at its discretion repurchased, redeemed or otherwise acquired any of its Junior Securities, preference shares or Parity Securities;

"**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 Guarantor, the Issuer and the Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Guarantor, the Issuer or any Restricted Subsidiary and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV;

"**Consolidated Fixed Charges**" means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Guarantor, the Issuer or any Restricted Subsidiary held by Persons other than the Guarantor, the Issuer or any of the Issuer's Wholly Owned Restricted Subsidiaries, except for dividends payable in the Guarantor's Capital Stock (other than Disqualified Stock) or paid to the Guarantor, the Issuer or to a Wholly Owned Restricted Subsidiary of the Issuer;

"**Consolidated Interest Expense**" means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Guarantor, the Issuer and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Guarantor, the Issuer and its Restricted Subsidiaries, without duplication, (1) interest expense

attributable to Capitalised 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 amortisation of fees), (6) interest accruing on Indebtedness of any other Person that is (x) New Guaranteed by, or (y) secured by a Lien on any asset of, the Guarantor, the Issuer or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees), *provided* that with respect to clause (y) of this definition, for purposes of this calculation, the amount of interest taken into account shall be equal to (i) the interest accruing on the secured Indebtedness multiplied by (ii) the ratio of the Fair Market Value of the assets subject to such Lien to the aggregate principal amount of such Indebtedness, and (7) any capitalised 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 (and, in the case such Person is Shui On Land, including the Issuer) for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

(1) the net income (or loss) of any Person that is not the Issuer or a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:

    (a) subject to the exclusion contained in clause (5) below of this definition, the Guarantor 's and the Issuer 's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Guarantor, the Issuer or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below of this definition); and

    (b) the Guarantor 's and the Issuer 's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Guarantor, the Issuer or Restricted Subsidiaries;

(2) the net income (or loss) of any Person (other than the Issuer) accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Guarantor, the Issuer or any Restricted Subsidiary or all or substantially all of the property and assets of such Person are acquired by the Guarantor, the Issuer or any Restricted Subsidiary;

(3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(4) the cumulative effect of a change in accounting principles;

(5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Guarantor, the Issuer or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Guarantor or the Issuer realised on sales of Capital Stock of the Guarantor, the Issuer or other Restricted Subsidiaries);

(6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and

(7) any net after-tax extraordinary or non-recurring gains;

"**Contractor Guarantees**" means any New Guarantee by the Guarantor, the Issuer or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Guarantor, the Issuer or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used in a Permitted Business by the Guarantor, the Issuer or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

"**Controlling Shareholders**" means any or all of the following:

(a) Mr. Vincent H. S. Lo;

(b) any Affiliate (other than an Affiliate as defined in clause (ii) or (iii) of the definition of Affiliate) of the Person specified in clause (a) of this definition; and

(c) 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 (a) and (b) of this definition;

"**Currency Agreement**" means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates;

"**Dalian Tiandi Project**" means the development project of the Issuer located in Dalian, the PRC conducted through a joint venture arrangement among the Issuer and other investors;

"**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 at any time while the Securities are outstanding, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time while the Securities are outstanding or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above of this definition or Indebtedness having a scheduled maturity any time prior to the date on which no Securities are outstanding; *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 under the Securities shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favourable to the holders of such Capital Stock than the provisions contained in Condition 5(D) and Condition 8(D) and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Issuer's repurchase or redemption of such Securities as required by the foregoing Conditions;

"**Distribution**" has the meaning ascribed to it in Condition 6(A);

"**Distribution Payment Date**" means 10 June and 10 December in each year, starting on (and including) 10 June 2013;

"**Distribution Record Date**" has the meaning ascribed to it in Condition 7(A);

"**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;

"**Early Redemption Amount**" means, in relation to a redemption pursuant to any of Conditions 8(D), 8(E), 8(F) or 8(G), the greater of:

(a) the principal amount of the Securities, together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount); and

(b) the Make Whole Amount, together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount),

provided that, except in the case of Condition 8(D), on any Call Date from and including the First Call Date, the redemption price shall be equal to the principal amount of the Securities together with any Distribution accrued to such date (including any Arrears of Distribution and any Additional Distribution Amount);

"**Entrusted Loans**" means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, *provided* that such borrowings are not reflected on the consolidated balance sheet of the Issuer;

"**Equity Disqualification Event**" has the meaning ascribed to it in Condition 8(E);

"**Equity Disqualification Event Notice**" has the meaning ascribed to it in Condition 8(E);

"**Equity Disqualification Event Redemption Date**" has the meaning ascribed to it in Condition 8(E);

"**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended;

"**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;

"**Fixed Charge Coverage Ratio**" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent two semi-annual periods prior to such Transaction Date for which consolidated financial statements of the Guarantor (which the Guarantor shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the "Two Semi-Annual Period") to (2) the aggregate Consolidated Fixed Charges during such Two Semi-Annual Period. In making the foregoing calculation:

(a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the "Reference Period") commencing on and including the first day of the Two Semi-Annual Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semi-Annual Period), in each case as if such Indebtedness, Disqualified

Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Guarantor, the Issuer or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness, Disqualified Stock or Preferred Stock;

(b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;

(d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and

(e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Guarantor, the Issuer or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the two full fiscal semi-annual periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available;

"**GAAP**" means International Financial Reporting Standards promulgated by the International Accounting Standards Board (or any successor board or agency) as in effect from time to time. All ratios and computations contained or referred to in the Conditions shall be computed in conformity with GAAP applied on a consistent basis;

"**Guarantee**" has the meaning ascribed to it in Condition 2;

"**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 (in relation to a Security) the person in whose name a Security is registered;

"**Incur**" means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, New 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 Capitalised 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 New Guaranteed by such Person to the extent such Indebtedness is New 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; and

(10) any Preferred Stock issued (a) by such Person, if such Person is a Restricted Subsidiary, or (b) any Restricted Subsidiary of such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends;

but excluding the Securities and any other substantially identical instruments issued in the future, to the extent such instruments are classified as equity in accordance with GAAP.

For the avoidance of doubt, a mandatory put option granted to a Person that obligates the Guarantor, the Issuer or any Restricted Subsidiary to repurchase the Capital Stock of any Restricted Subsidiary or any other Person shall be deemed to be "Indebtedness".

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligation, Entrusted Loans, pre-sale receipts in advance from customers, performance obligation or similar obligations (and any New Guarantee thereof) Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business; *provided* that such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Guarantor (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided* (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP, (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest, and (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to paragraph (e) under the definition of Permitted Indebtedness, and (ii) equal to the net amount payable by such Person if such Hedging Obligation terminated at that time if not Incurred pursuant to such provision;

"**Independent Investment Bank**" means an independent investment bank of international repute (acting as an expert) selected by the Guarantor and notified in writing to the Trustee;

"**Initial Distribution Rate**" means 10.125 per cent. per annum;

"**Initial Spread**" means 9.487 per cent.;

"**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 New Guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent guaranteed by such Person.

For the purposes of Condition 5(H): (1) the Guarantor or the Issuer, as the case may be, will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Guarantor's or the Issuer's proportional interest in the Fair Market Value of the assets (net of the Guarantor's or the Issuer's proportionate interest in the liabilities owed to any Person other than the Guarantor, the Issuer or a Restricted Subsidiary and that are not New Guaranteed by the Guarantor, the Issuer 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;

"**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 Property**" means any property that is owned and held by the Guarantor, the Issuer or any Restricted Subsidiary for long-term rental yields or for capital appreciation or both, or any hotel owned by the Guarantor, the Issuer or any Restricted Subsidiary from which the Guarantor, the Issuer or any Restricted Subsidiary derives or expects to derive operating income;

"**Junior Securities**" means (a) in respect of the Issuer, (i) any class of the Issuer's share capital (including preference shares); (ii) any security issued by the Issuer which ranks, or is expressed to rank junior to the Issuer's obligations under the Securities; and (iii) any security guaranteed by the Issuer or for which the Issuer has otherwise assumed liability where the Issuer's obligations under the relevant guarantee or other assumption of liability rank or are expressed to rank junior to the Issuer's obligations under the Securities, and (b) in respect of the Guarantor, (i) any class of the Guarantor's share capital (including preference shares), (ii) any security issued by the Guarantor which ranks or is expressed to rank junior to the Guarantor's obligations under the Guarantee; and (iii) any security guaranteed by the Guarantor or for which the Guarantor has otherwise assumed liability where the Guarantor's obligations under the relevant guarantee or other assumption of liability rank or are expressed to rank junior to the Guarantor's obligations under the 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);

"**Make Whole Amount**" means, with respect to any redemption date pursuant to a redemption in accordance with any of Conditions 8(D), 8(E), 8(F) or 8(G), the amount, as determined by the Calculation Agent, equal to the sum of (a) the present value of the principal amount of the Securities to be redeemed discounted from the next Call Date, and (b) the present value of all Distributions payable (or but for any deferral would be payable) on a Distribution Payment Date after such redemption date (exclusive of Distributions accrued to the relevant redemption date) to, and including, the next Call Date, discounted to the relevant redemption date on a semi-annual basis (assuming a 360 day year consisting of twelve 30 day months) at the Treasury Rate plus 1.5 per cent. per annum;

"**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 Guarantor, the Issuer and the Restricted Subsidiaries, taken as a whole;

   (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;

   (d) appropriate amounts to be provided by the Guarantor, the Issuer or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and

(2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof;

"**New 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 "New Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "New Guarantee" used as a verb has a corresponding meaning;

"**New York Business Day**" means any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York City;

"**Offer to Purchase**" means an offer to purchase Securities by the Issuer or the Guarantor from the Holders commenced by the Issuer or the Guarantor, as applicable, mailing a notice by first class mail, postage prepaid, to the Trustee, the Principal Agent and each other Paying Agent and each Holder at its last address appearing in the Register stating:

(1) the covenant pursuant to which the offer is being made and that all Securities validly tendered will be accepted for payment on a pro rata basis;

(2) the purchase price expressed as a percentage of the principal amount of such Securities, 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 Security not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Issuer or the Guarantor, as applicable, defaults in the payment of the purchase price, any Security 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 Security purchased pursuant to the Offer to Purchase will be required to surrender the Security, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Security completed, to the Principal Agent or any other Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(6) that Holders will be entitled to withdraw their election if the Principal Agent or any other 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 Securities delivered for purchase and a statement that such Holder is withdrawing his election to have such Securities purchased; and

(7) that Holders whose Securities are being purchased only in part will be issued new Securities equal in principal amount to the unpurchased portion of the Securities surrendered; *provided* that each Security purchased and each new Security issued shall be in a principal amount of US$200,000 or integral multiples of US$1,000 in excess thereof.

On the Offer to Purchase Payment Date, the Issuer or the Guarantor, as applicable, shall (a) accept for payment on a pro rata basis Securities 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 Securities or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Securities or portions thereof so accepted together with an Officers' Certificate specifying the Securities or portions thereof accepted for payment by the Issuer. The Paying Agent shall promptly mail to the Holders of Securities 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 Securities equal in principal amount to any unpurchased portion of the Security surrendered; *provided* that each Security purchased and each new Security issued shall be in a principal amount of US$200,000 or integral multiples of US$1,000 in excess thereof. The Issuer or the Guarantor, as applicable, will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Issuer or the Guarantor, as applicable, will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Issuer or the Guarantor is required to repurchase Securities pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Guarantor, the Issuer and the Issuer 's Subsidiaries which the Issuer or the Guarantor, as applicable, in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Issuer or the Guarantor, as applicable, to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Securities pursuant to the Offer to Purchase.

"**Offering Circular**" means the offering circular published by the Issuer with respect to the Securities dated 3 December 2012;

"**Officer**" means one of the executive officers of the Guarantor or, in the case of the Issuer, one of the directors or officers of the Issuer, as the case may be;

"**Officers' Certificate**" means a certificate signed by two Officers;

"**Parity Securities**" means, in respect of the Issuer and the Guarantor, as the case may be: (i) any security issued or guaranteed by the Issuer which ranks or is expressed to rank *pari passu* with the Securities and under which distributions may be deferred at the discretion of the relevant issuer in accordance with the terms and conditions thereof; (ii) any security issued by the Guarantor which ranks or is expressed to rank *pari passu* with the Guarantor's obligations under the Guarantee and under which distributions may be deferred at the discretion of the relevant issuer in accordance with the terms and conditions thereof; and (iii) any security under which distributions may be deferred at the discretion of the relevant issuer in accordance with the terms and conditions thereof guaranteed by the Guarantor or for which the Guarantor has otherwise assumed liability where the Guarantor's obligations under the relevant guarantee or other assumption of liability rank or are expressed to rank *pari passu* with the Guarantor's obligations under the Guarantee;

"**Paying Agents**" means the Principal Agent and any other Paying Agent appointed from time to time in accordance with the Agency Agreement;

"**Permitted Business**" means any business which is the same as or related, ancillary or complementary to any of the businesses of the Guarantor, the Issuer and the Restricted Subsidiaries on the Issue Date;

"**Permitted Indebtedness**" means each and all of the following:

(a) Indebtedness under the Securities (excluding any further issues of Securities) and the Guarantee;

(b) Indebtedness of the Guarantor, the Issuer or any Restricted Subsidiary outstanding on the Issue Date excluding Indebtedness permitted under paragraph (c) of this definition; *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;

(c) Indebtedness of the Guarantor, the Issuer or any Restricted Subsidiary owed to the Guarantor, the Issuer or any Restricted Subsidiary; *provided* that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Guarantor, the Issuer or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this paragraph (c) and (ii) with respect to any Indebtedness incurred after the Issue Date, if the Guarantor or the Issuer is the obligor on such Indebtedness (and the Issuer or Guarantor is not the obligee), such Indebtedness must be unsecured and expressly be subordinated in right of payment to the Securities;

(d) Indebtedness ("**Permitted Refinancing Indebtedness**") issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, "refinance" and "refinances" and "refinanced" shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness repaid substantially concurrently with but in any case before the Incurrence of such Permitted Refinancing Indebtedness) Incurred under paragraph 1 of Condition 5(C) or paragraphs (a), (b), (f), (m), (n) or (q) of this definition 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 Securities or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Securities or the Guarantee shall only be permitted under this paragraph (d) if (A) in case the Securities are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Securities or the Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Securities or the Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Securities or the 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 Securities or the Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Securities or the Guarantee, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded, and (iii) in no event may Indebtedness of the Issuer or the Guarantor be refinanced pursuant to this paragraph (d) by means of any Indebtedness of any Restricted Subsidiary;

(e) Indebtedness Incurred by the Guarantor, the Issuer or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Guarantor, the Issuer or any Restricted Subsidiary from fluctuations in interest rates, currencies or the price of commodities and not for speculation;

(f) Indebtedness Incurred by the Guarantor, the Issuer or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Issuer or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such assets, real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, (y) all or any part of the purchase price or the cost of development, construction or improvement of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Issuer or a Restricted Subsidiary in the Permitted Business, or (z) the Wuhan Tiandi Project; *provided* that (i) in the case of each of paragraphs (x) and (y) of this paragraph (f), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost and (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 (ii) in the case of each of paragraphs (x), (y) and (z) of this paragraph (f), on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (aa) the aggregate principal amount outstanding of all such Indebtedness permitted by this paragraph (f) (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under this paragraph (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) plus (bb) the sum of the aggregate amount outstanding of all Indebtedness permitted under paragraphs (n) and (q) of this definition (together with refinancings thereof, but excluding any New Guarantee Incurred under such paragraphs (n) and (q) to the extent the amount of such New Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets;

(g) Indebtedness Incurred by the Guarantor, the Issuer or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);

(h) Indebtedness Incurred by the Guarantor, the Issuer or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit or trade guarantees issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Issuer or such Restricted Subsidiary of a demand for reimbursement;

(i) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from New Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Guarantor, the Issuer or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than New 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 New Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;

(j) Indebtedness arising from the honouring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business *provided*, however, that such Indebtedness is extinguished within five Business Days of Incurrence;

(k) New Guarantees by the Guarantor, the Issuer or any Restricted Subsidiary of Indebtedness of the Guarantor, the Issuer or any Restricted Subsidiary that was permitted to be Incurred by another provision of Condition 5(C);

(l) Indebtedness of the Guarantor, the Issuer or any Restricted Subsidiary with a maturity of one year or less used by the Guarantor, the Issuer or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this paragraph (l) at any time outstanding does not exceed US$25.0 million (or the Dollar Equivalent thereof);

(m) Indebtedness of the Guarantor, the Issuer or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US$75.0 million (or the Dollar Equivalent thereof);

(n) Indebtedness Incurred by any Restricted Subsidiary which is secured by Investment Properties or by the assets or the Capital Stock of a Restricted Subsidiary directly or indirectly owning such Investment Properties; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, (i) the aggregate principal amount outstanding of all such Indebtedness permitted under this paragraph (n) (together with refinancings thereof, but excluding any New Guarantee thereof to the extent the amount of such New Guarantee is otherwise reflected in such aggregate principal amount) does not exceed 75% of the total Fair Market Value of such Investment Properties and (ii) the sum of (x) the aggregate amount outstanding of all Indebtedness permitted under this paragraph (n) (together with refinancings thereof, but excluding any New Guarantee Incurred under this paragraph (n) to the extent the amount of such New Guarantee is otherwise reflected in such aggregate principal amount) plus (y) the aggregate amount outstanding of all Indebtedness permitted under paragraph (f) above of this definition and paragraph (q) below of this definition (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under such paragraph (f) of this definition and any New Guarantee Incurred under such paragraph (q) of this definition to the extent the amount of such Contractor Guarantee or New Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35% of Total Assets;

(o) Indebtedness of any Person outstanding on the date on which such Person becomes a Restricted Subsidiary or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Guarantor, the Issuer or any Restricted Subsidiary (other than Indebtedness incurred to provide all or any portion of the funds utilised to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by the Guarantor, the Issuer or a Restricted Subsidiary); *provided,* however, with respect to this clause (o), that at the time of the acquisition or other transaction pursuant to which such Indebtedness was deemed to be incurred (x) the Guarantor or the Issuer would have been able to incur US$1.00 of additional Indebtedness pursuant to the first paragraph of Condition 5(C) or (y) the Fixed Charge Coverage Ratio would not be lower than it was immediately prior to giving *pro forma* effect to the incurrence of such Indebtedness pursuant to this paragraph (o);

(p) Pre-Registration Mortgage Guarantees by the Guarantor, the Issuer or any Restricted Subsidiary;

(q) Indebtedness Incurred by the Guarantor, the Issuer or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) and/or a Lien by the Guarantor, the Issuer or such Restricted Subsidiary, *provided* that on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (x) the aggregate principal amount outstanding of all Indebtedness permitted under this paragraph (q) (together with refinancings thereof, but excluding any New Guarantee Incurred under this paragraph (q) to the extent the amount of such New Guarantee is otherwise reflected in such aggregate principal amount) plus (y) the aggregate principal amount outstanding of all Indebtedness permitted under paragraphs (f) and (n) above of this definition (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under such paragraph (f) of this definition and any New Guarantee Incurred under such paragraph (n) of this definition to the extent the amount of such Contractor Guarantee or New Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets; and

(r) New Guarantees and/or Liens by the Guarantor or the Issuer of Indebtedness or other obligations related to the Dalian Tiandi Project in an aggregate amount not to exceed RMB1.0 billion.

For purposes of determining compliance with Condition 5(C), in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described above in this definition, including under the proviso in the first paragraph of Condition 5(C), the Issuer, in its sole discretion, shall classify or reclassify, or later divide, classify or reclassify, such item of Indebtedness (or any portion thereof) in any manner that complies with this covenant.

For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; *provided* that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of Condition 5(C), the maximum amount of Indebtedness that may be Incurred pursuant to Condition 5(C) shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such refinancing Indebtedness is denominated that is in effect on the date of such refinancing;

"**Permitted Investment**" means:

(1) any Investment in the Guarantor, the Issuer or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment or immediately thereafter, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Guarantor, the Issuer or a Restricted Subsidiary that is primarily engaged in a Permitted Business;

(2) Temporary Cash Investments;

(3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(4) stock, obligations or securities received in satisfaction of judgments;

(5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(6) any Investment pursuant to a Hedging Obligation designed solely to protect the Guarantor, the Issuer or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;

(7) receivables owing to the Guarantor, the Issuer or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(8) Investments made by the Guarantor, the Issuer or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale made in compliance with Condition 5(D);

(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 Condition 5(A);

(10) any Investment pursuant to Contractor Guarantees by the Guarantor, the Issuer or any Restricted Subsidiary otherwise permitted to be Incurred under the Trust Deed and these Conditions;

(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 Guarantor 's consolidated balance sheet;

(13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;

(14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;

(15) deposits made in order to secure the performance of the Guarantor, the Issuer or any Restricted Subsidiary and prepayments made in connection with the direct or indirect acquisition of real property or land use rights by the Guarantor, the Issuer or any Restricted Subsidiary, in each case in the ordinary course of business;

(16) Guarantees of the type as described in paragraph (q) of the definition of Permitted Indebtedness and permitted to be Incurred under Condition 5(C); and

(17) any Investment by the Guarantor, the Issuer or any Restricted Subsidiary in any Person (other than a Restricted Subsidiary) primarily engaged in a Permitted Business, of which 15% or more of the Capital Stock and the Voting Stock is, or immediately following such Investment will be, owned, directly or indirectly, by the Guarantor, the Issuer or any Restricted Subsidiary (such Person, an "**Associate**"), *provided* that:

(i) the aggregate of all Investments made under this clause (17) since the Issue Date shall not exceed in aggregate an amount equal to the sum of (x) 20% of Total Assets and (y) the aggregate amount of consideration received as a result of any disposal of assets or other interests in the Dalian Tiandi Project. Such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made under this clause (17) since the Issue Date resulting from:

(A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause, in each case to the Issuer or any Restricted Subsidiary or repayments of loans or advances, dividends or other distributions (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income),

(B) the unconditional release of a New Guarantee provided by the Guarantor, the Issuer or a Restricted Subsidiary after the Issue Date under this clause of an obligation of any such Person, or

(C) to the extent that an Investment made after the Issue Date under this clause (17) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or

(D) such Associate becoming a Restricted Subsidiary (whereupon all Investments (other than Permitted Investments) made by the Issuer or any Restricted Subsidiary in such Associate since the Issue Date shall be deemed to have been made pursuant to clause (1) of this Permitted Investment definition);

not to exceed, in each case, the amount of Investments made by the Guarantor, the Issuer or a Restricted Subsidiary after the Issue Date in any such Person pursuant to this clause (17); and

(ii) no default under the Trust Deed and no Breach of these Conditions has occurred and is continuing or would occur as a result of such Investment;

"**Permitted Liens**" means:

(1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, sales and dispositions of assets, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Guarantor, the Issuer and the Restricted Subsidiaries, taken as a whole;

(5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Guarantor, the Issuer or any Restricted Subsidiary relating to such property or assets;

(6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Guarantor, the Issuer or any Restricted Subsidiary other than the property or assets acquired; *provided* further that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;

(7) Liens in favour of the Guarantor, the Issuer or any Restricted Subsidiary;

(8) Liens arising from the rendering of a final judgment or order against the Guarantor, the Issuer or any Restricted Subsidiary that does not give rise to a Breach or a default under the Trust Deed or these Conditions;

(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 (as defined in paragraph (e) of the above definition of Permitted Indebtedness) permitted pursuant to the second paragraph of Condition 5(C);

(11) Liens existing on the Issue Date;

(12) Liens securing Permitted Refinancing Indebtedness (as defined under paragraph (d) of the above definition of Permitted Indebtedness) which is Incurred to refinance secured Indebtedness which is permitted to be Incurred pursuant to the second paragraph of Condition 5(C); *provided* that such Liens do not extend to or cover any property or assets of the Issuer or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(13) any interest or title of a lessor in the property subject to any operating lease;

(14) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favour 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 Guarantor, the Issuer or any Restricted Subsidiary;

(15) Liens (including extensions and renewals thereof) upon assets (including Capital Stock), real or personal property (including land use rights) or equipment owned by a Restricted Subsidiary created after the Issue Date; *provided* that (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under paragraph (f) of the above definition of Permitted Indebtedness and permitted under Condition 5(C) and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such assets, property or equipment and (b) the aggregate book value of assets, property and equipment (as reflected in the most recent available consolidated financial statements of the Guarantor (which may be internal consolidated statements) or, if any such assets, property or equipment have been acquired since the date of such financial statements, the purchase price or cost of such assets, property or equipment) subject to Liens incurred pursuant to this clause (15) does not exceed 200% of the aggregate principal amount of Indebtedness secured by such Liens;

(16) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Guarantor, the Issuer or any Restricted Subsidiary;

(17) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Guarantor, the Issuer or any Restricted Subsidiary;

(18) Liens on deposits made in order to secure the performance of the Guarantor, the Issuer or any Restricted Subsidiary in connection with the acquisition of real property or land use rights by the Guarantor, the Issuer or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Guarantor, the Issuer or any Restricted Subsidiary;

(19) Liens incurred or deposits made to secure Entrusted Loans;

(20) Liens securing Indebtedness under any Pre-Registration Mortgage Guarantee by the Guarantor, the Issuer or any Restricted Subsidiary;

(21) Liens on Investment Properties or the assets or the Capital Stock of a Restricted Subsidiary directly or indirectly owning such Investment Properties securing Indebtedness of the Guarantor, the Issuer or any Restricted Subsidiary of the type as described in paragraph (n) under the above definition of Permitted Indebtedness and permitted to be Incurred under Condition 5(C);

(22) Any renewal or extension of the Liens described in the foregoing clauses of this definition which is limited to the original property or assets covered thereby;

(23) Liens securing Indebtedness Incurred of the type as described in paragraph (q) of the above definition of Permitted Indebtedness and permitted to be Incurred under Condition 5(C); and

(24) any Liens securing Indebtedness or other obligations related to the Dalian Tiandi Project of the Guarantor or the Issuer in an aggregate amount not to exceed RMB1.0 billion;

"**Permitted Subsidiary Indebtedness**" means Indebtedness (other than Public Indebtedness, but including Acquired Indebtedness) of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole; *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding any Indebtedness of any Restricted Subsidiary permitted under clauses (a), (c), and (e) of the definition of Permitted Indebtedness) does not exceed an amount equal to 15% of the Total Assets;

a "**Person**" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of state (in each case whether or not being a separate legal entity);

"**PRC**" means the People's Republic of China, excluding Hong Kong Special Administrative Region, Macau and Taiwan;

"**PRC CJV**" means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended;

"**PRC CJV Partner**" means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Issuer or any Restricted Subsidiary;

"**PRC Restricted Subsidiary**" means a Restricted Subsidiary organised under the laws of the PRC;

"**Pre-Registration Mortgage Guarantee**" means any Indebtedness of the Guarantor, the Issuer or any Restricted Subsidiary consisting of a New Guarantee in favour 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 Guarantor, the Issuer or any Restricted Subsidiary; *provided* that, any such New Guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favour 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 Securities) to institutional investors;

"**Qualifying Securities**" means securities that:

(a) have terms not materially less favourable to an investor than the terms of the Securities (as determined by the Trustee in its discretion, and *provided* that certification to such effect (and confirming that the conditions set out in (i) and (ii) below of this definition have been satisfied) of (a) two directors of the Guarantor and (b) an Independent Investment Bank, shall have been delivered to the Trustee prior to the substitution or variation of the relevant Securities upon which certificates the Trustee shall rely absolutely), *provided* that (i) they are issued by the Issuer or any wholly-owned direct or indirect finance Subsidiary of the Guarantor; (ii) they are unconditionally and irrevocably guaranteed by the Guarantor on a subordinated basis; and (iii) they (or, as appropriate, the Guarantee as aforesaid) shall rank *pari passu* on a Winding-Up with the Securities and shall contain terms which provide at least for the same Distribution Rate from time to time applying to the Securities and otherwise have substantially identical terms (as determined by the Trustee in its discretion) to the Securities save where any modifications to such terms are required to be made to avoid the occurrence of a Gross-Up Event or, as the case may be, an Equity Disqualification Event; and

(b) are listed on the Official List of the main board of either the SGX-ST or the Hong Kong Stock Exchange or such other stock exchange as may be approved by the Trustee;

"**Reference Treasury Dealer**" means each of any three investment banks of recognised standing that is a primary US Government securities dealer in New York City, selected by the Guarantor 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 Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Calculation Agent by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date;

"**Register**" means the register of Holders which the Issuer shall procure to be kept by the Registrar;

"**relevant date**" has the meaning ascribed to it in Condition 9;

"**Relevant Reset Distribution Rate**" means the Treasury Rate with respect to the relevant Reset Date plus the Initial Spread plus the Step-Up Margin per annum;

"**Remaining Life**" means the period from the applicable redemption date to the next Call Date after such redemption date;

"**Replacement Assets**" means, with respect to Asset Sales, (1) properties or assets that replace the properties and assets that were the subject of such Asset Sale or (2) property or assets (other than current assets) of a nature or type that are used in a Permitted Business and shall include (i) Capital Stock of any Person holding such property or assets, which is primarily engaged in a Permitted Business and will upon the acquisition by the Issuer or any of its Restricted Subsidiaries of such Capital Stock, remain or become a Restricted Subsidiary and (ii), solely with respect to an Asset Sale consisting of a sale of shares of Capital Stock of a Person other than a direct or indirect Subsidiary of the Guarantor, shares of Capital Stock constituting a Permitted Investments under clause (17) of the definition thereof;

"**Reset Date**" means the First Call Date and each day falling every five calendar years after the First Call Date;

"**Reset Distribution Period**" means the period beginning on and including the First Call Date and ending on but excluding the following Reset Date and each successive period beginning on and including a Reset Date and ending on but excluding the next succeeding Reset Date;

"**Restricted Subsidiary**" means any Subsidiary of the Guarantor or the Issuer other than (x) an Unrestricted Subsidiary and (y) the Issuer;

"**S&P**" means Standard & Poor's Ratings Services and its affiliates;

"**Sale and Leaseback Transaction**" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Issuer, the Guarantor or any Subsidiary transfers such property to another Person and the Issuer, the Guarantor or any Subsidiary leases it from such Person;

"**Senior Indebtedness**" of the Guarantor or the Issuer, as the case may be, means all Indebtedness of the Guarantor or the Issuer, as relevant, whether outstanding on the Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Issuer, the Securities, or (b) in respect of the Guarantor, the Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Guarantor, the Issuer or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Trust Deed or these Conditions.

"**Special Event**" means a Gross-Up Event, an Equity Disqualification Event or any combination of the foregoing;

"**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;

"**Step-up Margin**" means 3.00 per cent.;

"**Subsidiary**" means, with respect to any Person, any corporation, association or other business entity of which more than 50 per cent. of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person; *provided* that any corporation, association or other business entity that is not consolidated with such Person in accordance with GAAP will not be Subsidiary;

"**Tax Redemption Date**" has the meaning ascribed to it in Condition 8(B);

"**Tax Redemption Notice**" has the meaning ascribed to it in Condition 8(B);

"**Temporary Cash Investments**" means any of the following:

(1) direct obligations of the United States of America, any state of the European Economic Area, the PRC and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally guaranteed by the United States of America, any state of the European Economic Area, the PRC and Hong Kong or any agency of any of the foregoing, in each case maturing within one year;

(2) time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organised under the laws of the United States of America, any state thereof, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognised statistical rating organisation (as defined in Rule 436 under the United States Securities Act of 1933 as amended) 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 Guarantor or the Issuer) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognised by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P;

(5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or Moody's;

(6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

(7) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Commercial Bank of China, Hongkong and Shanghai Banking Corporation and Bank of Shanghai, (ii) any other bank, trust company or other financial institution organised under the laws of the PRC or Hong Kong whose long-term debt is rated as high or higher than any of those

banks described in clause (i) of this paragraph or (iii) any other bank, trust company or other financial institution organised under the laws of the PRC or Hong Kong; *provided* that, in the case of clause (iii) of this paragraph (7), such deposits do not exceed US$10.0 million (or the Dollar Equivalent thereof) with any single bank or US$30.0 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination thereafter;

"**Total Assets**" means, as of any date, the total consolidated assets of the Guarantor, the Issuer and the Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual period for which consolidated financial statements of the Guarantor (which the Guarantor shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to the type of Indebtedness described in paragraph (f) under the above definition of Permitted Indebtedness and permitted pursuant to Condition 5(C) and the definition of Permitted Subsidiary Indebtedness, Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Guarantor, the Issuer or any Restricted Subsidiary to the bank or other similar financial institutional lender providing such Indebtedness;

"**Trade Payables**" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or New Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services;

"**Transaction Date**" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred;

"**Transfer Agents**" means the Principal Agent and any other Transfer Agent appointed from time to time pursuant to the Agency Agreement;

"**Treasury Rate**" means the rate in per cent. per annum notified by the Calculation Agent to the Issuer, the Guarantor and the Holders (in accordance with Condition 16) equal to the yield, under the heading that represents the average for the week immediately prior to the relevant Calculation Date, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded US Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities" for the maturity corresponding to the Comparable Treasury Issue (in the case of calculating a Make Whole Amount, if there is no Comparable Treasury Issue with a maturity within three months before or after the next Call Date after such redemption date, yields for the two published maturities most closely corresponding to such Call Date will be determined and the Treasury Rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month). If such release (or any successor release) is not published during the week preceding the Calculation Date or does not contain such yields, "Treasury Rate" means the rate in per cent. per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Calculation Date. The Treasury Rate will be calculated on the second New York Business Day preceding the relevant Calculation Date;

"**Unrestricted Subsidiary**" means (1) any Subsidiary of the Issuer that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in Condition 5(H); 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;

"**Winding-Up**" means, with respect to the Issuer or the Guarantor, a final and effective order or resolution for the winding up, liquidation or similar proceedings in respect of the Issuer or the Guarantor, as the case may be;

"**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; and

"**Wuhan Tiandi Project**" means the development project of the Guarantor (conducted through its Subsidiaries and associates) located in Wuhan, the PRC.

SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE IN GLOBAL FORM

The Global Certificate contains provisions which apply to the Securities while they are represented by the Global Certificate, some of which modify the effect of the "*Terms and Conditions of the Securities*" set out in this Offering Circular. The following is a summary of certain of those provisions:

Initial Issue of Securities

The Securities will initially be represented by a Global Certificate which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear and Clearstream.

Undertaking to pay

Under the Global Certificate, the Issuer, for value received, promises to pay the amount payable upon redemption under the "*Terms and Conditions of the Securities*" in respect of the Securities and to pay Distribution in respect of the Securities at the rates and the dates for payment in accordance with the method of calculation set out in "*Terms and Conditions of the Securities*" save that the calculation of payment will be made in respect of the total aggregate amount of the Securities represented by the Global Certificate together with such other sums and additional amounts (if any) as may be payable under and in accordance with the "*Terms and Conditions of the Securities*".

Payment

Payments will be made to the holders of the Securities represented by the Global Certificate upon presentation and (when no further payment is due in respect of the Securities represented by the Global Certificate) surrender of the Global Certificate on a Call Date (as defined in the "*Terms and Conditions of the Securities*") (or on such earlier date in accordance with the "*Terms and Conditions of the Securities*"). Each payment will be made to, or to the order of, the person whose name is entered on the register of holders of the Securities at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

Payments of principal, interest and premium (if any) in respect of Securities evidenced by the Global Certificate held through Euroclear or Clearstream will be credited, to the extent received by the Principal Agent or such other Paying Agent (as defined in the "*Terms and Conditions of the Securities*"), to the cash accounts of Euroclear and Clearstream participants in accordance with the relevant system's rules and procedures and will be made without presentation for endorsement by the Principal Agent or such other Paying Agent and, if no further payment falls to be made in respect of the Securities, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or to the order of such other Paying Agent as shall have been notified to the relevant holder for such purpose. No person shall however be entitled to receive any payment on the Global Certificate (or such part of the Global Certificate which is required to be exchanged) falling due after any date of exchange into individual Certificates in definitive form unless exchange of the Global Certificate for such individual Certificates is improperly withheld or refused by or on behalf of the Issuer or the Issuer does not perform or comply with any one or more of what are expressed to be its obligations under any such individual Certificates.

Transfers

Transfers of interests in the Securities will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System (as defined below)) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants. Where the holding of Securities represented by the Global Certificate is only transferable in its entirety, the certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as or as nominee for a common depositary for Clearstream, Euroclear and/or an Alternative Clearing System (as defined below).

Transfers of the holding of Securities represented by the Global Certificate may only be made in part:

(i) if the Securities represented by the Global Certificate are held on behalf of Euroclear or Clearstream or any other clearing system (an "**Alternative Clearing System**") and any such 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 permanently to cease business or does in fact do so; or

(ii) upon or following any failure to pay principal in respect of any Securities when it is due and payable; or

(iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the holder of the Securities represented by the Global Certificate has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer. Where the holding of Securities represented by the Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is a common depositary of or is acting as a nominee for, Clearstream, Euroclear and/or an Alternative Clearing System.

Meetings

For the purposes of any meeting of holders of the Securities, a holder of the Securities represented by the Global Certificate shall (unless the Global Certificate represents only one Security) be treated as two persons for the purposes of any quorum requirements of a meeting of holders of the Securities and as being entitled to one vote in respect of each US$1,000 of the Securities.

Cancellation

Cancellation of any Securities represented by the Global Certificate which is required by the "*Terms and Conditions of the Securities*" to be cancelled will be effected by reduction in the principal amount of the Securities in the register of the Securities and the Global Certificate on its presentation to or to the order of the Principal Agent for annotation (for information only) in the Global Certificate.

Trustee's Powers

In considering the interests of holders of the Securities while the Global Certificate is registered in the name of a nominee of, and deposited with a common depositary for, Euroclear or Clearstream or any Alternative Clearing System, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Securities represented by the Global Certificate.

Notices

So long as the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing system, notices to holders of the Securities shall be given by delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication by it to accountholders entitled to an interest in the Securities in substitution for notification as required by the "*Terms and Conditions of the Securities*".

TAXATION

This summary is based on the laws of the Cayman Islands, Hong Kong and PRC in effect on the date of this Offering Circular, which are subject to change (or changes in interpretation), possibly with retroactive effect. The summary does not address any aspects of Cayman Islands taxation other than income taxation, capital taxation, stamp duty and estate taxation. Prospective investors are urged to consult their tax advisers regarding the tax consequences of owning and disposing of our Securities.

CAYMAN ISLANDS TAXATION

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Cabinet:

- That no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to us or our operations; and

- That no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by us:

  (i) On or with respect to the shares, debentures or our other obligations; or

  (ii) By way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision) of the Cayman Islands.

The undertaking is for a period of 20 years from the date of the undertaking, which is 23 March 2004.

- Under existing Cayman Islands Laws:

  (a) payments of interest and principal on the Securities 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 Securities, nor will gains derived from the disposal of the Securities 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;

  (b) no stamp duty is payable with respect to the issue or transfer of the Securities although duty may be payable if Securities are executed in or brought into the Cayman Islands; and

  (c) the Global Certificate representing the Securities, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring title to a Security if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

HONG KONG

Withholding tax

No withholding tax in Hong Kong is payable on redemption or distribution with respect to the Securities.

Prospective investors of the Securities should consult with their own professional tax advisers as to matters of Hong Kong tax generally and to the particular consequences of holding the Securities which may affect them.

PRC

Under the EIT Law and the Implementation Rules both of which took effect on 1 January 2008, enterprises established outside the PRC whose "de facto management bodies" are located in China are considered as "PRC tax resident enterprises". The Implementation Rules define the term "de facto management body" as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise. The Guarantor holds its shareholders' meeting and board meetings outside China and keeps its shareholders' list outside China. However, most of the Guarantor's directors and senior management are currently based inside China and the Guarantor keeps its books of account inside China. The above elements may be relevant for the tax authorities to determine whether it is a PRC resident enterprise for tax purposes. Although it is unclear under PRC tax law whether the Guarantor has a "de facto management body" located in China for PRC tax purposes, it intends to take the position that it is not PRC resident enterprise for tax purpose. The Guarantor cannot assure you that tax authorities will respect its position. The Guarantor's PRC counsel, Jin Mao PRC lawyers, has advised the Guarantor that if it is deemed to be a PRC resident enterprise for enterprise income purpose, among other things, the Guarantor would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income. Furthermore, the Guarantor would be obligated to withhold PRC income tax of 7% on payments of interest on the Securities to investors that are non-resident enterprises located in Hong Kong or 10% on payments of interest on the Securities to investors that are non-resident enterprises located outside Hong Kong, or other jurisdictions that have not concluded agreements or arrangements for the avoidance of double taxation on income with the PRC, because the interest would be regarded as being derived from sources within the PRC. If the Guarantor fails to do so, it may be subject to fines and other penalties. In addition, any gain realised by such non-resident enterprise investors from the transfer of the Securities would be regarded as being derived from sources within the PRC and accordingly would be subject to PRC income tax at a rate of 10%. However, if the Guarantor is not considered as a PRC resident enterprise for enterprise income purposes, non-resident enterprise investors would not be subject to PRC income tax on any interest received on the Securities or any gains realised from the transfer of the Securities.

EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

The Council of the European Union has adopted a directive regarding the taxation of savings income. Member States are required from 1 January 2005 to provide to the tax authorities of other Member States details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State, except that Luxembourg and Austria may instead operate a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period as they elect otherwise.

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

Subject to the terms and conditions in the subscription agreement dated 3 December 2012 (the "**Subscription Agreement**"), the Joint Lead Managers have agreed, severally and not jointly, to purchase from the Issuer, our subsidiary, and the Issuer has agreed to sell to the Joint Lead Managers, US$500,000,000 aggregate principal amount of the Securities, with the related guarantee endorsed thereon (the "**Securities**"), as set forth opposite their names in the following table:

Joint Lead Manager	Principal Amount of Securities
Deutsche Bank AG, Singapore Branch	US$125,000,000
J.P. Morgan Securities plc	US$125,000,000
Standard Chartered Bank	US$125,000,000
UBS AG, Hong Kong Branch	US$125,000,000
Total	US$500,000,000

The Subscription Agreement provides that the obligation of the Joint Lead Managers to purchase the Securities is subject to approval of certain legal matters by counsel and to certain other conditions and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Lead Managers will purchase the Securities at the Issue Price of such Securities that appears on the cover of this Offering Circular and may offer and sell the Securities through certain of their affiliates.

The Issuer and the Guarantor will pay the Joint Lead Managers' customary fees and commissions in connection with the offering and will reimburse the Joint Lead Managers for certain expenses incurred in connection with the offering. In addition, the Issuer and the Guarantor have agreed with the Joint Lead Managers that private banks be paid a commission in connection with the purchase of the Securities by their private bank clients, which commission may be deducted from the purchase price for the Securities payable by such private banks upon settlement.

In the Subscription Agreement, we and the Issuer have agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offering and sale of the Securities.

The Joint Lead Managers or certain of their affiliates may purchase the Securities and be allocated Securities for asset management and/or proprietary purposes and not with a view to distribution. The Joint Lead Managers or their respective affiliates may purchase the Securities for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Securities and/or other securities of the Issuer, the Guarantor or their respective subsidiaries or affiliates at the same time as the offer and sale of the Securities 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 Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Securities).

The Securities are a new issue of securities, and there is currently no established trading market for such series. Approval in-principle has been received for the listing of the Securities on the SGX-ST. However, we cannot assure you that we will obtain or be able to maintain such listing. The Joint Lead Managers have advised us that they intend to make a market in the Securities, but they are not obligated to do so. The Joint Lead Managers may discontinue any market making in the Securities at any time in their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Securities, that you will be able to sell your Securities at a particular time or that the prices that you receive when you sell will be favourable.

The Joint Lead Managers and their affiliates perform various financial advisory, investment banking and commercial banking services, from time to time, for us and our affiliates and may be paid fees in connection with such services from time to time. We may enter into hedging or other derivative transactions as part of our risk management strategy with the Joint Lead Managers, which may include transactions relating to our obligations under the Securities. Our obligations under these transactions may be secured by cash or other collateral.

No action is being taken or is contemplated by us that would permit a public offering of any of the Securities 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 any of the Securities in any jurisdiction where, or in any other circumstance in which, action for those purposes is required.

None of the Securities has been and will be registered under the Securities Act and the Securities may only be offered, sold or delivered to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

An offer or sale of any series of the Securities within the United States may violate the registration requirements of the Securities Act unless the offer or sale is in compliance with an exemption from registration under the Securities Act.

We expect that delivery of the Securities will be made against payment therefor on or about the Closing Date specified on the cover page of this Offering Circular, which will be on or about the sixth business day following the pricing date of the Securities (this settlement cycle being referred to as "**T+5**"). Accordingly, purchasers who wish to trade Securities on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Securities initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Securities who wish to trade the Securities on the date of pricing or succeeding business days should consult their own legal adviser.

General

The Securities are new issues of securities with no established trading market. No action has been taken or will be taken in any jurisdiction that would or is intended to permit a public offering of the Securities, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required. The Joint Lead Managers are not authorised to make any representation or use any information in connection with the issue, subscription and sale of the Securities other than as contained in, or which is consistent with, this Offering Circular (in final form) or any amendment or supplement thereto.

United States

The Securities and the Guarantee have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Securities and the Guarantee are being offered and sold outside of the United States in reliance on Regulation S. Until 40 days after the commencement of the offering of the Securities and the Guarantee, an offer or sale of the Securities or the Guarantee within the United States (or to, or for the benefit of, U.S. persons by a dealer that is not participating in the offering) may violate the registration requirements of the Securities Act. Each Joint Lead Manager has agreed that it will offer and sell the Securities and the Guarantee (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the

Closing Date, only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Securities and the Guarantee, and it and they will comply with the offering restrictions requirement of Regulation S. Each Joint Lead Manager has agreed that, at or prior to confirmation of sale of the Securities and the Guarantee, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Securities and the Guarantee from it during the distribution compliance period a confirmation or notice to setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(i) it 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 Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Hong Kong

Each Joint Lead Managers has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Securities other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not 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, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Securities 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 organised under the laws of Japan) or to others for

re-offering or re-sale, 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 Act and other relevant laws and regulations of Japan.

Singapore

Each Joint Lead Manager acknowledges that the Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Securities or caused such Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell such Securities or cause such Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Securities, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

The Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Securities may not be circulated or distributed, nor may the Securities 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 Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six (6) months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) as specified in Section 276(7) of the SFA.

Cayman Islands

Each Joint Lead Manager has represented, warranted and agreed that the offer to sell the Securities is private and not intended for the public and, further, that each Joint Lead Manager has not made and will not make any invitation to the public in the Cayman Islands to offer or sell the Securities.

PRC

Each Joint Lead Manager has represented, warranted and agreed that the offer to sell the Securities is private and not intended for the public and, further, that each Joint Lead Manager has not made and will not make any invitation to the public in the PRC to offer or sell the Securities.

GENERAL INFORMATION

CONSENTS

The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in the Cayman Islands, Hong Kong and Singapore in connection with the issue of the Securities and performance of obligations thereunder and with the Guarantee. The issue of the Securities and the entry into the transactions contemplated thereunder have been authorised by a resolution of the Issuer's Board dated 5 November 2012. The giving of the Guarantee by the Guarantor was duly approved by a resolution of the Guarantor's Board on 5 November 2012.

LITIGATION

Save as disclosed in this Offering Circular, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Securities or the Guarantee.

NO MATERIAL ADVERSE CHANGE

There has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition financial or otherwise of our general affairs, business, management, prospects, assets and liabilities, financial position, shareholders'equity or results of operations since 31 December 2011 that is material in the context of the issue of the Securities.

DOCUMENTS AVAILABLE

For so long as any of the Securities are outstanding, copies of the Trust Deed governing the Securities may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified office of the Principal Agent.

For so long as any of the Securities are outstanding, copies of our audited financial statements for the last three financial years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the specified office of the Principal Agent.

CLEARING SYSTEM AND SETTLEMENT

The Securities have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the Securities is set forth below:

	ISIN	Common Code
Securities	XS0855853718	085585371

Only Securities evidenced by a Global Certificate have been accepted for clearance through Euroclear and Clearstream.

LISTING OF THE SECURITIES

Approval in-principle has been received for the listing of the Securities on the SGX-ST. The SGX-ST takes no responsibility for the correctness of any statement made, opinion expressed or reports contained in this Offering Circular. Admission of the Securities to the Official List of the SGX-ST is not to be taken as an indication of the merits of us, the Guarantor or the Securities. The Securities will be traded on the SGX-ST in a minimum board lot size of US$200,000 for so long as the Securities are listed on the SGX-ST.

GENERAL INFORMATION

For so long as the Securities 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 Securities may be presented or surrendered for payment or redemption, in the event that a Global Certificate is exchanged for definitive Certificates. In addition, in the event that a Global Certificate is exchanged for definitive Certificates, 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 Certificates, including details of the Paying Agent in Singapore.

Auditors

The consolidated financial statements as at and for each of the three years ended 31 December 2009, 2010 and 2011 have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as stated in their reports appearing elsewhere in this Offering Circular. The interim financial information as of and for the six months ended 30 June 2011 and 2012 was reviewed by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, 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 the HKICPA.

Issuer's accounts

Under Cayman Islands law, the Issuer is not required to publish interim or annual accounts. The Issuer has not published and does not propose to publish, any of its accounts. The Issuer is, however, required to keep proper books of account as are necessary to give a true and fair view of the state of the Issuer's affairs and to explain its transactions.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Condensed Consolidated Financial Statements for the six months ended 30 June 2011

Independent Review Report[(1)] F-2
Condensed Consolidated Income Statement F-3
Condensed Consolidated Statement of Comprehensive Income F-4
Condensed Consolidated Statement of Financial Position F-5
Condensed Consolidated Statement of Changes in Equity F-7
Condensed Consolidated Statement of Cash Flow F-8
Notes to the Condensed Consolidated Financial Statements F-9

Unaudited Condensed Consolidated Financial Statements for the six months ended 30 June 2012

Independent Review Report[(1)] F-28
Condensed Consolidated Income Statement F-29
Condensed Consolidated Statement of Comprehensive Income F-30
Condensed Consolidated Statement of Financial Position F-31
Condensed Consolidated Statement of Changes in Equity F-33
Condensed Consolidated Statement of Cash Flow F-34
Notes to the Condensed Consolidated Financial Statements F-35

Audited Consolidated Financial Statements for the year ended 31 December 2010

Independent Auditor's Report[(1)] F-59
Consolidated Income Statement F-60
Consolidated Statement of Comprehensive Income F-61
Consolidated Statement of Financial Position F-62
Consolidated Statement of Changes in Equity F-64
Consolidated Statement of Cash Flow F-65
Notes to the Consolidated Financial Statements F-67

Audited Consolidated Financial Statements for the year ended 31 December 2011

Independent Auditor's Report[(1)] F-128
Consolidated Income Statement F-129
Consolidated Statement of Comprehensive Income F-130
Consolidated Statement of Financial Position F-131
Consolidated Statement of Changes in Equity F-133
Consolidated Statement of Cash Flow F-134
Notes to the Consolidated Financial Statements F-136

---

(1) Independent Review Report and Independent Auditor's Report on the consolidated financial statements of the Company set out herein are reproduced from the Company's Interim Report for the six months ended 30 June 2011 and 2012 and the Company's Annual Report for the years ended 31 December 2010 and 2011 respectively, and page references included in the Independent Review Report and Independent Auditor's Report refer to pages set out in such interim reports or annual reports as applicable.

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF SHUI ON LAND LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 31 to 55, which comprises the condensed consolidated statement of financial position of Shui On Land Limited (the "Company") and its subsidiaries as of 30 June 2011 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and selected explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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 the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
17 August 2011

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

	Notes	Six months ended 30 June	
		2011 RMB'million (Unaudited)	2010 RMB'million (Unaudited)
Turnover			
– The Company and its subsidiaries ("the Group")		**1,788**	3,121
– Share of associates		**147**	–
		1,935	3,121
Turnover of the Group	3	**1,788**	3,121
Cost of sales		**(961)**	(1,849)
Gross profit		**827**	1,272
Other income		**151**	87
Selling and marketing expenses		**(68)**	(60)
General and administrative expenses		**(291)**	(275)
Operating profit	4	**619**	1,024
Increase in fair value of investment properties	9	**661**	1,461
Gain on disposal of investment properties		**–**	23
Share of results of associates		**97**	68
Finance costs, net of exchange gain	5	**(51)**	(36)
Profit before taxation		**1,326**	2,540
Taxation	6	**(447)**	(832)
Profit for the period		**879**	1,708
Attributable to:			
Shareholders of the Company		**784**	1,557
Non-controlling interests		**95**	151
		879	1,708
Earnings per share	8		
– Basic		**RMB0.15**	RMB0.31
– Diluted		**RMB0.13**	RMB0.31

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Note	Six months ended 30 June	
		2011 RMB'million (Unaudited)	2010 RMB'million (Unaudited)
Profit for the period		**879**	1,708
Other comprehensive income (expense)			
Exchange difference arising on translation of foreign operations		**2**	1
Fair value adjustments on interest rate swaps designated in cash flow hedges	16	**3**	(39)
Other comprehensive income (expense) for the period		**5**	(38)
Total comprehensive income for the period		**884**	1,670
Total comprehensive income attributable to:			
Shareholders of the Company		**789**	1,519
Non-controlling interests		**95**	151
		884	1,670

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 30 June 2011

	Notes	**30 June 2011 RMB'million (Unaudited)**	31 December 2010 RMB'million (Audited)
Non-current assets			
Investment properties	9	**32,622**	26,893
Property, plant and equipment		**557**	540
Prepaid lease payments		**73**	73
Interests in associates	10	**1,017**	920
Loans to associates	10	**1,379**	1,270
Accounts receivable	11	**56**	64
Pledged bank deposits		**2,916**	1,569
Deferred tax assets		**164**	162
		38,784	31,491
Current assets			
Properties under development for sale		**16,944**	14,308
Properties held for sale		**504**	627
Accounts receivable, deposits and prepayments	11	**3,984**	3,604
Loans receivable		**147**	597
Amounts due from associates	10	**334**	318
Amounts due from related parties		**50**	49
Amounts due from non-controlling shareholders of subsidiaries		**50**	38
Pledged bank deposits		**366**	316
Bank balances and cash		**4,052**	4,905
		26,431	24,762
Current liabilities			
Accounts payable, deposits received and accrued charges	12	**7,300**	4,987
Amounts due to related parties		**178**	95
Amounts due to associates	10	**16**	29
Amounts due to non-controlling shareholders of subsidiaries		**329**	462
Loan from a non-controlling shareholder of a subsidiary		**–**	300
Tax liabilities		**1,080**	1,230
Bank borrowings – due within one year		**5,705**	1,644
		14,608	8,747
Net current assets		**11,823**	16,015
Total assets less current liabilities		**50,607**	47,506

	Notes	**30 June 2011 RMB'million (Unaudited)**	31 December 2010 RMB'million (Audited)
Capital and reserves			
Share capital	13	**102**	102
Reserves		**25,206**	24,718
Equity attributable to shareholders of the Company		**25,308**	24,820
Non-controlling interests		**1,050**	1,208
Total equity		**26,358**	26,028
Non-current liabilities			
Bank and other borrowings – due after one year		**10,097**	11,539
Convertible bonds		**2,170**	2,117
Notes	15	**6,503**	2,945
Derivative financial instruments designated as hedging instruments	16	**215**	218
Loans from non-controlling shareholders of subsidiaries		**2,018**	1,653
Deferred tax liabilities		**3,241**	3,001
Defined benefit liabilities		**5**	5
		24,249	21,478
Total equity and non-current liabilities		**50,607**	47,506

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to shareholders of the Company												
	Share capital	**Share premium**	**Merger reserve**	**Special reserve**	**Share option reserve**	**Exchange reserve**	**Convertible bond equity reserve**	**Hedge reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	RMB' million	RMB' million	RMB' million (Note 14(a))	RMB' million (Note 14(b))	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million (Note 14(c))	RMB' million	RMB' million	RMB' million	RMB' million
At 1 January 2011 (audited)	**102**	**12,985**	**122**	**(71)**	**155**	**15**	**605**	**(98)**	**637**	**10,368**	**24,820**	**1,208**	**26,028**
Profit for the period	–	–	–	–	–	–	–	–	–	**784**	**784**	**95**	**879**
Exchange difference arising on translation of foreign operations	–	–	–	–	–	**2**	–	–	–	–	**2**	–	**2**
Fair value adjustments on interest rate swaps designated as cash flow hedges (note 16)	–	–	–	–	–	–	–	**3**	–	–	**3**	–	**3**
Total comprehensive income for the period	–	–	–	–	–	**2**	–	**3**	–	**784**	**789**	**95**	**884**
Recognition of equity-settled share-based payment expenses	–	–	–	–	**13**	–	–	–	–	–	**13**	–	**13**
Capital injection	–	–	–	–	–	–	–	–	–	–	–	**25**	**25**
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	**(4)**	**(4)**
Acquisition of additional ownership interests in a subsidiary (Note 18(b))	–	–	–	**(104)**	–	–	–	–	–	–	**(104)**	**(274)**	**(378)**
Release of special reserve upon disposal of related assets	–	–	–	**10**	–	–	–	–	–	–	**10**	–	**10**
2010 final dividend of HK$0.05 per share approved	–	–	–	–	–	–	–	–	–	**(220)**	**(220)**	–	**(220)**
At 30 June 2011 (unaudited)	**102**	**12,985**	**122**	**(165)**	**168**	**17**	**605**	**(95)**	**637**	**10,932**	**25,308**	**1,050**	**26,358**
At 1 January 2010 (audited)	99	12,433	122	(101)	136	19	–	(91)	603	8,359	21,579	995	22,574
Profit for the period	–	–	–	–	–	–	–	–	–	1,557	1,557	151	1,708
Exchange difference arising on translation of foreign operations	–	–	–	–	–	1	–	–	–	–	1	–	1
Fair value adjustments on interest rate swaps designated as cash flow hedges (note 16)	–	–	–	–	–	–	–	(39)	–	–	(39)	–	(39)
Total comprehensive income (expense) for the period	–	–	–	–	–	1	–	(39)	–	1,557	1,519	151	1,670
Recognition of equity-settled share-based payment expenses	–	–	–	–	17	–	–	–	–	–	17	–	17
Capital injection	–	–	–	–	–	–	–	–	–	–	–	13	13
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(1)	(1)
Release of special reserve upon disposal of related assets	–	–	–	21	–	–	–	–	–	–	21	–	21
2009 final dividend of HK$0.12 per share approved	–	–	–	–	–	–	–	–	–	(530)	(530)	–	(530)
At 30 June 2010 (unaudited)	99	12,433	122	(80)	153	20	–	(130)	603	9,386	22,606	1,158	23,764

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Notes	Six months ended 30 June 2011 RMB'million (Unaudited)	2010 RMB'million (Unaudited)
Net cash used in operating activities		**(306)**	(1,356)
Net cash used in investing activities			
Additions to investment properties		**(5,100)**	(1,022)
Proceeds from disposal of investment properties		**36**	185
Withdrawal of pledged bank deposits		**215**	676
Placement of pledged bank deposits		**(1,612)**	(671)
Net cash outflow on acquisition of a subsidiary	18(a)	**–**	(109)
Net cash inflow on disposal of subsidiaries	18(c)	**342**	–
Advances to amounts due from associates		**(16)**	(141)
Advances from (to) loans receivable		**450**	(107)
Other investing cash flows		**(85)**	43
		(5,770)	(1,146)
Net cash from financing activities			
Advance from non-controlling shareholders of subsidiaries		**434**	901
Repayment of non-controlling shareholders of subsidiaries		**(510)**	(326)
Capital injected by non-controlling shareholders of subsidiaries		**25**	13
New bank loans raised		**4,312**	2,849
Repayment of bank loans		**(1,486)**	(507)
Issue of notes	15	**3,500**	–
Expenses on issuance of notes	15	**(70)**	–
Interest and bank charges paid		**(692)**	(440)
Payment of dividends		**(220)**	–
Dividend payment to a non-controlling shareholder of a subsidiary		**(4)**	(1)
		5,289	2,489
Net decrease in cash and cash equivalents		**(787)**	(13)
Cash and cash equivalents at the beginning of the period		**4,905**	2,928
Effect of foreign exchange rate changes		**(66)**	–
Cash and cash equivalents at the end of the period		**4,052**	2,915
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**4,052**	2,915

1. GENERAL

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards and interpretations ("new and revised IFRSs):

IFRSs (Amendments)	Improvements to IFRSs issued in 2010
IAS 24 (as revised in 2009)	Related Party Disclosures
IAS 32 (Amendments)	Classification of Rights Issues
IFRC 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRC 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new and revised standards and interpretations that have been issued but are not yet effective. The following new or revised standards and interpretations have been issued and are not yet effective:

IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interest in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
IAS 19 (Revised 2011)	Employee Benefits[2]
IAS 27 (Revised 2011)	Separate Financial Statements[2]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]

1 Effective for annual periods beginning on or after 1 July 2011

2 Effective for annual periods beginning on or after 1 January 2013

3 Effective for annual periods beginning on or after 1 July 2012

4 Effective for annual periods beginning on or after 1 January 2012

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

IFRS 9 Financial Instruments was issued in November 2009 and revised in October 2010. It introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of each accounting period. All other debt investments and equity investments are measured at their fair values at the end of each accounting period.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors of the Company anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013 and that the application of this new Standard will not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

The amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. All of the Group's investment properties are located in the People's Republic of China ("PRC"). The Directors of the Company are in the process of assessing the financial impact.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. The Directors of the Company are in the process of assessing the financial impact.

Other than above, the Directors of the Company anticipate that the application of these new and revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. TURNOVER AND SEGMENTAL INFORMATION

An analysis of the turnover of the Group and associates for the period is as follows:

	Six months ended 30 June (Unaudited)			
	Group RMB'million	**2011 Share of associates RMB'million**	**Total RMB'million**	2010 Group and total RMB'million
Property development:				
Property sales	**1,356**	**144**	**1,500**	2,778
Property investment:				
Rental income from investment properties	**354**	**3**	**357**	269
Income from serviced apartments	**7**	**–**	**7**	12
Property management fee income	**19**	**–**	**19**	16
Rental related income	**25**	**–**	**25**	29
	405	**3**	**408**	326
Others	**27**	**–**	**27**	17
Total	**1,788**	**147**	**1,935**	3,121

For management purposes, the Group is organised based on the business activities of the Group, which are broadly categorised into property development and property investment.

Principal activities of the two major reportable and operating segments are as follows:

Property development – development and sale of properties
Property investment – property letting, property management and operations of serviced apartments

3. TURNOVER AND SEGMENTAL INFORMATION (CONTINUED)

	Six months ended 30 June 2011 (Unaudited)			
	Property development RMB'million	**Property investment RMB'million**	**Others RMB'million**	**Consolidated RMB'million**
Segment Revenue				
Turnover of the Group	**1,356**	**405**	**27**	**1,788**
Share of turnover of associates	**144**	**3**	**–**	**147**
Total	**1,500**	**408**	**27**	**1,935**
Results				
Segment results of the Group	**446**	**913**	**21**	**1,380**
Share of results of associates	**19**	**78**	**–**	**97**
Total	**465**	**991**	**21**	**1,477**
Interest income				**74**
Finance costs, net of exchange gain				**(51)**
Net unallocated expenses				**(174)**
Profit before taxation				**1,326**
Taxation				**(447)**
Profit for the period				**879**

	Six months ended 30 June 2010 (Unaudited)			
	Property development RMB'million	Property investment RMB'million	Others RMB'million	Consolidated RMB'million
Segment Revenue				
Turnover of the Group	2,778	326	17	3,121
Results				
Segment results of the Group	898	1,698	10	2,606
Share of results of associates	–	68	–	68
Total	898	1,766	10	2,674
Interest income				69
Finance costs, net of exchange gain				(36)
Net unallocated expenses				(167)
Profit before taxation				2,540
Taxation				(832)
Profit for the period				1,708

Segment revenue represents the Group's revenue and revenue of associates attributable to the Group from sales of properties, rental and related income, income from serviced apartments, property management fee income, food and beverage income for the period.

4. OPERATING PROFIT

	Six months ended 30 June	
	2011 RMB'million (Unaudited)	2010 RMB'million (Unaudited)
Operating profit has been arrived at after charging (crediting):		
Allowance for bad and doubtful debts	**–**	4
Depreciation of property, plant and equipment	**31**	29
Release of prepaid lease payments	**1**	1
Employee benefits expenses		
Directors' emoluments		
Fees	**1**	1
Salaries, bonuses and allowances	**11**	19
Retirement benefit costs	**2**	–
Share-based payment expenses	**1**	1
	15	21
Other staff costs		
Salaries, bonuses and allowances	**195**	174
Retirement benefit costs	**10**	12
Share-based payment expenses	**12**	16
	217	202
Total employee benefits expenses	**232**	223
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	**(52)**	(51)
	180	172
Cost of properties sold recognised as an expense	**846**	1,761
Rental charges under operating leases	**20**	19
Interest income	**(74)**	(69)

5. FINANCE COSTS, NET OF EXCHANGE GAIN

	Six months ended 30 June	
	2011 RMB'million (Unaudited)	2010 RMB'million (Unaudited)
Interest on bank loans and overdrafts wholly repayable within five years	**378**	248
Interest on amounts due to non-controlling shareholders of subsidiaries wholly repayable within five years (Note 21)	**–**	4
Interest on loans from non-controlling shareholders of subsidiaries wholly repayable within five years (Note 21)	**78**	64
Interest on convertible bonds	**114**	–
Interest on notes (Note 15)	**232**	–
Add: Net interest expense from interest rate swaps designated as cash flow hedge	**71**	66
Total interest costs	**873**	382
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	**(746)**	(356)
Interest expense charged to condensed consolidated income statement	**127**	26
Net exchange gain on bank borrowings and other financing activities	**(103)**	(48)
Others	**27**	58
	51	36

Borrowing costs capitalised during the six months ended 30 June 2011 arose on the general borrowing pool of the Group and were calculated by applying a capitalisation rate of approximately 7.3% (six months ended 30 June 2010: approximately 6.6%) per annum to expenditure on the qualifying assets.

6. TAXATION

	Six months ended 30 June	
	2011 RMB'million (Unaudited)	2010 RMB'million (Unaudited)
PRC Enterprise Income Tax	**116**	152
Deferred taxation	**241**	480
PRC Land Appreciation Tax	**90**	200
	447	832

No provision for Hong Kong Profits Tax has been made as the income of the Group neither arises in, nor is derived from, Hong Kong.

PRC Enterprise Income Tax has been provided at the applicable income tax rate of 25% (six months ended 30 June 2010: 25%) on the assessable profits of the companies in the Group during the period.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditures.

7. DIVIDENDS

	Six months ended 30 June	
	2011 RMB'million (Unaudited)	2010 RMB'million (Unaudited)
2010 Final dividend approved and paid (2010: 2009 final dividend paid)	**220**	530
Interim dividend declared in respect of 2011 of HK$0.025 (2010: HK$0.06) per share	**107**	270

Subsequent to the end of the interim period, the Board has declared the payment of HK$0.025 (equivalent to RMB0.021) (2010: HK$0.06 (equivalent to RMB0.053)) per share as the interim dividend in respect of 2011.

A final dividend in respect of 2010 of HK$0.05 (equivalent to RMB0.042) per share was approved by the shareholders of the Company at the annual general meeting on 19 May 2011 and was paid to the shareholders of the Company in June 2011.

In November 2010, an interim dividend in respect of 2010 of HK$0.06 (equivalent to RMB0.053) per share was paid to the shareholders. The 2010 interim dividend was paid in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their interim dividend in new, fully paid shares in lieu of all or part of cash. 71.7% of the shareholdings elected to receive shares in lieu of cash dividends at HK$3.84 per share and accordingly, 57,753,920 new and fully paid shares were issued. These new shares rank pari passu to the existing shares of the Company.

In May 2010, a final dividend in respect of 2009 of HK$0.12 (equivalent to RMB0.11) per share was approved by the shareholders of the Company at the annual general meeting on 27 May 2010. The 2009 final dividend was paid in July 2010 in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their final dividend in new, fully paid shares in lieu of all or part of cash. 69.0% of the shareholdings elected to receive shares in lieu of cash dividends at HK$3.168 per share and accordingly, 131,177,173 new and fully paid shares were issued. These new shares rank pari passu to the existing shares of the Company.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to shareholders of the Company is based on the following data:

Earnings

	Six months ended 30 June	
	2011 RMB'million (Unaudited)	2010 RMB'million (Unaudited)
Earnings for the purposes of basic earnings per share and diluted earnings per share, being profit for the period attributable to shareholders of the Company	**784**	1,557

Number of shares

	Six months ended 30 June	
	2011 'million (Unaudited)	2010 'million (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,212**	5,023
Effect of dilutive potential shares:		
Convertible bonds	**662**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,874**	5,023

Note:

There were no dilution effects for share options granted as the exercise prices of these share options granted were higher than the average market price for the six months ended 30 June 2011 and 30 June 2010.

9. INVESTMENT PROPERTIES

	30 June 2011 RMB'million (Unaudited)	31 December 2010 RMB'million (Audited)
Completed investment properties held to earn rentals or for capital appreciation or both	**14,508**	14,119
Investment properties under construction or development,		
stated at fair value	**7,839**	6,815
stated at cost	**10,275**	5,959
	18,114	12,774
	32,622	26,893

The movements of investment properties during the current and prior periods are as follows:

	Completed investment properties at fair value RMB'million	**Investment properties under construction or development at fair value RMB'million**	**Investment properties under construction or development at cost RMB'million**	**Total RMB'million**
At 1 January 2011 (audited)	**14,119**	**6,815**	**5,959**	**26,893**
Eliminated upon disposal	**(36)**	**–**	**–**	**(36)**
Disposal of a subsidiary (Note 18(c))	**–**	**–**	**(348)**	**(348)**
Additions	**4**	**578**	**4,898**	**5,480**
Transfers upon completion	**28**	**(28)**	**–**	**–**
Transfers	**–**	**234**	**(234)**	**–**
Transfers to property, plant and equipment	**(28)**	**–**	**–**	**(28)**
Increase in fair value recognised in the condensed consolidated income statement	**421**	**240**	**–**	**661**
At 30 June 2011 (unaudited)	**14,508**	**7,839**	**10,275**	**32,622**
At 1 January 2010 (audited)	9,384	6,129	5,693	21,206
Eliminated upon disposal	(162)	–	–	(162)
Acquisition of a subsidiary (Note 18(a))	–	–	67	67
Additions	4	312	788	1,104
Transfers upon completion	139	(139)	–	–
Transfers	–	1,002	(1,002)	–
Increase in fair value recognised in the condensed consolidated income statement	384	1,077	–	1,461
At 30 June 2010 (unaudited)	9,749	8,381	5,546	23,676

9. INVESTMENT PROPERTIES (CONTINUED)

The investment properties are all situated in the PRC under long/medium-term leases. All the completed investment properties are rented out under operating leases or are held for capital appreciation purposes.

In circumstances where the fair value of an investment property under construction or development is not reliably determinable but the fair value of the property is expected to be reliably determinable when construction is completed, such investment properties under construction or development are measured at cost until either its fair value becomes reliably determinable or construction is completed, whichever is the earlier.

The fair values of the Group's investment properties at 30 June 2011 and 31 December 2010 and at dates of transfer upon completion of development of investment properties under construction or development have been arrived at on the basis of valuations carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuers not connected to the Group.

For completed investment properties, the valuations have been arrived at using the capitalisation of net income method of valuation, based on the present value of the income to be derived from the properties. For the properties which are currently vacant, the valuation was based on capitalisation of the hypothetical and reasonable market rents with a typical lease term.

For investment properties under construction or development that are measured at fair value, the valuations have been arrived at adopting market-based valuation approach with reference to sales evidence of comparable properties with adjustments made to account for any differences and assuming that the investment properties will be completed in accordance with the development proposals and the relevant approvals for the proposals have been obtained. The valuations have also taken into account the relevant future cost of development, including construction costs, finance costs, professional fees and developer's profit which duly reflects the risks associated with the development of the properties.

10. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/ AMOUNTS DUE TO ASSOCIATES

	Notes	**30 June 2011 RMB'million (Unaudited)**	31 December 2010 RMB'million (Audited)
Cost of investments, unlisted		**357**	357
Share of post acquisition profits		**660**	563
		1,017	920
Loans to associates			
– Interest free	(a)	**808**	805
– Interest bearing at 5% per annum	(b)	**571**	465
		1,379	1,270
Amounts due from associates	(c)	**334**	318
Amounts due to associates	(d)	**16**	29

Notes:

(a) These loans to associates represent the loans to subsidiaries of Richcoast Group Limited ("Richcoast"), an associate of the Group, for financing the development of Dalian Tiandi project. Pursuant to the Joint Venture Agreement dated 25 May 2007, the loans are unsecured, interest-free and with no fixed terms of repayment until Many Gain International Limited ("Many Gain"), a shareholder of Richcoast which is an independent third party, has contributed its share of the shareholder's loan to the subsidiaries of Richcoast. Thereafter, the loans will bear interest at a rate of 5% per annum, subject to shareholders' approval. The loans are carried at amortised cost using the effective interest rates of 5.4% (31 December 2010: 5.4%) per annum.

(b) These loans to associates represent the loans to subsidiaries of Richcoast are unsecured, interest bearing at a rate of 5% per annum and with no fixed terms of repayment.

(c) The amounts due from associates are unsecured, interest bearing at 6.1% (31 December 2010: 5.7%) per annum and repayable on demand.

(d) The amounts due to associates are unsecured, interest free and repayable on demand.

11. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	30 June 2011 RMB'million (Unaudited)	31 December 2010 RMB'million (Audited)
Non-current accounts receivable comprised of:		
Deferred rental receivables	**56**	64
Current accounts receivable comprised of:		
Trade receivables (net of allowance for bad and doubtful debts) with aging analysis (based on the repayment terms set out in the sales and purchase agreements or debit notes to the tenants):		
Not yet due	**321**	122
Past due within 30 days	**39**	20
Past due 31 – 60 days	**20**	1
Past due 61 – 90 days	**1**	–
Past due over 90 days	**4**	3
	385	146
Prepayments of relocation costs (Note)	**3,210**	1,304
Deposit for land acquisition	**–**	1,838
Other deposits, prepayments and receivables	**389**	316
	3,984	3,604

Trade receivables comprised of:

(i) receivables arising from sales of properties which are due for settlement in accordance with the terms of the relevant sale and purchase agreements; and

(ii) rental receivables which are due for settlement upon issuance of monthly debit notes to the tenants.

Note:

The balance represents the amounts that will be capitalised to properties under development for sale in accordance with the Group's normal operating cycle, and not expected to be realised within twelve months from the end of the reporting period.

12. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

	30 June 2011 RMB'million (Unaudited)	31 December 2010 RMB'million (Audited)
Trade payable with aging analysis (based on invoice date):		
0-60 days	**1,537**	1,751
61-90 days	**1**	1
Over 90 days	**40**	13
	1,578	1,765
Retention payables (Note)	**209**	169
Deed tax, business tax and other tax payables	**379**	481
Deposits received and receipt in advance from property sales	**4,451**	2,074
Deposits received and receipt in advance in respect of rental of investment properties	**250**	242
Accrued charges	**433**	256
	7,300	4,987

Note:

Retention payables are expected to be paid upon the expiry of the retention periods according to the respective contracts.

13. SHARE CAPITAL

	Authorised		**Issued and fully paid**	
	Number of shares	**US$'000**	**Number of shares**	**US$'000**
Ordinary shares of US$0.0025 each				
At 1 January 2010 and 30 June 2010	12,000,000,000	30,000	5,022,656,888	12,556
At 1 January 2011 and 30 June 2011	**12,000,000,000**	**30,000**	**5,211,587,981**	**13,029**

	30 June 2011 RMB'million (Unaudited)	31 December 2010 RMB'million (Audited)
Shown in the condensed consolidated statement of financial position as	**102**	102

14. OTHER RESERVES

(a) Merger reserve represents the aggregate of:

(i) the difference between the nominal value of the share capital and share premium on the shares issued by the Company and the aggregate of the share capital and share premium of the holding companies of the subsidiaries acquired;

(ii) the share of profit attributable to the deemed non-controlling shareholders exchanged upon the group reorganisation in 2004; and

(iii) the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from a non-controlling shareholder upon the group reorganisation in 2004.

(b) Special reserve represents the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from non-controlling shareholders, which will be recognised in the condensed consolidated income statement upon the earlier of the disposal of the assets, disposal of the subsidiary of the assets which the assets relate, or when the related assets affect profit or loss.

During the six months ended 30 June 2011, an amount of RMB10 million was released to condensed consolidated income statement upon the disposal by the subsidiaries of the assets to which it relates (six months ended 30 June 2010: RMB21 million).

An amount of RMB104 million represents the difference between the fair value of the consideration paid and the carrying value of the net assets attributable to the additional interest in a residential development on a parcel of land of the Rui Hong Xin Cheng project.

(c) Other reserves comprised of:

(i) An amount of RMB483 million represents payable waived in 2004 by Shui On Investment Company Limited, a subsidiary of Shui On Company Limited ("SOCL"), in respect of development costs of the same amount originally paid by Shanghai Shui On Property Development Management Co., Ltd., a fellow subsidiary of Shui On Investment Company Limited, and recharged to certain subsidiaries of the Company. SOCL is a substantial shareholder of the Company, of which Mr. Vincent H.S. LO, the Chairman of the Company, has beneficial interest.

(ii) Capital contribution of RMB21 million arising on the fair value adjustments at the initial recognition of an interest free loan advanced by a non-controlling shareholder of a subsidiary in 2005.

(iii) Non-distributable reserve of RMB99 million arising from the capitalisation of retained profits as registered capital of a subsidiary in the PRC in 2006.

(iv) An amount of RMB34 million represents the difference between the fair value of the consideration paid and the carrying value of the net assets attributable to the additional interest of 16.8% in Yang Pu Center Development Co., Ltd. being acquired from the non-controlling interests in 2010.

15. NOTES

	Six months ended 30 June	
	2011 RMB'million (Unaudited)	2010 RMB'million (Unaudited)
At 1 January	**2,945**	–
Issue of senior notes due 2015	**3,500**	–
Expenses on issue of senior notes	**(70)**	–
Interest charged during the period	**232**	–
Interest paid during the period	**(104)**	–
At 30 June	**6,503**	–

On 23 December 2010, Shui On Development (Holding) Limited ("SOD"), a wholly owned subsidiary of the Company, issued RMB3,000 million senior notes to independent third parties with a maturity of three years due on 23 December 2013 (the "2013 Notes"). The 2013 Notes are denominated in RMB and settled in US dollars, and bear coupon at 6.875% per annum payable semi-annually in arrears.

On 26 January 2011, SOD further issued RMB3,500 million senior notes to independent third parties with a maturity of four years due on 26 January 2015 (the "2015 Notes"). The 2015 Notes are denominated in RMB and settled in US dollars, and bear coupon at 7.625% per annum payable semi-annually in arrears.

The principal terms of the 2015 Notes were

(a) senior in right of payment to any existing and future obligations of SOD expressly subordinated in right of payment to the Notes;

(b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SOD (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); and

(c) guaranteed by the Company on a senior basis;

(d) effectively subordinated to the secured obligations (if any) of the Company and SOD, to the extent of the value of the assets serving as security thereof; and

(e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2015 Notes, SOD may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SOD, and the trustee of the 2015 Notes.

At any time on or before all the 2015 Notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to shareholders after taking into account certain adjustments prescribed in the terms of the 2015 Notes.

16. DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS

The derivative financial instruments are measured at fair value at the end of the reporting period. The fair value is determined based on valuation provided by the counterparty financial institution.

At 30 June 2011 and 31 December 2010, the Group has outstanding interest rate swaps to hedge against the variability of cash flows arising from the interest rate fluctuations. Under these swaps, the Group would receive interest at variable rates at Hong Kong Interbank Offered Rate ("HIBOR") and pay interest at fixed rates ranging from 0.69% to 3.58% (31 December 2010: 0.95% to 3.58%) based on the notional amounts of HK$8,210 million (31 December 2010: HK$5,581 million) in aggregate. The Group designated the interest rate swaps as hedges against the variability of interest payments of certain bank borrowings of the Group amounting to HK$8,210 million (31 December 2010: HK$5,581 million) which bear variable interest rates at HIBOR plus spread ranging from 2.75% to 3.65% (31 December 2010: 2.75% to 3.65%) and mature on or before January 2014. The principal terms of the interest rate swaps have been negotiated to match the terms of the related bank borrowings.

During the six months ended 30 June 2011, fair value gain arising from the interest rate swaps of RMB3 million (six months ended 30 June 2010: fair value loss of RMB39 million) was deferred in equity as hedge reserve, which is expected to be recognised in the condensed consolidated income statement at various dates upon the interest payments of the related bank borrowings are expected to settle.

17. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the shareholders on 8 June 2007 for the primary purposes of providing incentives to directors, eligible employees and consultants. Under the Scheme, the total number of shares in respect of which options may be granted is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

As of 30 June 2011, 126,718,859 share options (31 December 2010: 142,152,612 share options) remained outstanding under the Scheme, representing 2.4% (31 December 2010: 2.7%) of the shares of the Company in issue at that date. The Scheme allows the Board of Directors, when offering the grant of any option, to impose any condition including any performance target which must be met before the option shall vest and become exercisable.

The Group recognised a total expense of RMB13 million (six months ended 30 June 2010: RMB17 million) in the condensed consolidated income statement in relation to share options granted by the Company.

17. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

No share options were granted or exercised during the six months ended 30 June 2011 and 30 June 2010. The movement in the Company's share options is set out below:

		Number of options				
Date of grant	Exercise price HK$	At 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2011
20 June 2007	**7.00**	**91,390,892**	**–**	**–**	**(10,405,481)**	**80,985,411**
1 August 2007	**8.18**	**1,109,933**	**–**	**–**	**(250,173)**	**859,760**
2 October 2007	**10.00**	**2,066,456**	**–**	**–**	**(250,571)**	**1,815,885**
1 November 2007	**11.78**	**724,550**	**–**	**–**	**(109,687)**	**614,863**
3 December 2007	**9.88**	**580,866**	**–**	**–**	**(384,338)**	**196,528**
2 January 2008	**8.97**	**3,178,009**	**–**	**–**	**(145,961)**	**3,032,048**
1 February 2008	**8.05**	**1,444,882**	**–**	**–**	**(86,159)**	**1,358,723**
3 March 2008	**7.68**	**633,008**	**–**	**–**	**(87,848)**	**545,160**
2 May 2008	**7.93**	**5,421,932**	**–**	**–**	**(859,170)**	**4,562,762**
2 June 2008	**7.34**	**13,665,712**	**–**	**–**	**(1,579,959)**	**12,085,753**
2 July 2008	**6.46**	**947,231**	**–**	**–**	**(208,393)**	**738,838**
4 September 2009	**4.90**	**20,989,141**	**–**	**–**	**(1,066,013)**	**19,923,128**
Total		**142,152,612**	**–**	**–**	**(15,433,753)**	**126,718,859**
Number of options exercisable at the beginning and end of the period		**35,906,115**				**47,378,823**

		Number of options				
Date of grant	Exercise price HK$	At 1 January 2010	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2010
20 June 2007	7.00	106,632,098	–	–	(7,937,762)	98,694,336
1 August 2007	8.18	1,269,802	–	–	(115,392)	1,154,410
2 October 2007	10.00	2,468,768	–	–	(224,192)	2,244,576
1 November 2007	11.78	1,301,615	–	–	(381,547)	920,068
3 December 2007	9.88	1,234,329	–	–	(121,509)	1,112,820
2 January 2008	8.97	3,358,409	–	–	(119,067)	3,239,342
1 February 2008	8.05	1,717,382	–	–	(46,236)	1,671,146
3 March 2008	7.68	735,670	–	–	(53,835)	681,835
2 May 2008	7.93	7,238,273	–	–	(854,564)	6,383,709
2 June 2008	7.34	15,231,560	–	–	(1,238,876)	13,992,684
2 July 2008	6.46	1,482,175	–	–	(332,814)	1,149,361
4 September 2009	4.90	23,705,524	–	–	(1,065,412)	22,640,112
Total		166,375,605	–	–	(12,491,206)	153,884,399
Number of options exercisable at the beginning and end of the period		19,586,617				32,418,733

17. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The vesting period and the exercisable period of the share options granted to eligible employees and directors are as follows:

	Vesting period	**Exercisable period**
The first 1/7 of the grant	From date of grant to the 2nd anniversary	From the 2nd to the 7th anniversary to the date of grant
The second 1/7 of the grant	From date of grant to the 3rd anniversary	From the 3rd to the 8th anniversary to the date of grant
The third 1/7 of the grant	From date of grant to the 4th anniversary	From the 4th to the 9th anniversary to the date of grant
The fourth 1/7 of the grant	From date of grant to the 5th anniversary	From the 5th to the 9th anniversary to the date of grant
The fifth 1/7 of the grant	From date of grant to the 6th anniversary	From the 6th to the 9th anniversary to the date of grant
The sixth 1/7 of the grant	From date of grant to the 7th anniversary	From the 7th to the 9th anniversary to the date of grant
The last 1/7 of the grant	From date of grant to the 8th anniversary	From the 8th to the 9th anniversary to the date of grant

The vesting period and the exercisable period of the share options granted to a consultant are as follows:

	Vesting period	**Exercisable period**
The first 1/5 of the grant	Unconditional and fully vested at the date of grant	Before the 5th anniversary to the date of grant
The second 1/5 of the grant	From date of grant to the 1st anniversary	Before the 6th anniversary to the date of grant
The third 1/5 of the grant	From date of grant to the 2nd anniversary	Before the 7th anniversary to the date of grant
The fourth 1/5 of the grant	From date of grant to the 3rd anniversary	Before the 8th anniversary to the date of grant
The last 1/5 of the grant	From date of grant to the 4th anniversary	Before the 9th anniversary to the date of grant

The share options granted to independent non-executive directors, a non-executive director and a consultant are unconditional and fully vested at the date of grant and exercisable on or before the 5th anniversary to the date of grant.

18. ACQUISITIONS AND DISPOSALS

(a) Acquisition of a subsidiary

During the six months ended 30 June 2010, a subsidiary of the Company acquired the entire interest of a company incorporated in the PRC from an independent third party for a cash consideration of RMB109 million. The acquired company owned the property development right on a piece of land adjacent to Shanghai Rui Hong Xin Cheng project.

The acquisition was accounted for during the six months ended 30 June 2010 as purchase of assets and liabilities rather than as business combination as the subsidiary acquired is an investment and property holding company with no business concerns.

The net assets acquired in the transaction were as follows:

	RMB'million (Unaudited)
Investment properties under construction or development	67
Properties under development for sale	45
Accounts receivable, deposits and prepayments	4
Other payables and accrued charges	(7)
Net assets acquired	109
Cash consideration	109

During the six months ended 30 June 2010, the acquired company did not contribute any turnover or results to the Group.

(b) Acquisition of additional ownership interests in a subsidiary

Pursuant to a supplementary shareholder agreement entered into between SOD, Foresight Profits Limited ("Foresight"), Hollyfield Holdings Limited, Selfers Limited, Silomax Limited (indirect subsidiaries of the Company) and Elegant Partners Limited ("EPL", a non-controlling shareholder which owns 24.75% of equity interest in Foresight which indirectly owns all ownership interest in a PRC enterprise which is engaged in Rui Hong Xin Cheng project) dated 1 April 2011, EPL agreed to disposed of, and SOD agreed to acquire from EPL, EPL's rights and interests in relation to a particular phase of the Rui Hong Xin Cheng project for a consideration of RMB378 million.

EPL agreed that the consideration of RMB378 million was advanced to Foresight to finance the Rui Hong Xin Cheng project. The amount owed to EPL is unsecured, interest bearing at 110% of People's Bank of China Prescribed Interest Rate and will not be demanded for payment, until Foresight is in a position to repay the loan, which is to be mutually agreed between both parties. The Directors are in the opinion that the loan is not repayable in the next twelve months from the end of the reporting period.

18. ACQUISITIONS AND DISPOSALS (CONTINUED)

(c) Disposal of subsidiaries

During the six months ended 30 June 2011, the Group disposed of certain subsidiaries which engaged in the property development of a project in Hangzhou, the PRC to an independent third party for a cash consideration of RMB438 million. The net assets disposed of in the transaction were as follows:

	RMB'million (Unaudited)
Investment properties under construction or development	**348**
Bank balances and cash	**96**
Other payables and accrued charges	**(6)**
Net assets disposed of	**438**
Consideration received	**438**
Gain on disposal	**–**
Cash consideration in cash and cash equivalent	**438**
Less: cash and cash equivalent balances disposed of	**(96)**
Net cash inflow on disposal of subsidiaries	**342**

During the six months ended 30 June 2011 and 2010, the disposed subsidiaries did not contribute any turnover or results to the Group.

19. PLEDGE OF ASSETS

The following assets were pledged to banks as securities to obtain certain banking facilities at the end of the reporting period:

	30 June 2011 RMB'million (Unaudited)	31 December 2010 RMB'million (Audited)
Investment properties	**19,068**	17,091
Property, plant and equipment	**145**	114
Prepaid lease payments	**41**	42
Properties under development for sale	**5,813**	6,065
Properties held for sale	**19**	33
Accounts receivable	**62**	45
Bank deposits	**3,282**	1,885
	28,430	25,275

Included in pledged bank deposits above is an amount of RMB265 million (31 December 2010: RMB265 million) which has been pledged to secure banking facilities granted to an associate. All the other assets were pledged to secure banking facilities granted to the Group.

In addition, the equity interests in certain subsidiaries were also pledged to banks as securities to obtain banking facilities for the Group at the end of the reporting period.

20. COMMITMENTS AND CONTINGENCIES

As of the end of the reporting period, the Group had the following commitments:

	30 June 2011 RMB'million (Unaudited)	31 December 2010 RMB'million (Audited)
Contracted but not provided for:		
Development costs for investment properties under construction or development	**4,268**	4,673
Development costs for properties under development for sale	**10,404**	9,906
	14,672	14,579

As of 30 June 2011, the Group has provided the maximum guarantee of RMB240 million to secure its associate – Richcoast Group Limited for setting up a joint venture company with an independent third party.

Except as disclosed above, there have been no material changes in the Group's capital and other commitments as well as contingent liabilities since 31 December 2010.

21. RELATED PARTY TRANSACTIONS

Apart from the related party transactions and balances as stated in note 18(b) and in the condensed consolidated statement of financial position, the Group also had the following transactions with related parties during the period:

	Six months ended 30 June	
Nature of transactions	**2011 RMB'million (Unaudited)**	2010 RMB'million (Unaudited)
SOCL and its subsidiaries other than those of the Group		
Rental and building management fee expenses	**16**	13
Travelling expenses	**1**	11
Project management fee income	**7**	5
SOCL's associates		
Project construction costs	**337**	161
Property sales	**19**	–
Associates		
Interest income	**11**	16
Imputed interest income	**17**	19
Project management fee income	**9**	8
Non-controlling shareholders of subsidiaries		
Interest expenses	**78**	68
Property management fee expenses	**1**	2
Senior management		
Property sales	**7**	20
Remunerations	**36**	35

INDEPENDENT REVIEW REPORT

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF SHUI ON LAND LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Shui On Land Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 62, which comprises the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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 the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
23 August 2012

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 RMB'million (Unaudited)	2011 RMB'million (Unaudited)
Turnover			
– The Company and its subsidiaries ("the Group")		**1,643**	1,788
– Share of associates		**200**	147
		1,843	1,935
Turnover of the Group	3	**1,643**	1,788
Cost of sales		**(906)**	(961)
Gross profit		**737**	827
Other income		**110**	151
Selling and marketing expenses		**(64)**	(68)
General and administrative expenses		**(379)**	(291)
Operating profit	4	**404**	619
Increase in fair value of investment properties	9	**1,268**	661
Gain on acquisition of subsidiaries	18(a)	**50**	–
Share of results of associates		**2**	97
Finance costs, inclusive of exchange differences	5	**(244)**	(51)
Profit before taxation		**1,480**	1,326
Taxation	6	**(512)**	(447)
Profit for the period		**968**	879
Attributable to:			
Shareholders of the Company		**825**	784
Non-controlling interests		**143**	95
		968	879
Earnings per share	8		
– Basic		**RMB0.15**	RMB0.15
– Diluted		**RMB0.14**	RMB0.13

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 RMB'million (Unaudited)	2011 RMB'million (Unaudited)
Profit for the period		**968**	879
Other comprehensive income (expense)			
Exchange difference arising on translation of foreign operations		**(12)**	2
Fair value adjustments on interest rate swaps designated as cash flow hedges	16	**18**	3
Net adjustment of hedge reserve reclassified to profit or loss upon early termination of interest rate swaps	16	**(6)**	–
Other comprehensive income for the period		**–**	5
Total comprehensive income for the period		**968**	884
Total comprehensive income attributable to:			
Shareholders of the Company		**825**	789
Non-controlling interests		**143**	95
		968	884

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 30 June 2012

	Notes	30 June 2012 RMB'million (Unaudited)	31 December 2011 RMB'million (Audited)
Non-current assets			
Investment properties	9	**42,655**	36,395
Property, plant and equipment	10	**3,648**	1,079
Prepaid lease payments		**495**	500
Interests in associates	11	**1,059**	1,057
Loans to associates	11	**1,533**	1,366
Accounts receivable	12	**95**	86
Pledged bank deposits		**1,010**	1,143
Deferred tax assets		**136**	154
		50,631	41,780
Current assets			
Properties under development for sale		**20,014**	17,247
Properties held for sale		**1,038**	987
Accounts receivable, deposits and prepayments	12	**2,157**	2,503
Loans receivable		**–**	152
Amounts due from associates	11	**519**	446
Amounts due from related companies		**226**	212
Amounts due from non-controlling shareholders of subsidiaries		**65**	50
Pledged bank deposits		**982**	1,369
Restricted bank deposits		**303**	335
Bank balances and cash		**2,901**	3,523
		28,205	26,824
Current liabilities			
Accounts payable, deposits received and accrued charges	13	**6,904**	5,068
Amounts due to related companies		**734**	368
Amounts due to associates	11	**9**	5
Amounts due to non-controlling shareholders of subsidiaries		**495**	404
Tax liabilities		**1,097**	1,855
Bank borrowings – due within one year		**6,385**	8,774
Dividend payable		**473**	–
		16,097	16,474
Net current assets		**12,108**	10,350
Total assets less current liabilities		**62,739**	52,130

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 30 June 2012

	Notes	30 June 2012 RMB'million (Unaudited)	31 December 2011 RMB'million (Audited)
Capital and reserves			
Share capital	14	**112**	102
Reserves		**29,771**	27,843
Equity attributable to shareholders of the Company		**29,883**	27,945
Non-controlling interests		**2,531**	1,526
Total equity		**32,414**	29,471
Non-current liabilities			
Bank and other borrowings – due after one year		**9,981**	7,969
Convertible bonds		**2,284**	2,225
Notes	15	**10,857**	6,520
Derivative financial instruments designated as hedging instruments	16	**59**	150
Loans from non-controlling shareholders of subsidiaries		**2,390**	2,078
Deferred tax liabilities		**4,747**	3,710
Defined benefit liabilities		**7**	7
		30,325	22,659
Total equity and non-current liabilities		**62,739**	52,130

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to shareholders of the Company												
	Share capital	Share premium	Merger reserve	Special reserve	Share option reserve	Exchange reserve	Convertible bond equity reserve	Hedge reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total
	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million
At 1 January 2012 (audited)	**102**	**12,985**	**122**	**(135)**	**170**	**20**	**605**	**(30)**	**637**	**13,469**	**27,945**	**1,526**	**29,471**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**825**	**825**	**143**	**968**
Exchange difference arising on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**(12)**	**–**	**–**	**–**	**–**	**(12)**	**–**	**(12)**
Fair value adjustments on interest rate swaps designated as cash flow hedges (note 16)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**18**	**–**	**–**	**18**	**–**	**18**
Net adjustment of hedge reserve reclassified to profit or loss upon early termination of interest rate swaps (note 16)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6)**	**–**	**–**	**(6)**	**–**	**(6)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**(12)**	**–**	**12**	**–**	**825**	**825**	**143**	**968**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**–**	**–**	**8**	**–**	**–**	**–**	**–**	**–**	**8**	**–**	**8**
Issue of new shares	**10**	**1,756**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,766**	**–**	**1,766**
Capital injection	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**22**	**22**
Dividend paid to a non-controlling shareholder of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9)**	**(9)**
Acquisition of subsidiaries (Note 18(a))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**661**	**661**
Acquisition of additional interests in a subsidiary (Note 18(b)(i))	**–**	**–**	**–**	**(188)**	**–**	**–**	**–**	**–**	**–**	**–**	**(188)**	**188**	**–**
2011 final dividend of HK$0.10 per share declared	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(473)**	**(473)**	**–**	**(473)**
At 30 June 2012 (unaudited)	**112**	**14,741**	**122**	**(323)**	**178**	**8**	**605**	**(18)**	**637**	**13,821**	**29,883**	**2,531**	**32,414**
At 1 January 2011 (audited)	102	12,985	122	(71)	155	15	605	(98)	637	10,368	24,820	1,208	26,028
Profit for the period	–	–	–	–	–	–	–	–	–	784	784	95	879
Exchange difference arising on translation of foreign operations	–	–	–	–	–	2	–	–	–	–	2	–	2
Fair value adjustments on interest rate swaps designated as cash flow hedges (note 16)	–	–	–	–	–	–	–	3	–	–	3	–	3
Total comprehensive income for the period	–	–	–	–	–	2	–	3	–	784	789	95	884
Recognition of equity-settled share-based payment expenses	–	–	–	–	13	–	–	–	–	–	13	–	13
Capital injection	–	–	–	–	–	–	–	–	–	–	–	25	25
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(4)	(4)
Acquisition of additional interests in a subsidiary (Note 18(b)(ii))	–	–	–	(104)	–	–	–	–	–	–	(104)	(274)	(378)
Release of special reserve upon disposal of related assets	–	–	–	10	–	–	–	–	–	–	10	–	10
2010 final dividend of HK$0.05 per share declared and paid	–	–	–	–	–	–	–	–	–	(220)	(220)	–	(220)
At 30 June 2011 (unaudited)	102	12,985	122	(165)	168	17	605	(95)	637	10,932	25,308	1,050	26,358

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 RMB'million (Unaudited)	2011 RMB'million (Unaudited)
Net cash used in operating activities		**(1,140)**	(306)
Net cash used in investing activities			
Additions to investment properties		**(1,617)**	(5,100)
Proceeds from disposal of investment properties		**–**	36
Withdrawal of pledged bank deposits		**1,571**	215
Placement of pledged bank deposits		**(1,051)**	(1,612)
Cash inflow from acquisition of subsidiaries	18(a)	**111**	–
Net cash inflow on disposal of subsidiaries	18(c)	**–**	342
Advances to associates		**(138)**	(16)
Decrease in loans receivable		**152**	450
Other investing cash flows		**(152)**	(85)
		(1,124)	(5,770)
Net cash from financing activities			
Advance from non-controlling shareholders of subsidiaries		**188**	434
Repayment to non-controlling shareholders of subsidiaries		**(129)**	(510)
Capital injected by non-controlling shareholders of subsidiaries		**22**	25
New bank and other loans raised		**4,241**	4,312
Repayment of bank loans		**(5,796)**	(1,486)
Issue of notes	15	**4,233**	3,500
Expenses on issue of notes	15	**(85)**	(70)
Settlement of interest rate swaps designated as cash flow hedges		**(73)**	–
Interest paid		**(956)**	(692)
Payment of dividends		**–**	(220)
Dividend payment to a non-controlling shareholder of a subsidiary		**(9)**	(4)
		1,636	5,289
Net decrease in cash and cash equivalents		**(628)**	(787)
Cash and cash equivalents at the beginning of the period		**3,523**	4,905
Effect of foreign exchange rate changes		**6**	(66)
Cash and cash equivalents at the end of the period		**2,901**	4,052
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**2,901**	4,052

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1. GENERAL

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011 except as described below.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred and the amount of any non-controlling interests in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Application of amendments to International Financial Reporting Standards ("IFRSs")

In the current interim period, the Group has applied, for the first time, the following amendments to IFRSs:

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets

Under the amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to IAS 12, the Directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties, which are located in the People's Republic of China ("PRC"), are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to IAS 12 is rebutted. Accordingly, the application of the amendments to IAS 12 does not have significant impact on the results and financial positions of the Group.

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. TURNOVER AND SEGMENTAL INFORMATION

An analysis of the turnover of the Group and share of turnover of associates for the period is as follows:

	Six months ended 30 June (Unaudited)					
	2012			2011		
	Group RMB'million	**Share of associates RMB'million**	**Total RMB'million**	Group RMB'million	Share of associates RMB'million	Total RMB'million
Property development:						
Property sales	**1,062**	**187**	**1,249**	1,356	144	1,500
Property investment:						
Rental income received from investment properties	**446**	**13**	**459**	354	3	357
Income from hotel operations	**65**	**–**	**65**	7	–	7
Property management fee income	**18**	**–**	**18**	19	–	19
Rental related income	**34**	**–**	**34**	25	–	25
	563	**13**	**576**	405	3	408
Others	**18**	**–**	**18**	27	–	27
Total	**1,643**	**200**	**1,843**	1,788	147	1,935

For management purposes, the Group is organised based on its business activities, which are broadly categorised into property development and property investment.

Principal activities of the two major reportable and operating segments are as follows:

Property development – development and sale of properties, mainly residential units
Property investment – offices and retail shops letting, property management and hotel operations

3. TURNOVER AND SEGMENTAL INFORMATION (CONTINUED)

	Six months ended 30 June 2012 (Unaudited)			
	Property development RMB'million	Property investment RMB'million	Others RMB'million	Consolidated RMB'million
Segment Revenue				
Turnover of the Group	**1,062**	**563**	**18**	**1,643**
Share of turnover of associates	**187**	**13**	**–**	**200**
Total segment revenue	**1,249**	**576**	**18**	**1,843**
Results				
Segment results of the Group	**191**	**1,551**	**12**	**1,754**
Interest income				**99**
Gain on acquisition of subsidiaries				**50**
Share of results of associates				**2**
Finance costs, inclusive of exchange differences				**(244)**
Net unallocated expenses				**(181)**
Profit before taxation				**1,480**
Taxation				**(512)**
Profit for the period				**968**

3. TURNOVER AND SEGMENTAL INFORMATION (CONTINUED)

	Six months ended 30 June 2011 (Unaudited)			
	Property development RMB'million	Property investment RMB'million	Others RMB'million	Consolidated RMB'million
Segment Revenue				
Turnover of the Group	1,356	405	27	1,788
Share of turnover of associates	144	3	–	147
Total segment revenue	1,500	408	27	1,935
Results				
Segment results of the Group	446	913	21	1,380
Interest income				74
Share of results of associates				97
Finance costs, inclusive of exchange differences				(51)
Net unallocated expenses				(174)
Profit before taxation				1,326
Taxation				(447)
Profit for the period				879

Segment revenue represents the turnover of the Group and the share of turnover of associates.

Segment profit represents the profit earned by each segment without allocation of central administration costs, Directors' salaries, interest income, gain on acquisition of subsidiaries, share of results of associates, finance costs and exchange differences. This is the measure reported to the chief operating decision makers that are the Executive Directors of the Company for the purpose of resource allocation and performance assessment.

4. OPERATING PROFIT

	Six months ended 30 June	
	2012 RMB'million (Unaudited)	2011 RMB'million (Unaudited)
Operating profit has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**59**	31
Release of prepaid lease payments	**5**	5
Less: Amount capitalised to property, plant and equipment	**(4)**	(4)
	1	1
Employee benefits expenses		
Directors' emoluments		
Fees	**1**	1
Salaries, bonuses and allowances	**22**	11
Retirement benefit costs	**1**	2
Share-based payment expenses	**2**	1
	26	15
Other staff costs		
Salaries, bonuses and allowances	**233**	195
Retirement benefit costs	**13**	10
Share-based payment expenses	**6**	12
	252	217
Total employee benefits expenses	**278**	232
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	**(81)**	(52)
	197	180
Cost of properties sold recognised as an expense	**711**	846
Rental charges under operating leases	**29**	20
Interest income	**(99)**	(74)

5. FINANCE COSTS, INCLUSIVE OF EXCHANGE DIFFERENCES

	Six months ended 30 June	
	2012 RMB'million (Unaudited)	2011 RMB'million (Unaudited)
Interest on bank loans and overdrafts wholly repayable within five years	**476**	378
Interest on loans from non-controlling shareholders of subsidiaries wholly repayable within five years (Note 21)	**75**	78
Imputed interest on loan from a non-controlling shareholder of a subsidiary (Note 21)	**5**	–
Interest on convertible bonds	**120**	114
Interest on notes (Note 15)	**410**	232
Net interest expense from interest rate swaps designated as cash flow hedges	**45**	71
Total interest costs	**1,131**	873
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	**(1,018)**	(746)
Interest expense charged to condensed consolidated income statement	**113**	127
Net exchange loss (gain) on bank borrowings and other financing activities	**68**	(103)
Others	**63**	27
	244	51

Borrowing costs capitalised during the six months ended 30 June 2012 arose on the general borrowing pool of the Group and were calculated by applying a capitalisation rate of approximately 7.7% (for the six months ended 30 June 2011: approximately 7.3%) per annum to expenditure on the qualifying assets.

6. TAXATION

	Six months ended 30 June	
	2012 RMB'million (Unaudited)	2011 RMB'million (Unaudited)
PRC Enterprise Income Tax	**156**	116
Deferred taxation	**321**	241
PRC Land Appreciation Tax	**35**	90
	512	447

No provision for Hong Kong Profits Tax has been made as the income of the Group neither arises in, nor is derived from, Hong Kong.

PRC Enterprise Income Tax has been provided for at the applicable income tax rate of 25% (for the six months ended 30 June 2011: 25%) on the assessable profits of the companies in the Group during the period.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditures.

7. DIVIDENDS

	Six months ended 30 June	
	2012 RMB'million (Unaudited)	2011 RMB'million (Unaudited)
2011 Final dividend declared (2011: 2010 final dividend declared and paid)	**473**	220
Interim dividend declared in respect of 2012 of HK$0.025 (2011: HK$0.025) per share	**122**	107

Subsequent to the end of the interim period, the Board has declared the payment of HK$0.025 (equivalent to RMB0.020) (2011: HK$0.025 (equivalent to RMB0.021)) per share as the interim dividend in respect of 2012.

In June 2012, a final dividend in respect of 2011 of HK$0.10 (equivalent to RMB0.08) per share was approved by the shareholders of the Company at the annual general meeting on 7 June 2012. The 2011 final dividend was paid on 18 July 2012 in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their final dividend in new, fully paid shares in lieu of all or part of cash. 70.5% of the shareholdings elected to receive shares in lieu of cash dividends at share price of HK$3.176 per share and accordingly, 129,436,566 new and fully paid shares were issued. These new shares rank pari passu to the existing shares of the Company.

In October 2011, an interim dividend in respect of 2011 of HK$0.025 (equivalent to RMB0.021) per share was paid to the shareholders of the Company.

A final dividend in respect of 2010 of HK$0.05 (equivalent to RMB0.042) per share was approved by the shareholders of the Company at the annual general meeting on 19 May 2011 and was paid to the shareholders of the Company in June 2011.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to shareholders of the Company is based on the following data:

	Six months ended 30 June	
Earnings	**2012 RMB'million (Unaudited)**	2011 RMB'million (Unaudited)
Earnings for the purposes of basic earnings per share and diluted earnings per share, being profit for the period attributable to shareholders of the Company	**825**	784

	Six months ended 30 June	
Number of shares	**2012 'million (Unaudited)**	2011 'million (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,391**	5,212
Effect of dilutive potential shares:		
Convertible bonds	**669**	662
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,060**	5,874

Note:

There were no dilution effects for share options granted as the exercise prices of these share options granted were higher than the average market price for the six months ended 30 June 2012 and 30 June 2011.

9. INVESTMENT PROPERTIES

	30 June 2012 RMB'million (Unaudited)	31 December 2011 RMB'million (Audited)
Completed investment properties held to earn rentals or for capital appreciation or both	**21,632**	17,981
Investment properties under construction or development,		
stated at fair value	**11,886**	9,927
stated at cost	**9,137**	8,487
	21,023	18,414
	42,655	36,395

The movements of investment properties during the current and prior periods are as follows:

	Completed investment properties RMB'million	Investment properties under construction or development at fair value RMB'million	Investment properties under construction or development at cost RMB'million	Total RMB'million
At 1 January 2012 (audited)	**17,981**	**9,927**	**8,487**	**36,395**
Acquisition of subsidiaries (Note 18(a))	**2,676**	**189**	**–**	**2,865**
Additions	**7**	**858**	**1,271**	**2,136**
Transfer upon completion	**577**	**(577)**	**–**	
Transfers	**–**	**621**	**(621)**	**–**
Transfer to property, plant and equipment	**(9)**	**–**	**–**	**(9)**
Increase in fair value recognised in the condensed consolidated income statement	**400**	**868**	**–**	**1,268**
At 30 June 2012 (unaudited)	**21,632**	**11,886**	**9,137**	**42,655**
At 1 January 2011 (audited)	14,119	6,815	5,959	26,893
Eliminated upon disposal	(36)	–	–	(36)
Disposal of a subsidiary (Note 18(c))	–	–	(348)	(348)
Additions	4	578	4,898	5,480
Transfer upon completion	28	(28)	–	–
Transfers	–	234	(234)	–
Transfer to property, plant and equipment	(28)	–	–	(28)
Increase in fair value recognised in the condensed consolidated income statement	421	240	–	661
At 30 June 2011 (unaudited)	14,508	7,839	10,275	32,622

9. INVESTMENT PROPERTIES (CONTINUED)

The investment properties are all situated in the PRC and held under long term leases of RMB3,740 million (30 June 2011: RMB2,363 million) and medium-term leases of RMB38,915 million (30 June 2011: RMB30,259 million). All the completed investment properties are rented out under operating leases or are held for capital appreciation purposes.

In circumstances where the fair value of an investment property under construction or development is not reliably determinable but the fair value of the property is expected to be reliably determinable when construction is completed, such investment properties under construction or development are measured at cost less impairment, if any, until either its fair value becomes reliably determinable or construction is completed, whichever is the earlier.

The fair values of the Group's investment properties at 30 June 2012 and 31 December 2011 and at dates of transfer upon completion of development of investment properties under construction or development and at the dates of transfer to property, plant and equipment have been arrived at on the basis of valuations carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuers not connected to the Group.

For completed investment properties, the valuations have been arrived at using direct comparison method and capitalisation of net income method, where appropriate. In the valuation, the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuer for the similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties.

For investment properties under construction or development that are measured at fair value, the valuations have been arrived at assuming that the investment properties will be completed in accordance with the development proposals and the relevant approvals for the proposals have been obtained. The key inputs in the valuations include the market value of the completed investment properties, which are estimated with reference to sales evidence of similar properties in the nearest locality, with adjustments made to account for differences in locations and other factors specific to the respective properties based on the valuers' judgement. Costs of development are also taken into account including construction costs, finance costs and professional fees, as well as developer's profit margin which reflects the remaining risks associated with the development of the properties at the valuation date and the return that the developer would require for bringing them to completion status, which is determined by the valuers based on its analyses of recent land transactions and market value of similar completed properties in the respective locations.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired office premise and hotel premise amounted to RMB456 million and RMB1,860 million (for the six months ended 30 June 2011: nil), respectively, arising from acquisition of subsidiaries, details of which are set out in note 18(a).

In addition, during the six months ended 30 June 2012, the Group incurred construction costs of RMB270 million (for the six months ended 30 June 2011: nil) in respect of hotels under development and acquired furniture, fixture and equipment of RMB33 million (for the six months ended 30 June 2011: nil).

11. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/ AMOUNTS DUE TO ASSOCIATES

	Notes	30 June 2012 RMB'million (Unaudited)	31 December 2011 RMB'million (Audited)
Cost of investments, unlisted		**357**	357
Share of post-acquisition profits		**702**	700
		1,059	1,057
Loans to associates			
– Interest free	(a)	**834**	808
– Interest bearing at 5% per annum	(b)	**699**	558
		1,533	1,366
Amounts due from associates	(c)	**519**	446
Amounts due to associates	(d)	**9**	5

Notes:

(a) These loans to associates represent the loans to subsidiaries of Richcoast Group Limited ("Richcoast"), an associate of the Group, for financing the development of Dalian Tiandi project. Pursuant to the joint venture agreement dated 25 May 2007, the loans are unsecured, interest free and with no fixed terms of repayment until Many Gain International Limited, a shareholder of Richcoast which is an independent third party, has contributed its share of the shareholder's loan to the subsidiaries of Richcoast. Thereafter, the loans will bear interest at a rate of 5% per annum, subject to shareholders' approval. The loans are carried at amortised cost using the effective interest rate of 5.4% (31 December 2011: 5.4%) per annum.

(b) These loans to associates represent the loans to subsidiaries of Richcoast are unsecured, interest bearing at a rate of 5% per annum and with no fixed terms of repayment.

(c) The amounts due from associates are unsecured, interest bearing at 6.1% (31 December 2011: 6.1%) per annum and repayable on demand.

(d) The amounts due to associates are unsecured, interest free and repayable on demand.

12. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	30 June 2012 RMB'million (Unaudited)	31 December 2011 RMB'million (Audited)
Non-current accounts receivable comprise:		
Rental receivables in respect of rent-free periods	**95**	86
Current accounts receivable comprise:		
Trade receivables (net of allowance for bad and doubtful debts) with aging analysis (based on the repayment terms set out in the sales and purchase agreements or debit notes to the tenants):		
Not yet due	**228**	401
Past due within 30 days	**27**	32
Past due 31 – 60 days	**2**	23
Past due 61 – 90 days	**–**	1
Past due over 90 days	**10**	1
	267	458
Prepayments of relocation costs (note)	**1,457**	1,815
Other deposits, prepayments and receivables	**433**	230
	2,157	2,503

Note:

The balance represents the amounts that will be capitalised to properties under development for sale in accordance with the Group's normal operating cycle, and not expected to be realised within twelve months from the end of the reporting period.

Trade receivables comprise:

(i) receivables arising from sales of properties which are due for settlement in accordance with the terms of the relevant sales and purchase agreements; and

(ii) rental receivables which are due for settlement upon issuance of monthly debit notes to the tenants.

13. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

	30 June 2012 RMB'million (Unaudited)	31 December 2011 RMB'million (Audited)
Trade payables with aging analysis (based on invoice date):		
0-30 days	**2,284**	2,519
31-60 days	**19**	4
61-90 days	**11**	5
Over 90 days	**11**	11
	2,325	2,539
Retention payables (note (a))	**330**	224
Deed tax, business tax and other tax payables	**325**	397
Deposits received and receipt in advance from property sales	**3,063**	1,080
Deposits received and receipt in advance in respect of rental of investment properties	**310**	259
Deposit received in respect of partial disposal of equity interests in subsidiaries (note (b))	**352**	352
Accrued charges	**199**	217
	6,904	5,068

Notes:

(a) Retention payables are expected to be paid upon the expiry of the retention periods according to the respective contracts.

(b) Pursuant to a sales and purchase agreement dated 29 November 2011, entered into between Shui On Development (Holding) Limited ("SOD", a wholly-owned subsidiary of the Company) and Mitsui Fudosan Residential Co., Ltd. ("Mitsui", a non-controlling shareholder of an associate's subsidiary), SOD agreed to dispose of, and Mitsui agreed to acquire from SOD, SOD's 49% equity interests in relation to Value Land Investment Limited ("Value Land", an indirect wholly-owned subsidiary of the Company which engages in the property development in Foshan, the PRC), for a consideration of RMB391 million. An amount of RMB352 million was received in December 2011 and the remaining balance of RMB39 million would be received upon completion of the transaction pursuant to the terms of the sales and purchase agreement. Upon completion of the transaction, the Group will hold 51% equity interest in Value Land and still have control over Value Land.

14. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	**USD'000**	**Number of shares**	**USD'000**
Ordinary shares of USD0.0025 each				
At 1 January 2011 and 30 June 2011	12,000,000,000	30,000	5,211,587,981	13,029
At 1 January 2012	12,000,000,000	30,000	5,211,587,981	13,029
Issue of new shares for the acquisition of equity interests in subsidiaries (note 18(a))	**–**	**–**	**626,909,643**	**1,567**
At 30 June 2012	**12,000,000,000**	**30,000**	**5,838,497,624**	**14,596**

	30 June 2012 RMB'million (Unaudited)	31 December 2011 RMB'million (Audited)
Shown in the condensed consolidated statement of financial position as	**112**	102

15. NOTES

	Six months ended 30 June	
	2012 RMB'million (Unaudited)	2011 RMB'million (Unaudited)
At 1 January	**6,520**	2,945
Issue of senior notes due 2015	**4,233**	3,500
Expenses on issue of senior notes	**(85)**	(70)
Interest charged during the period	**410**	232
Less: Interest paid	**(236)**	(104)
Exchange translation	**15**	–
At 30 June	**10,857**	6,503

On 23 December 2010, SOD issued RMB3,000 million senior notes to independent third parties with a maturity of three years due on 23 December 2013 (the "2013 RMB Notes"). The 2013 RMB Notes are denominated in RMB and settled in US dollars, and bear coupon interest at 6.875% per annum payable semi-annually in arrears.

On 26 January 2011, SOD further issued RMB3,500 million senior notes to independent third parties with a maturity of four years due on 26 January 2015 (the "2015 RMB Notes"). The 2015 RMB Notes are denominated in RMB and settled in US dollars, and bear coupon interest at 7.625% per annum payable semi-annually in arrears.

On 26 January 2012, Shui On Development (Singapore) Pte. Ltd. ("SODSG"), a wholly-owned subsidiary of the Company, issued Singapore dollar ("SGD") 250 million (equivalent to RMB1,241 million) senior notes to independent third parties with a maturity of three years due on 26 January 2015 (the "2015 SGD Notes"). The 2015 SGD Notes are denominated and settled in Singapore dollar, and bear coupon interest at 8% per annum payable semi-annually in arrears.

15. NOTES (CONTINUED)

On 16 February 2012 and 29 February 2012, SOD issued US dollar 400 million (equivalent to RMB2,520 million) senior notes and US dollar 75 million (equivalent to RMB472 million) senior notes, respectively, to independent third parties with a maturity of three years due on 16 February 2015 (the "2015 USD Notes"). The 2015 USD Notes are denominated and settled in US dollar, and bear coupon interest at 9.75% per annum payable semi-annually in arrears.

The principal terms of the 2015 SGD Notes were:

(a) senior in right of payment to any existing and future obligations of SODSG expressly subordinated in right of payment to the 2015 SGD Notes;

(b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SODSG (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);

(c) guaranteed by the Company on a senior basis;

(d) effectively subordinated to the secured obligations (if any) of the Company, SOD and SODSG, to the extent of the value of the assets serving as security thereof; and

(e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2015 SGD Notes, SODSG may at its option redeem the 2015 SGD Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2015 SGD Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SODSG, and the trustee of the 2015 SGD Notes.

At any time on or before all the Notes or 2015 SGD Notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to shareholders after taking into account certain adjustments prescribed in the terms of the Notes and 2015 SGD Notes.

The principal terms of the 2015 USD Notes were:

(a) senior in right of payment to any existing and future obligations of SOD expressly subordinated in right of payment to the 2015 USD Notes;

(b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SOD (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);

(c) guaranteed by the Company on a senior basis;

(d) effectively subordinated to the secured obligations (if any) of the Company and SOD, to the extent of the value of the assets serving as security thereof; and

(e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2015 USD Notes, SOD may at its option redeem the 2015 USD Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2015 USD Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SOD, and the trustee of the 2015 USD Notes.

At any time on or before all the Notes or 2015 USD Notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to shareholders after taking into account certain adjustments prescribed in the terms of the Notes and 2015 USD Notes.

16. DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS

The derivative financial instruments are measured at fair value at the end of the reporting period. The fair value is determined based on valuation provided by the counterparty financial institution.

At 30 June 2012 and 31 December 2011, the Group has outstanding interest rate swaps to hedge against the variability of cash flows arising from the interest rate fluctuations. Under these swaps, the Group would receive interests at variable rates at Hong Kong Interbank Offered Rate ("HIBOR") and pay interests at fixed rates ranging from 0.64% to 3.58% (31 December 2011: 0.69% to 3.58%) based on the notional amounts of HK$4,968 million (31 December 2011: HK$8,210 million) in aggregate. The Group has designated the interest rate swaps as hedges against the variability of interest payments of certain bank borrowings of the Group amounting to HK$4,968 million (31 December 2011: HK$8,210 million) which bear variable interest rates at HIBOR plus spread ranging from 2.75% to 4.5% (31 December 2011: 2.4% to 3.65%) and mature on or before March 2015. The principal terms of the interest rate swaps have been negotiated to match the terms of the related bank borrowings.

During the six months ended 30 June 2012, the Group entered into new interest rate swaps to hedge against the variability of cash flows arising from the interest rate fluctuations. Under these swaps, the Group would receive interests at variable rates at London Interbank Offered Rate ("LIBOR") and pay interests at fixed rates ranging from 0.7% to 0.71% (31 December 2011: nil) based on the notional amounts of USD150 million (31 December 2011: nil) in aggregate. The Group has designated the interest rate swaps as hedges against the variability of interest payments of certain bank borrowings of the Group amounting to USD150 million (31 December 2011: nil) which bear variable interest rates at LIBOR plus spread at 3.1% (31 December 2011: nil) and mature on or before March 2015. The principal terms of the interest rate swaps have been negotiated to match the terms of the related bank borrowings.

During the six months ended 30 June 2012, fair value gain arising from the interest rate swaps of RMB18 million (for the six months ended 30 June 2011: RMB3 million) has been deferred in equity as hedge reserve, which is expected to be recognised in the condensed consolidated income statement at various dates upon the interest payments of the related bank borrowings are expected to settle.

During the six months ended 30 June 2012, certain interest rate swaps were early terminated due to early repayment of the relevant bank borrowings. Upon termination of the interest rate swaps, an amount of RMB6 million (for the six months ended 30 June 2011: nil) which was previously recognised in other comprehensive income and accumulated in hedge reserve was reclassified to profit or loss.

17. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the shareholders on 8 June 2007 for the primary purpose of providing incentives to directors, eligible employees and consultants. Under the Scheme, the total number of shares in respect of which options may be granted is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

As of 30 June 2012, 140,233,618 share options (31 December 2011: 112,704,751 share options) remained outstanding under the Scheme, representing 2.4% (31 December 2011: 2.2%) of the shares of the Company in issue at that date. The Scheme allows the Board of Directors, when offering the grant of any option, to impose any condition including any performance target which must be met before the option shall vest and become exercisable.

On 18 January 2012, an aggregate of 40,771,000 share options were granted to certain directors and certain eligible employees. Details are as follows:

Date of grant	Exercise price HK$	Closing share price at date of grant HK$	Weighted average estimated fair value at date of grant HK$	Number of share options granted
18 January 2012	2.61	2.61	0.94	40,771,000

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

Expected volatility	50%
Expected life	4.9 years
Risk-free rate	0.64% to 0.88%
Expected dividend yield	2.4%

Expected volatility was determined by using the volatility of the historical share price of the Company since its listing in October 2006. The expected life used in the model has been adjusted, based on management's best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations.

HK$1.00 is payable by each eligible participant to the Company on acceptance of an offer of options, to be paid within 1 month from the date of the offer.

The Group has recognised the total expense of RMB8 million (for the six months ended 30 June 2011: RMB13 million) in the condensed consolidated income statement in relation to share options granted by the Company.

17. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

No share options were exercised during the six months ended 30 June 2012 and 30 June 2011. The movement in the Company's share options is set out below:

		Number of options				
Date of grant	**Exercise price HK$**	**At 1 January 2012**	**Granted during the period**	**Exercised during the period**	**Lapsed during the period**	**At 30 June 2012**
20 June 2007	**7.00**	**72,175,413**	**–**	**–**	**(9,282,637)**	**62,892,776**
1 August 2007	**8.18**	**808,631**	**–**	**–**	**–**	**808,631**
2 October 2007	**10.00**	**1,679,722**	**–**	**–**	**(7,145)**	**1,672,577**
1 November 2007	**11.78**	**497,855**	**–**	**–**	**–**	**497,855**
3 December 2007	**9.88**	**116,156**	**–**	**–**	**(11,566)**	**104,590**
2 January 2008	**8.97**	**2,848,402**	**–**	**–**	**(103,436)**	**2,744,966**
1 February 2008	**8.05**	**1,269,992**	**–**	**–**	**(55,704)**	**1,214,288**
3 March 2008	**7.68**	**490,381**	**–**	**–**	**(32,137)**	**458,244**
2 May 2008	**7.93**	**4,440,654**	**–**	**–**	**(496,062)**	**3,944,592**
2 June 2008	**7.34**	**10,570,579**	**–**	**–**	**(557,915)**	**10,012,664**
2 July 2008	**6.46**	**696,537**	**–**	**–**	**(181,332)**	**515,205**
4 September 2009	**4.90**	**17,110,429**	**–**	**–**	**(1,504,199)**	**15,606,230**
18 January 2012	**2.61**	**–**	**40,771,000**	**–**	**(1,010,000)**	**39,761,000**
Total		**112,704,751**	**40,771,000**	**–**	**(13,242,133)**	**140,233,618**
Number of options exercisable		**43,104,768**				**46,946,678**

		Number of options				
Date of grant	Exercise price HK$	At 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2011
20 June 2007	7.00	91,390,892	–	–	(10,405,481)	80,985,411
1 August 2007	8.18	1,109,933	–	–	(250,173)	859,760
2 October 2007	10.00	2,066,456	–	–	(250,571)	1,815,885
1 November 2007	11.78	724,550	–	–	(109,687)	614,863
3 December 2007	9.88	580,866	–	–	(384,338)	196,528
2 January 2008	8.97	3,178,009	–	–	(145,961)	3,032,048
1 February 2008	8.05	1,444,882	–	–	(86,159)	1,358,723
3 March 2008	7.68	633,008	–	–	(87,848)	545,160
2 May 2008	7.93	5,421,932	–	–	(859,170)	4,562,762
2 June 2008	7.34	13,665,712	–	–	(1,579,959)	12,085,753
2 July 2008	6.46	947,231	–	–	(208,393)	738,838
4 September 2009	4.90	20,989,141	–	–	(1,066,013)	19,923,128
Total		142,152,612	–	–	(15,433,753)	126,718,859
Number of options exercisable		35,906,115				47,378,823

17. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The vesting period and the exercisable period of the share options granted to eligible employees and directors on 18 January 2012 are as follows:

	Vesting period	Exercisable period
The first 50% of the grant	From date of grant to any date in 2nd quarter of year 2013 to be determined by the remuneration committee	From any date in 2nd quarter of year 2013 to be determined by the remuneration committee to 17 January 2020
The second 25% of the grant	From date of grant to 31 December 2013	From 1 January 2014 to 17 January 2020
The last 25% of the grant	From date of grant to 31 December 2014	From 1 January 2015 to 17 January 2020

18. ACQUISITIONS AND DISPOSALS

(a) Acquisition of subsidiaries

Pursuant to a sales and purchase agreement dated 9 September 2011 entered into between Rich Bright Holdings Limited ("Rich Bright", an indirect wholly-owned subsidiary of the Company), as the purchaser and Cassidy Enterprises Corp. ("Cassidy", an indirect wholly-owned subsidiary of Shui On Investment Company "SOI", a subsidiary of Shui On Company Limited "SOCL") and SOI, as sellers, Rich Bright agreed to acquire from Cassidy and SOI, respectively, the entire equity interest in Rimmer Investments Limited ("Rimmer", which indirectly owns Shui On Plaza, an office and retail complex located at Huangpu District, Shanghai, the PRC); and 66.7% equity interest in Magic Garden Investments Limited ("Magic Garden", which indirectly beneficially owns Langham Xintiandi Hotel located at Huangpu District, Shanghai, the PRC).

Langham Xintiandi Hotel is owned by Shanghai Li Xing Hotel Co., Limited, a company established in the PRC which is an indirect wholly-owned subsidiary of Victorious Run Limited ("VRL"). VRL is a jointly controlled entity of the Group of which the Group holds 50% equity interest. In accordance with the shareholders' agreement entered into between Magic Garden and the other joint venturers of VRL, the Group solely has the ability to execute the right and control over, and is solely responsible for all costs incurred in, the development, construction and operation of Langham Xintiandi Hotel. The related assets, liabilities, income and expenses of Langham Xintiandi Hotel are therefore consolidated in the condensed consolidated financial statements of the Group.

SOCL was the substantial shareholder of the Company which indirectly held 48% of the issued shares of the Company prior to the acquisition. Upon completion of acquisition of Rimmer and Magic Garden, SOCL became the ultimate holding company of the Company. Mr. Vincent H.S. LO, the Chairman of the Company, has controlling interest in SOCL.

On 16 March 2012, the acquisition of Rimmer and Magic Garden was completed. Upon completion of the transaction, Rimmer and Magic Garden became subsidiaries of the Company. In the opinion of the Directors, the acquisition of Rimmer and Magic Garden will complement the Group's strong established position in the PRC real estate market with a stronger presence in Shanghai and position the Group to capture the growth potential from the main financial and business hub of the PRC. The acquisition is expected to make a positive contribution to the income stream of the Group.

18. ACQUISITIONS AND DISPOSALS (CONTINUED)

(a) Acquisition of subsidiaries (continued)

The final consideration for acquisition of Rimmer was determined based on the fair values of the assets and liabilities acquired at the date of acquisition, and was settled by the issuance of 421,345,791 shares of the Company. The fair values of the assets and liabilities acquired at the date of acquisition are set out as follows:

	RMB'million (Unaudited)
Investment properties	**2,676**
Property, plant and equipment	**456**
Accounts receivable, deposits and prepayments	**4**
Bank balances and cash	**84**
Amounts due from fellow subsidiaries	**113**
Amounts due from related companies	**90**
Accounts payable, deposits received and accrued charges	**(35)**
Amount due to a non-controlling shareholder of a subsidiary	**(18)**
Tax liabilities	**(4)**
Bank borrowings	**(921)**
Deferred tax liabilities	**(675)**
	1,770
Consideration transferred	**1,247**
Non-controlling interests	**523**
	1,770
Cash inflow arising on acquisition:	
Cash and cash equivalents acquired	**84**

18. ACQUISITIONS AND DISPOSALS (CONTINUED)

(a) Acquisition of subsidiaries (continued)

The final consideration for the acquisition of Magic Garden was determined based on the fair values of the assets and liabilities acquired at the date of acquisition, and was settled by the issuance of 205,563,852 shares of the Company. The fair values of the assets and liabilities acquired at the date of acquisition are set out as follows:

	RMB'million (Unaudited)
Investment properties	**189**
Property, plant and equipment	**1,860**
Accounts receivables, deposits and prepayments	**28**
Bank balances and cash	**27**
Amounts due to fellow subsidiaries	**(126)**
Amounts due to related companies	**(455)**
Loan from a non-controlling shareholder of a subsidiary	**(306)**
Accounts payable, deposits received and accrued charges	**(213)**
Bank borrowings	**(203)**
Deferred tax liabilities	**(94)**
	707
Gain on acquisition of subsidiaries:	
Consideration transferred (note)	**519**
Add: Non-controlling interests	**138**
Less: Fair values of assets and liabilities acquired	**(707)**
	(50)
Cash inflow arising on acquisition:	
Cash and cash equivalents acquired	**27**

Note:

The fair value of the consideration was determined based on the fair value of the shares of the Company using its published share price at the completion date.

The non-controlling interests in Magic Garden recognised at the acquisition date was measured with reference to the non-controlling interests' proportionate share of the fair value of net assets of Magic Garden and amounted to RMB138 million.

Included in the profit for the six months ended 30 June 2012 is loss of RMB10 million attributable to Magic Garden. Turnover for the six months ended 30 June 2012 includes RMB56 million generated from Magic Garden.

Had the acquisition of Magic Garden been completed on 1 January 2012, the Group's total turnover for the six months would have been RMB1,673 million, and profit for the six months would have been RMB960 million. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

18. ACQUISITIONS AND DISPOSALS (CONTINUED)

(b) Acquisition of additional interests in subsidiaries

(i) During the six months ended 30 June 2012, the share capital of Foresight Profits Limited ("Foresight"), an indirect non-wholly-owned subsidiary of the Company which indirectly owns all ownership interest in a PRC enterprise which is engaged in Rui Hong Xin Cheng project, was increased, whereby SOD, which owned 75% equity interest in Foresight, subscribed the entire portion of the increase in share capital at a consideration of HK$1,174 million (equivalent to RMB952 million). Elegant Partners Limited ("EPL", a non-controlling shareholder which owned 25% of equity interest in Foresight) did not participate in injecting any additional capital into Foresight. Upon completion of the subscription, the equity interest of SOD in Foresight was increased by 4.81% from 75% to 79.81% and the equity interest of the non-controlling shareholder of Foresight was diluted from 25% to 20.19% by 4.81%.

An amount of RMB188 million recognised in the special reserve during the six months ended 30 June 2012 represents the Group's share of additional interest in carrying amount of the net assets of Foresight.

(ii) During the six months ended 30 June 2011, pursuant to a supplementary shareholder agreement entered into between SOD, Foresight, Hollyfield Holdings Limited, Selfers Limited and Silomax Limited (indirect subsidiaries of the Company) and EPL dated 1 April 2011, EPL agreed to dispose of, and SOD agreed to acquire from EPL, EPL's rights and interests in relation to a particular phase of the Rui Hong Xin Cheng project for a consideration of RMB378 million.

EPL agreed that the consideration of RMB378 million was advanced to Foresight to finance the Rui Hong Xin Cheng project. The amount owed to EPL is unsecured, interest bearing at 110% of People's Bank of China Prescribed Interest Rate and will not be demanded for payment, until Foresight is in a position to repay the loan, which is to be mutually agreed between both parties. The Directors are in the opinion that the loan is not repayable in the next twelve months from the end of the reporting period.

(c) Disposal of subsidiaries

During the six months ended 30 June 2011, the Group disposed of certain subsidiaries which engaged in the property development of a project in Hangzhou, the PRC to an independent third party for a cash consideration RMB438 million. The net assets disposed of in the transaction were as follows:

	RMB'million (Unaudited)
Investment properties under construction or development	348
Bank balances and cash	96
Other payables and accrued charges	(6)
Net assets disposed of	438
Consideration received	(438)
Gain on disposal	–
Cash consideration in cash and cash equivalent	438
Less: cash and cash equivalent balances disposed of	(96)
Net cash inflow on disposal of subsidiaries	342

During the six months ended 30 June 2011, the disposed subsidiaries did not contribute any turnover or results to the Group.

19. PLEDGE OF ASSETS

The following assets are pledged to banks as securities to obtain certain banking facilities at the end of the reporting period:

	30 June2012 RMB'million (Unaudited)	31 December 2011 RMB'million (Audited)
Investment properties	**31,311**	20,959
Property, plant and equipment	**2,717**	592
Prepaid lease payments	**466**	41
Properties under development for sale	**4,244**	4,537
Properties held for sale	**–**	266
Accounts receivable	**76**	56
Bank deposits	**1,992**	2,512
	40,806	28,963

Included in pledged bank deposits above is an amount of RMB265 million (31 December 2011: RMB265 million) which has been pledged to a bank to secure the banking facilities granted to an associate. All the other assets are pledged to secure banking facilities granted to the Group.

In addition, the equity interests in certain subsidiaries with carrying amount of net assets of RMB23,124 million (31 December 2011: RMB15,688 million) are also pledged to banks as securities to obtain banking facilities granted to the Group at the end of the reporting period.

20. COMMITMENTS AND CONTINGENCIES

As of the end of the reporting period, the Group has the following commitments:

	30 June 2012 RMB'million (Unaudited)	31 December 2011 RMB'million (Audited)
Contracted but not provided for:		
Development costs for investment properties under construction or development	**4,656**	5,278
Development costs for properties under development held for sale	**11,483**	6,689
	16,139	11,967

Except as disclosed above, there have been no significant changes in the Group's capital and other commitments as well as contingent liabilities since 31 December 2011.

21. RELATED PARTY TRANSACTIONS

Apart from the related party transactions and balances as stated in notes 11, 18(a), 18(b) and in the condensed consolidated statement of financial position, the Group has the following transactions with related parties during the period:

	Six months ended 30 June	
	2012 RMB'million (Unaudited)	2011 RMB'million (Unaudited)
SOCL and its subsidiaries other than those of the Group		
Rental and building management fee expenses	**2**	16
Travelling expenses	**4**	1
Project management fee income	**14**	7
SOCAM Development Limited and its subsidiaries, associates of SOCL		
Project construction costs	**373**	337
Property sales	**–**	19
Associates		
Project management fee income	**6**	9
Interest income	**16**	11
Imputed interest income	**32**	17
Non-controlling shareholders of subsidiaries		
Interest expenses	**75**	78
Imputed interest expenses	**5**	–
Project management fee expenses	**5**	1
Directors		
Property sales	**1**	4
Remunerations	**24**	14
Share option expense	**2**	1
Senior management		
Property sales	**1**	3
Remunerations	**25**	20
Share option expense	**4**	1

22. EVENTS AFTER THE REPORTING PERIOD

(a) On 6 August 2012, SOD further issued US dollar 400 million senior notes at 102.785% of the principal amount plus accrued interest from 16 February 2012 to 6 August 2012 ("Additional Notes") to independent third parties. These Additional Notes consolidate and form a single class with the 2015 USD Notes and have the same maturity date of 16 February 2015. These Additional Notes are denominated in US dollar, and bear coupon interest at 9.75% per annum payable semi-annually in arrears.

(b) On 22 August 2012, SOD and Mitsui entered into a sales and purchase agreement, pursuant to which SOD agreed to sell, and Mitsui agreed to purchase 49% of the entire issued share capital of Glory Land Investment Limited (an indirectly wholly-owned subsidiary of the Company which engages in the property development in Foshan, the PRC) and the related shareholder's loans, for a total cash consideration of RMB224 million. For more information on the sales and purchase agreement, please refer to the announcement of the Company published on 22 August 2012.

Independent Auditor's Report

To the Shareholders of Shui On Land Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shui On Land Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 113 to 180, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

16 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 RMB'million	2009 RMB'million
Turnover	5	**4,879**	6,758
Cost of sales		**(2,869)**	(3,229)
Gross profit		**2,010**	3,529
Other income	6	**226**	170
Selling and marketing expenses		**(142)**	(151)
General and administrative expenses		**(561)**	(543)
Operating profit	7	**1,533**	3,005
Increase in fair value of investment properties	13	**2,711**	536
Gain on disposal of investment properties		**23**	–
Gain on acquisition of additional equity interests in subsidiaries	36(b)	**–**	6
Share of results of associates	17	**58**	436
Finance costs, net of exchange gain	8	**42**	(89)
Profit before taxation		**4,367**	3,894
Taxation	9	**(1,357)**	(1,301)
Profit for the year		**3,010**	2,593
Attributable to:			
Shareholders of the Company		**2,809**	2,673
Non-controlling interests		**201**	(80)
		3,010	2,593
Earnings per share	12		
– Basic		**RMB0.55**	RMB0.55
– Diluted		**RMB0.53**	RMB0.55

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 RMB'million	2009 RMB'million
Profit for the year		**3,010**	2,593
Other comprehensive (expense) income			
Exchange difference arising on translation of foreign operations		**(4)**	(19)
Fair value adjustments on interest rate swaps designated in cash flow hedges	32	**(7)**	45
Other comprehensive (expense) income for the year		**(11)**	26
Total comprehensive income for the year		**2,999**	2,619
Total comprehensive income attributable to:			
Shareholders of the Company		**2,798**	2,699
Non-controlling interests		**201**	(80)
		2,999	2,619

Consolidated Statement of Financial Position

As of 31 December 2010

	Notes	2010 RMB'million	2009 RMB'million
Non-current assets			
Investment properties	13	**26,893**	21,206
Property, plant and equipment	14	**540**	356
Prepaid lease payments	15	**73**	43
Interests in associates	17	**920**	862
Loans to associates	17	**1,270**	1,273
Accounts receivable	19	**64**	59
Pledged bank deposits	20	**1,569**	1,222
Deferred tax assets	33	**162**	139
		31,491	25,160
Current assets			
Properties under development for sale	16	**14,308**	11,532
Properties held for sale	21	**627**	627
Accounts receivable, deposits and prepayments	19	**3,604**	933
Loans receivable	22	**597**	378
Amounts due from associates	17	**318**	147
Amounts due from related companies	23	**49**	73
Amounts due from non-controlling shareholders of subsidiaries	24	**38**	17
Pledged bank deposits	20	**316**	797
Bank balances and cash	20	**4,905**	2,928
		24,762	17,432
Current liabilities			
Accounts payable, deposits received and accrued charges	25	**4,987**	4,305
Amounts due to related companies	23	**95**	69
Amounts due to associates	17	**29**	45
Amounts due to non-controlling shareholders of subsidiaries	24	**462**	475
Loan from a non-controlling shareholder of a subsidiary	26	**300**	442
Tax liabilities		**1,230**	1,404
Bank borrowings – due within one year	27	**1,644**	2,098
		8,747	8,838
Net current assets		**16,015**	8,594
Total assets less current liabilities		**47,506**	33,754

Consolidated Statement of Financial Position
As of 31 December 2010

	Notes	2010 RMB'million	2009 RMB'million
Capital and reserves			
Share capital	28	**102**	99
Reserves		**24,718**	21,480
Equity attributable to shareholders of the Company		**24,820**	21,579
Non-controlling interests		**1,208**	995
Total equity		**26,028**	22,574
Non-current liabilities			
Bank and other borrowings – due after one year	27	**11,539**	8,105
Convertible bonds	30	**2,117**	–
Notes	31	**2,945**	–
Derivative financial instruments designated as hedging instruments	32	**218**	211
Loans from non-controlling shareholders of subsidiaries	26	**1,653**	670
Deferred tax liabilities	33	**3,001**	2,192
Defined benefit liabilities	34	**5**	2
		21,478	11,180
Total equity and non-current liabilities		**47,506**	33,754

The consolidated financial statements on pages 113 to 180 were approved and authorised for issue by the Board of Directors on 16 March 2011 and are signed on its behalf by:

Vincent H. S. LO
DIRECTOR

Daniel Y. K. WAN
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to shareholders of the Company												
	Share capital	Share premium	Merger reserve	Special reserve	Share option reserve	Exchange reserve	Convertible bond equity reserve	Hedge reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total
	RMB' million	RMB' million	RMB' million (note 29(a))	RMB' million (note 29(b))	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million (note 29(c))	RMB' million	RMB' million	RMB' million	RMB' million
At 1 January 2009	84	10,689	122	(393)	89	38	–	(136)	603	5,767	16,863	1,312	18,175
Profit for the year	–	–	–	–	–	–	–	–	–	2,673	2,673	(80)	2,593
Exchange difference arising on translation of foreign operations	–	–	–	–	–	(19)	–	–	–	–	(19)	–	(19)
Fair value adjustments on interest rate swaps designated as cash flow hedges (note 32)	–	–	–	–	–	–	–	45	–	–	45	–	45
Total comprehensive (expense) income for the year	–	–	–	–	–	(19)	–	45	–	2,673	2,699	(80)	2,619
Recognition of equity-settled share-based payment expenses	–	–	–	–	47	–	–	–	–	–	47	–	47
Bonus issue of shares	8	(8)	–	–	–	–	–	–	–	–	–	–	–
Issue of new shares at a premium	7	1,790	–	–	–	–	–	–	–	–	1,797	–	1,797
Transaction costs attributable to issue of new shares	–	(38)	–	–	–	–	–	–	–	–	(38)	–	(38)
Capital injection	–	–	–	–	–	–	–	–	–	–	–	13	13
Acquisition of additional interests in subsidiaries	–	–	–	(4)	–	–	–	–	–	–	(4)	(46)	(50)
Release of special reserve upon disposal of the related assets	–	–	–	205	–	–	–	–	–	–	205	–	205
Release of special reserve upon recognition of fair value changes of the related assets	–	–	–	91	–	–	–	–	–	–	91	–	91
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(204)	(204)
Total dividends of HK$0.02 paid, comprising 2008 final dividend of HK$0.01 per share and 2009 interim dividend of HK$0.01 per share	–	–	–	–	–	–	–	–	–	(81)	(81)	–	(81)
At 31 December 2009	99	12,433	122	(101)	136	19	–	(91)	603	8,359	21,579	995	22,574
Profit for the year	–	–	–	–	–	–	–	–	–	**2,809**	**2,809**	**201**	**3,010**
Exchange difference arising on translation of foreign operations	–	–	–	–	–	**(4)**	–	–	–	–	**(4)**	–	**(4)**
Fair value adjustments on interest rate swaps designated as cash flow hedges (note 32)	–	–	–	–	–	–	–	**(7)**	–	–	**(7)**	–	**(7)**
Total comprehensive (expense) income for the year	–	–	–	–	–	**(4)**	–	**(7)**	–	**2,809**	**2,798**	**201**	**2,999**
Recognition of equity-settled share-based payment expenses	–	–	–	–	**19**	–	–	–	–	–	**19**	–	**19**
Issue of convertible bonds (note 30)	–	–	–	–	–	–	**605**	–	–	–	**605**	–	**605**
Capital injection	–	–	–	–	–	–	–	–	–	–	–	**50**	**50**
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	**34**	–	**34**	**(34)**	–
Release of special reserve upon disposal of the related assets	–	–	–	**30**	–	–	–	–	–	–	**30**	–	**30**
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	**(4)**	**(4)**
Total dividends of HK$0.18 paid, comprising 2009 final dividend of HK$0.12 per share and 2010 interim dividend of HK$0.06 per share	–	–	–	–	–	–	–	–	–	**(800)**	**(800)**	–	**(800)**
Shares issued in lieu of cash dividend	**3**	**552**	–	–	–	–	–	–	–	–	**555**	–	**555**
At 31 December 2010	**102**	**12,985**	**122**	**(71)**	**155**	**15**	**605**	**(98)**	**637**	**10,368**	**24,820**	**1,208**	**26,028**

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'million	2009 RMB'million
Operating activities		
Profit before taxation	**4,367**	3,894
Adjustments for:		
Depreciation of property, plant and equipment	**66**	53
Release of prepaid lease payments	**1**	1
Loss on disposal of property, plant and equipment	**1**	–
Net foreign exchange (gain) loss	**(46)**	22
Share of results of associates	**(58)**	(436)
Gain on disposal of investment properties	**(23)**	–
Gain on acquisition of additional equity interests in subsidiaries	**–**	(6)
Finance costs, net of exchange gain	**(42)**	89
Interest income	**(150)**	(149)
Increase in fair value of investment properties	**(2,711)**	(536)
Decrease in defined benefit assets	**3**	6
Equity-settled share-based payment expenses	**19**	47
Release of special reserve	**30**	296
Operating cash flows before movements in working capital	**1,457**	3,281
Increase in accounts receivable, deposits and prepayments	**(2,672)**	(44)
Increase in properties under development for sale	**(4,448)**	(4,148)
Decrease in properties held for sale	**2,619**	2,906
Decrease (increase) in amounts due from related companies	**24**	(11)
Increase in amounts due to related companies	**26**	36
(Decrease) increase in amounts due to associates	**(16)**	45
Increase (decrease) in accounts payable, deposits received and accrued charges	**675**	(113)
Cash (used in) generated from operations	**(2,335)**	1,952
Tax paid	**(745)**	(339)
Net cash (used in) from operating activities	**(3,080)**	1,613

Consolidated Statement of Cash Flows
For the year ended 31 December 2010

	Notes	2010 RMB'million	2009 RMB'million
Investing activities			
Interest received		**114**	77
Purchase of property, plant and equipment		**(33)**	(47)
Additions to investment properties		**(3,426)**	(2,973)
Proceeds from disposal of investment properties		**185**	–
Advance of loans to associates		**–**	(20)
(Increase) decrease in amounts due from associates		**(171)**	303
Acquisition of a subsidiary	35	**(109)**	–
Acquisition of additional equity interests in subsidiaries	36(b)	**–**	(100)
Proceeds from partial disposals of equity interests in subsidiaries		**–**	339
Release of pledged bank deposits		**954**	821
Increase in pledged bank deposits		**(820)**	(1,131)
(Increase) decrease in loans receivable		**(219)**	36
Net cash used in investing activities		**(3,525)**	(2,695)
Financing activities			
Net proceeds on issuance of shares		**–**	1,759
Advance from non-controlling shareholders of subsidiaries		**807**	174
Capital injected by non-controlling shareholders of subsidiaries		**50**	13
New bank and other loans raised		**6,761**	4,182
Repayment of bank loans		**(3,483)**	(2,168)
Repayment of loan from a director		**–**	(567)
Issue of convertible bonds	30	**2,720**	–
Expenses on issue of convertible bonds	30	**(54)**	–
Issue of notes	31	**3,000**	–
Expenses on issue of notes	31	**(60)**	–
Interest and bank charges paid		**(827)**	(766)
Payment of dividends		**(245)**	(81)
Dividend payment to non-controlling shareholders		**(4)**	(204)
Net cash from financing activities		**8,665**	2,342
Net increase in cash and cash equivalents		**2,060**	1,260
Cash and cash equivalents at the beginning of the year		**2,928**	1,671
Effect of foreign exchange rate changes		**(83)**	(3)
Cash and cash equivalents at the end of the year		**4,905**	2,928
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**4,905**	2,928

1. General

Shui On Land Limited (the "Company") was incorporated on 12 February 2004 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 4 October 2006.

The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 46. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. Application of New and Revised International Financial Reporting Standards

In the current year, the Group has applied, for the first time, the following new and revised International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and Interpretations ("IFRIC") (hereinafter collectively referred to as "new and revised IFRSs"), which are effective for the Group's financial year beginning on 1 January 2010.

IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
IAS 39 (Amendments)	Eligible Hedged Items
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (as revised in 2008)	Business Combinations
IFRIC 17	Distributions of Non-cash Assets to Owners

Except as described below, the application of the new and revised IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.

In line with the amendments to IAS 1, the Group has classified the liability component of convertible bonds issued in the current year as non-current based on when cash settlement may be required to be made (see Note 30). This amendment has had no effect on the amounts reported in prior years because the Group has not previously issued instruments of this nature.

IFRS 3 (as revised in 2008) Business Combinations

The Group applies IFRS 3 (as revised in 2008) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010.

As there was no transaction during the current year to which IFRS 3 (as revised in 2008) was applicable, the application of IFRS 3 (as revised in 2008) has had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which IFRS 3 (as revised in 2008) and the consequential amendments to the other IFRSs are applicable.

2. Application of New and Revised International Financial Reporting Standards (Continued)

IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions set out in IAS 27 (as revised in 2008). The application of the revised Standard has affected the accounting for the Group's acquisition of additional equity interest in Shanghai Yang Pu Centre Development Co., Ltd. ("KIC"), a subsidiary of the Group, in the current year (note 36(a)). The change in policy has resulted in the difference of RMB34 million between the excess of the Group's share of additional interest in the carrying amount of the net assets of KIC attributable to the acquisition over the cost of the acquisition, being recognised directly in equity, instead of in the consolidated income statement. Therefore, the change in accounting policy has resulted in a decrease in the profit for the year of RMB34 million.

The effects of the change in accounting policy on the Group's basic and diluted earnings per share for the current year are as follows:

Impact on basic and diluted earnings per share	Basic earnings per share RMB	Diluted earnings per share RMB
Reported figure before adjustments	**0.56**	**0.54**
Adjustments arising from change in accounting policy	**(0.01)**	**(0.01)**
Reported figure after adjustments	**0.55**	**0.53**

New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs issued in 2010[1]
IFRS 1 (Amendments)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[2]
IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[3]
IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (as revised in 2009)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 February 2010

2. Application of New and Revised International Financial Reporting Standards (Continued)

New and revised Standards and Interpretations issued but not yet effective (Continued)

IFRS 9 Financial Instruments was issued in November 2009 and revised in October 2010. It introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors of the Company anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013 and that the application of this new Standard will not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

The amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. All of the Group's investment properties are located in the People's Republic of China ("PRC"). The Directors of the Company are in the process of assessing the financial impact.

The Directors of the Company anticipate that the application of other new and revised IFRSs, IASs and IFRICs will have no material impact on the consolidated financial statements.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The significant accounting policies adopted are set out as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were not allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the end of previous reporting period or when they first came under common control, whichever is shorter.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted, based on the carrying amount of the net assets attributable to the change in interests, and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in the consolidated income statement.

3. Significant Accounting Policies (Continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in consolidated income statement for the period in which they arise.

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of buildings over their estimated useful lives or where shorter, the terms of leasehold land where the buildings are located, using the straight-line method.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than buildings, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments for leasehold land classified as operating leases are charged to the consolidated income statement on a straight-line basis over the period of the land use rights.

Properties under development for sale

Properties under development which are intended to be held for sale are carried at lower of cost and net realisable value and are shown as current assets. Cost includes the costs of land, development expenditure incurred and, where appropriate, borrowing costs capitalised during construction period.

Properties under development for sales are transferred to properties held for sale when the relevant completion certificates are issued by the respective government authorities.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realised value is determined based on prevailing market conditions.

3. Significant Accounting Policies (Continued)

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Impairment

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. Significant Accounting Policies (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts receivable, loans receivable, loans to associates, amounts due from associates, amounts due from related companies, amounts due from non-controlling shareholders of subsidiaries and bank balances and pledged bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of loans and receivables have been impacted.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss of loans and receivables is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of loans and receivables is reduced by the impairment loss directly for all financial assets with the exception of the amount due from a jointly controlled entity and trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement. When the amount due from a jointly controlled entity and trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of loans and receivables (Continued)

If, in a subsequent period, the amount of impairment loss of loans and receivables decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Convertible bonds

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into the Company's own equity instruments, is included in equity (convertible bond equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bond equity reserve until the embedded option is exercised (in which case the balance stated in convertible bond equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bond equity reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Notes

At the date of issue, the net proceeds received were assigned to the notes according to their fair values. Transaction costs are included in the carrying amount of the notes and amortised over the period of the notes using the effective interest method.

Other financial liabilities

The Group's other financial liabilities (including accounts payable, amounts due to related companies, amounts due to associates, amounts due to non-controlling shareholders of subsidiaries, loans from non-controlling shareholders of subsidiaries and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in consolidated income statement depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges. At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement as part of other income or other expenses. Amounts deferred in equity are reclassified in the consolidated income statement in the periods when the hedged item is recognised in the consolidated income statement.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the consolidated income statement.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

3. Significant Accounting Policies (Continued)

Derecognition (Continued)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income and accumulated in equity is recognised in the consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

3. Significant Accounting Policies (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in the consolidated income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in the consolidated income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to the consolidated income statement on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

Equity-settled share-based payment transactions

Share options granted to employees and directors

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in consolidated income statement, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

3. Significant Accounting Policies (Continued)

Equity-settled share-based payment transactions (Continued)

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the reporting period. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's defined benefit obligations and the fair value of plan assets at the end of the previous reporting period are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Government grants

Government grants are recognised in the consolidated income statement over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable for expenses or losses already incurred are recognised in the consolidated income statement in the period when they become receivable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from properties developed for sale in the ordinary business is recognised upon delivery of properties to the purchasers pursuant to the sales agreements.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised on straight-line basis over the lease term.

Revenue from serviced apartment operation is recognised in the consolidated income statement upon the provision of the services.

Property management, project management and service fees are recognised as revenue in the consolidated income statement on an appropriate basis over the relevant period in which the services are rendered.

Interest income from a financial asset is recognised when it is possible that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, the Directors of the Company have made the following judgements concerning key sources of estimation uncertainty at the end of the reporting period. The key assumptions concerning the future that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Investment properties

Completed investment properties and investment properties under construction or development stated at fair value are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the Directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated income statement.

Land appreciation tax

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and the Group has not finalised its land appreciation tax calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation tax and its related income tax provisions. The Group recognised the land appreciation tax based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax provisions in the periods in which such tax is finalised with local tax authorities.

5. Turnover and Segmental Information

An analysis of the Group's turnover for the year is as follows:

	2010	2009
	RMB'million	RMB'million
Property development:		
Property sales	**4,133**	6,078
Property investment:		
Rental income received from investment properties	**597**	542
Income from serviced apartments	**22**	18
Property management fees	**34**	28
Rental related income	**53**	55
	706	643
Others	**40**	37
	4,879	6,758

For management purposes, the Group is organised based on the business activities of the Group, which are broadly categorised into property development and property investment.

5. Turnover and Segmental Information (Continued)

Principal activities of the two major reportable and operating segments are as follows:

Property development	– development and sale of properties
Property investment	– property letting, management and operations of serviced apartments

For the year ended 31 December 2010

	Property development RMB'million	Property investment RMB'million	Others RMB'million	Consolidated RMB'million
Turnover				
Segment revenue	4,133	706	40	4,879
Results				
Segment results	1,323	3,120	26	4,469
Interest income				150
Share of results of associates				58
Finance costs, net of exchange gain				42
Net unallocated expenses				(352)
Profit before taxation				4,367
Taxation				(1,357)
Profit for the year				3,010
Other Information				
Amounts included in the measure of segment profit or loss or segment assets:				
Capital additions of completed investment properties and property, plant and equipment	23	47	5	75
Development costs for investment properties under construction or development	–	3,790	–	3,790
Development costs for properties under development held for sale	4,884	–	–	4,884
Depreciation of property, plant and equipment	13	39	14	66
Allowance for bad and doubtful debts	–	4	–	4
Release of prepaid lease payments charged to consolidated income statement	–	1	–	1
Increase in fair value of investment properties	–	2,711	–	2,711
Financial Position				
Assets				
Segment assets	19,070	27,571	58	46,699
Interests in associates				920
Loans to associates				1,270
Amounts due from associates				318
Unallocated corporate assets				7,046
Consolidated total assets				56,253
Liabilities				
Segment liabilities	(4,427)	(464)	(3)	(4,894)
Amounts due to associates				(29)
Unallocated corporate liabilities				(25,302)
Consolidated total liabilities				(30,225)

5. Turnover and Segmental Information (Continued)

For the year ended 31 December 2009

	Property development RMB'million	Property investment RMB'million	Others RMB'million	Consolidated RMB'million
Turnover				
Segment revenue	6,078	643	37	6,758
Results				
Segment results	2,757	962	8	3,727
Interest income				149
Gain on acquisition of additional equity interests in subsidiaries				6
Share of results of associates				436
Finance costs, net of exchange gain				(89)
Net unallocated expenses				(335)
Profit before taxation				3,894
Taxation				(1,301)
Profit for the year				2,593
Other Information				
Amounts included in the measure of segment profit or loss or segment assets:				
Capital additions of completed investment properties and property, plant and equipment	10	8	32	50
Development costs for investment properties under construction or development	–	3,548	–	3,548
Development costs for properties under development held for sale	4,205	–	–	4,205
Depreciation of property, plant and equipment	10	27	16	53
Release of prepaid lease payments charged to consolidated income statement	–	1	–	1
Increase in fair value of investment properties	–	536	–	536
Financial Position				
Assets				
Segment assets	13,430	21,639	59	35,128
Interests in associates				862
Loans to associates				1,273
Amounts due from associates				147
Unallocated corporate assets				5,182
Consolidated total assets				42,592
Liabilities				
Segment liabilities	(3,618)	(643)	(1)	(4,262)
Amounts due to associates				(45)
Unallocated corporate liabilities				(15,711)
Consolidated total liabilities				(20,018)

5. Turnover and Segmental Information (Continued)

Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, share of results of associates and finance costs. This is the measure reported to the chief operating decision makers that are the Directors of the Company for the purpose of resource allocation and performance assessment.

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than interests in associates, loans to associates, amounts due from associates, amounts due from non-controlling shareholders of subsidiaries, deferred tax assets, amounts due from related companies, pledged bank deposits, bank balances and cash and other unallocated corporate assets; and

- all liabilities are allocated to reportable segments other than amounts due to associates, amounts due to related companies, amounts due to non-controlling shareholders of subsidiaries, loans from non-controlling shareholders of subsidiaries, bank borrowings, tax liabilities, deferred tax liabilities, derivative financial instruments designated as hedging instruments and other unallocated corporate liabilities.

Over 90% of the Group's turnover and contribution to operating profit is attributable to customers in the PRC. Accordingly, no analysis of geographical segment is presented.

No geographical segment information of the Group's assets and liabilities is shown as the Group's assets and liabilities are substantially located in the PRC.

6. Other Income

	2010	2009
	RMB'million	RMB'million
Interest income from banks	**75**	56
Interest income on non-current accounts receivable from sales of properties	**8**	7
Imputed interest income on non-current accounts receivable from sales of properties	**–**	17
Interest income on consideration receivable on partial disposals of equity interests in subsidiaries	**–**	2
Interest income from amounts due from associates	**8**	11
Interest income from loans to associates	**23**	–
Imputed interest income from loans to associates	**36**	55
Interest income from a fellow subsidiary	**–**	1
Guarantee fee income from a non-controlling shareholder of a subsidiary	**19**	–
Sundry income	**24**	1
Grants received from local government	**33**	20
	226	170

7. Operating Profit

	2010 RMB'million	2009 RMB'million
Operating profit has been arrived at after charging (crediting):		
Auditor's remuneration	**5**	5
Depreciation of property, plant and equipment	**67**	54
Less: Amount capitalised to properties under development for sale	**(1)**	(1)
	66	53
Release of prepaid lease payments	**1**	1
Loss on disposal of property, plant and equipment	**1**	–
Allowance for bad and doubtful debts	**4**	–
Employee benefits expenses		
Directors' emoluments		
Fees	**2**	2
Salaries, bonuses and allowances	**25**	14
Retirement benefits costs	**2**	1
Share-based payment expenses	**2**	(2)
	31	15
Other staff costs		
Salaries, bonuses and allowances	**309**	261
Retirement benefits costs	**23**	34
Share-based payment expenses	**17**	49
	349	344
Total employee benefits expenses	**380**	359
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	**(91)**	(78)
	289	281
Cost of properties sold recognised as an expense	**2,619**	3,080
Rental charges under operating leases	**54**	45

8. Finance Costs, Net of Exchange Gain

	2010 RMB'million	2009 RMB'million
Interest on bank loans and overdrafts wholly repayable within five years	**573**	507
Interest on amounts due to non-controlling shareholders of subsidiaries wholly repayable within five years (notes 24 and 41(b))	**–**	46
Interest on loan from a non-controlling shareholder of a subsidiary wholly repayable within five years (notes 26 and 41(b))	**125**	56
Interest on loan from a director wholly repayable within five years (note 41(b))	**–**	35
Imputed interest on loan from a non-controlling shareholder of a subsidiary wholly repayable within five years (notes 26 and 41(b))	**–**	1
Interest on convertible bonds (note 30)	**56**	–
Interest on notes (note 31)	**5**	–
Add: Net interest expenses from interest rate swaps designated as cash flow hedge (note 32)	**129**	116
Total interest costs	**888**	761
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	**(796)**	(634)
Interest expense changed to consolidated income statement	**92**	127
Net exchange gain on bank borrowings and other financing activities	**(200)**	(44)
Others	**66**	6
	(42)	89

Borrowing costs capitalised during the year ended 31 December 2010 arose on the general borrowing pool of the Group and were calculated by applying a capitalisation rate of approximately 6.6% (2009: 8.4%) per annum to expenditure on the qualifying assets.

9. Taxation

	2010 RMB'million	2009 RMB'million
PRC Enterprise Income Tax		
– Current provision	**335**	537
Deferred taxation (note 33)		
– Provision for the year	**807**	297
PRC Land Appreciation Tax		
– Provision for the year	**215**	467
	1,357	1,301

9. Taxation (Continued)

No provision for Hong Kong Profits Tax has been made as the income of the Group neither arises in, nor is derived from, Hong Kong.

PRC Enterprise Income Tax has been provided at the applicable income tax rate of 25% (2009: 25%) on the assessable profits of the companies in the Group during the year.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowings costs and the relevant property development expenditures.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2010	2009
	RMB'million	RMB'million
Profit before taxation	**4,367**	3,894
PRC Enterprise Income Tax at 25% (2009: 25%)	**1,092**	974
PRC Land Appreciation Tax	**215**	467
Tax effect of PRC Land Appreciation Tax	**(54)**	(117)
Deferred tax provided for withholding tax on income derived in the PRC	**76**	33
Tax effect of share of results of associates	**(14)**	(109)
Tax effect of expenses not deductible for tax purposes	**122**	74
Tax effect of income not taxable for tax purposes	**(85)**	(29)
Tax effect of tax losses not recognised	**6**	10
Tax effect of utilisation of tax losses previously not recognised	**(1)**	(2)
Tax charge for the year	**1,357**	1,301

10. Directors' Emoluments and Five Highest Paid Employees

The emoluments paid or payable to the directors of the Company were as follows:

Name of director	Notes	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000	Retirement benefit costs RMB'000	Share-based payment expenses RMB'000	2010 Total RMB'000	2009 Total RMB'000
Mr. Vincent H.S. LO		–	–	–	–	–	–	–
Mr. Louis H.W. WONG		–	**3,254**	**4,336**	**731**	**1,013**	**9,334**	6,569
Mr. Daniel Y.K. WAN		–	**3,334**	**7,837**	–	–	**11,171**	5,828
Mr. Freddy C.L. LEE	(a)	–	**2,926**	**3,752**	**754**	**773**	**8,205**	–
Mr. Aloysius T.S. LEE	(b)	–	–	–	–	–	–	576
Sir John R.H. BOND	(c)	**348**	–	–	–	–	**348**	308
The Honourable LEUNG Chun Ying	(d)	**261**	–	–	–	–	**261**	264
Dr. Edgar W.K. CHENG	(c)	**349**	–	–	–	–	**349**	353
Dr. William K.L. FUNG	(c)	**391**	–	–	–	–	**391**	374
Professor Gary C. BIDDLE	(c)	**522**	–	–	–	–	**522**	485
Dr. Roger L. McCARTHY	(c)	**349**	–	–	–	–	**349**	353
Mr. David J. SHAW	(c)	**261**	–	–	–	–	**261**	264
Total for 2010		**2,481**	**9,514**	**15,925**	**1,485**	**1,786**	**31,191**	15,374
Total for 2009		2,401	8,774	5,045	896	(1,742)	15,374	

Notes:

(a) Executive director appointed during the year

(b) Executive director resigned in year 2009

(c) Independent non-executive directors

(d) Non-executive director

Of the five highest paid individuals in the Group, three (2009: two) are executive directors of the Company whose emoluments are set out above. The emoluments of the remaining two (2009: three) individuals are as follows:

	2010 RMB'million	2009 RMB'million
Salaries and other benefits	**5**	7
Performance related incentive payments	**3**	4
Retirement benefit costs	**1**	2
Share-based payment expenses	**1**	3
	10	16

10. Directors' Emoluments and Five Highest Paid Employees (Continued)

The emoluments of the remaining highest paid employees were within the following bands:

	2010	2009
	Number of employees	Number of employees
Emolument bands		
HK$5,000,001 – HK$5,500,000	**1**	–
HK$5,500,001 – HK$6,000,000	**1**	1
HK$6,000,001 – HK$6,500,000	**–**	1
HK$7,000,001 – HK$7,500,000	**–**	1
	2	3

No directors waived any emoluments in the years ended 31 December 2010 and 31 December 2009.

11. Dividends

	2010	2009
	RMB'million	RMB'million
Interim dividend paid in respect of 2010 of HK$0.06 per share (2009: HK$0.01 per share)	**270**	44
Final dividend proposed in respect of 2010 of HK$0.05 per share (2009: HK$0.12 per share)	**220**	530
	490	574

A final dividend for the year ended 31 December 2010 of HK$0.05 (equivalent to RMB0.042) per share, amounting to HK$261 million (equivalent to RMB220 million) in aggregate, was proposed by the Directors on 16 March 2011 and is subject to the approval of the shareholders at the forthcoming annual general meeting.

In November 2010, an interim dividend in respect of 2010 of HK$0.06 (equivalent to RMB0.053) per share was paid to the shareholders. The 2010 interim dividend was paid in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their interim dividend in new, fully paid shares in lieu of all or part of cash. 71.7% of the shareholdings elected to receive shares in lieu of cash dividends at HK$3.84 per share and accordingly, 57,753,920 new and fully paid shares were issued. These new shares rank pari passu to the existing shares of the Company.

In May 2010, a final dividend in respect of 2009 of HK$0.12 (equivalent to RMB0.11) per share was approved by the shareholders of the Company at the annual general meeting held on 27 May 2010. The 2009 final dividend was paid in July 2010 in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their final dividend in new, fully paid shares in lieu of all or part of cash. 69.0% of the shareholdings elected to receive shares in lieu of cash dividends at HK$3.168 per share and accordingly, 131,177,173 new and fully paid shares were issued. These new shares rank pari passu to the existing shares of the Company.

188,931,093 shares in aggregate issued during the year on the shareholders' election to receive shares. Details of these shares issuances are set out in note 28.

In October 2009, an interim dividend in respect of 2009 of HK$0.01 (equivalent to RMB0.0088) per share was paid to the shareholders.

12. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to shareholders of the Company is based on the following data:

Earnings

	2010 RMB'million	2009 RMB'million
Earnings for the purposes of basic earnings per share and diluted earnings per share, being profit for the year attributable to shareholders of the Company	**2,809**	2,673

Number of shares

	2010 'million	2009 'million
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,091**	4,823
Effect of dilutive potential shares:		
Convertible bonds	**168**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,259**	4,823
Basic earnings per share (note (b))	**RMB0.55**	RMB0.55
	HK$0.63	HK$0.63
Diluted earnings per share (note (b))	**RMB0.53**	RMB0.55
	HK$0.61	HK$0.63

Notes:

(a) There are no dilution effects for share options granted as the exercise price of these share options granted were higher than the average market price for 2010 and 2009.

(b) The Hong Kong dollar figures presented above are shown for reference only and have been arrived at based on the exchange rate of RMB1.000 to HK$1.150 for 2010 and RMB1.000 to HK$1.135 for 2009, being the average exchange rates that prevailed during the respective years.

13. Investment Properties

	Completed investment properties	Investment properties under construction or development	Total
	RMB'million	RMB'million	RMB'million
At 1 January 2009	8,466	–	8,466
Reclassified from prepaid lease payments and properties under development (notes 15 and 16)	–	8,657	8,657
Additions	3	3,548	3,551
Transfer upon completion	660	(660)	–
Transfer from properties, plant and equipment (note 14)	13	–	13
Transfer to properties, plant and equipment (note 14)	(17)	–	(17)
Increase in fair value recognised in the consolidated income statement	259	277	536
At 31 December 2009	9,384	11,822	21,206
At 31 December 2009			
Stated at fair value	9,384	6,129	15,513
Stated at cost	–	5,693	5,693
At 1 January 2010	**9,384**	**11,822**	**21,206**
Additions	**42**	**3,790**	**3,832**
Acquisition of a subsidiary (note 35)	**–**	**67**	**67**
Eliminated upon disposal	**(162)**	**–**	**(162)**
Transfer upon completion	**3,965**	**(3,965)**	**–**
Transfer from properties, plant and equipment (note 14)	**39**	**–**	**39**
Transfer to properties, plant and equipment (note 14)	**(258)**	**–**	**(258)**
Transfer to prepaid lease payments (note 15)	**(31)**	**–**	**(31)**
Transfer to properties under development for sale (note 16)	**–**	**(511)**	**(511)**
Increase in fair value recognised in the consolidated income statement	**1,140**	**1,571**	**2,711**
At 31 December 2010	**14,119**	**12,774**	**26,893**
At 31 December 2010			
Stated at fair value	**14,119**	**6,815**	**20,934**
Stated at cost	**–**	**5,959**	**5,959**

The investment properties are all situated in the PRC under long/medium-term leases. All the completed investment properties are rented out under operating leases or are held for capital appreciation purposes.

In circumstances where the fair value of an investment property under construction or development is not reliably determinable but the fair value of the property is expected to be reliably determinable when construction is completed, such investment properties under construction or development are measured at cost until either its fair value becomes reliably determinable or construction is completed, whichever is the earlier.

13 Investment Properties (Continued)

The fair values of the Group's investment properties at 31 December 2010 and 31 December 2009 and at dates of transfer upon completion of development of investment properties under construction or development have been arrived at on the basis of valuations carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuers not connected to the Group.

For completed investment properties, the valuations have been arrived at using the capitalisation of net income method of valuation, based on the present value of the income to be derived from the properties. For the properties which are currently vacant, the valuation was based on capitalisation of the hypothetical and reasonable market rents with a typical lease term.

For investment properties under construction or development, the valuations have been arrived at adopting market-based valuation approach with reference to sales evidence of comparable properties with adjustments made to account for any differences and assuming that the investment properties will be completed in accordance with the development proposals and the relevant approvals for the proposals have been obtained. The valuations have also taken into account the relevant future cost of development, including construction costs, finance costs, professional fees and developer's profit which duly reflects the risks associated with the development of the properties.

14. Property, Plant and Equipment

	Land and buildings	Furniture, fixtures, equipment and motor vehicles	Total
	RMB'million	RMB'million	RMB'million
At Cost			
At 1 January 2009	284	177	461
Transfer from investment properties (note 13)	17	–	17
Transfer to investment properties (note 13)	(13)	–	(13)
Transfer from properties under development (note 16)	16	–	16
Additions	–	47	47
Disposals	–	(3)	(3)
At 31 December 2009	304	221	525
Transfer from investment properties (note 13)	**258**	**–**	**258**
Transfer to investment properties (note 13)	**(42)**	**–**	**(42)**
Additions	**5**	**28**	**33**
Disposals	**–**	**(2)**	**(2)**
At 31 December 2010	**525**	**247**	**772**
Accumulated Depreciation			
At 1 January 2009	34	84	118
Charge for the year	7	47	54
Eliminated on disposals	–	(3)	(3)
At 31 December 2009	41	128	169
Charge for the year	**18**	**49**	**67**
Transfer to investment properties (note 13)	**(3)**	**–**	**(3)**
Eliminated on disposals	**–**	**(1)**	**(1)**
At 31 December 2010	**56**	**176**	**232**
Carrying Values			
At 31 December 2010	**469**	**71**	**540**
At 31 December 2009	263	93	356

14. Property, Plant and Equipment (Continued)

The owner-occupied leasehold land and buildings amounted to RMB48 million (2009: RMB55 million) at the end of the reporting period are included in property, plant and equipment, as in the opinion of the Directors, allocations between the land and buildings elements could not be made reliably.

The land and buildings are all situated in the PRC and are depreciated using the straight-line method over their estimated useful lives of 50 years or, where shorter, the terms of leasehold land where the buildings are located.

Furniture, fixtures, equipment and motor vehicles are depreciated using the straight-line method after taking into account of their estimated residual values over their estimated useful lives of 3 to 5 years.

15. Prepaid Lease Payments

	2010	2009
	RMB'million	RMB'million
At beginning of the year	**43**	6,290
Reclassified to investment properties (note 13)	**–**	(6,246)
Transfer from investment properties (note 13)	**31**	–
Release for the year (note 7)	**(1)**	(1)
At end of the year	**73**	43

The cost of prepaid lease payments represents the amount paid to the government of the PRC with lease terms ranging from 40 to 70 years.

16. Properties Under Development

	Non-current		**Current**	
	2010	2009	**2010**	2009
	RMB'million	RMB'million	**RMB'million**	RMB'million
At beginning of the year	**–**	2,411	**11,532**	7,786
Reclassified to investment properties (note 13)	**–**	(2,411)	**–**	–
Transfer from investment properties (note 13)	**–**	–	**511**	–
Additions	**–**	–	**4,839**	4,205
Acquisition of a subsidiary (note 35)	**–**	–	**45**	–
Transfer to properties held for sale	**–**	–	**(2,619)**	(443)
Transfer to property, plant and equipment (note 14)	**–**	–	**–**	(16)
At end of the year	**–**	–	**14,308**	11,532

The properties under development are all situated in the PRC.

Included in the current portion of properties under development as at 31 December 2010 is carrying value of RMB11,524 million (2009: RMB9,322 million) which represents the carrying value of the properties expected to be completed after more than twelve months from the end of the reporting period.

17. Interests in Associates/Loans to Associates/Amounts Due from Associates/ Amounts Due to Associates

	2010 RMB'million	2009 RMB'million
Cost of investments, unlisted	**357**	357
Share of post-acquisition profits	**563**	505
	920	862
Loans to associates	**1,270**	1,273
Amounts due from associates	**318**	147
Amounts due to associates	**29**	45

The summarised financial information in respect of the Group's associates is set out below:

	2010 RMB'million	2009 RMB'million
Total assets	**8,822**	6,716
Total liabilities	**(6,564)**	(4,568)
Net assets	**2,258**	2,148
Group's share of net assets of associates	**920**	862

	2010 RMB'million	2009 RMB'million
Revenue	**–**	–
Profit for the year	**94**	708
Group's share of results of associates for the year	**58**	436

17. Interests in Associates/Loans to Associates/Amounts Due from Associates/ Amounts Due to Associates (Continued)

Particulars of the Group's principal associates at 31 December 2010 and 31 December 2009 are as follows:

Name of associate	Form of legal entity	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Group	Place of incorporation/ registration and operations	Principal activities
Richcoast Group Limited ("Richcoast") (note)	Sino-Foreign Joint Venture	61.54%	British Virgin Islands ("BVI")	Investment holding
Dalian Qiantong Science & Technology Development Co., Ltd.	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Ruisheng Software Development Co., Ltd.	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Delan Software Development Co., Ltd.	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Jiadao Science & Technology Development Co., Ltd.	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Software Park Shuion Fazhan Co., Ltd.	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Software Park Shuion Kaifa Co., Ltd.	Sino-Foreign Joint Venture	48%	PRC	Software park development

Note:
The Group does not have control over Richcoast because the Group has the power to appoint only 4 out of the 10 directors of that company.

Pursuant to the Joint Venture Agreement dated 25 May 2007 entered into among Innovate Zone Group Limited ("Innovate Zone"), an indirect subsidiary of the Company, Main Zone Group Limited ("Main Zone"), a direct wholly-owned subsidiary of Shui On Construction and Materials Limited (an associate of Shui On Company Limited "SOCL", a substantial shareholder of the Company) and Many Gain International Limited ("Many Gain"), an independent third party, whereby the parties agreed to form a joint venture company, Richcoast, which is owned 61.54%, 28.20% and 10.26% by Innovate Zone, Main Zone, and Many Gain, respectively, for the development and operation of Dalian Tiandi project in Dalian, the PRC.

Loans to associates represent the loans to subsidiaries of Richcoast for financing the development of Dalian Tiandi project. Pursuant to the Joint Venture Agreement, the loans are unsecured, interest free and with no fixed terms of repayment until Many Gain has contributed its share of the shareholder's loan to the subsidiaries of Richcoast. Thereafter, the loans will bear interest at a rate of 5% per annum, subject to shareholders' approval. As at 31 December 2010 of the loans to associates, an amount of RMB465 million (2009: nil) are bearing interest at a rate of 5% per annum and the remaining balance of RMB805 million (2009: RMB1,273 million) are carried at amortised cost using the effective interest rate of 5.4% (2009: 7.3%) per annum.

The amounts due from associates are unsecured, interest bearing at 5.7% (2009: 5.8%) per annum and repayable on demand.

The amounts due to associates are unsecured, interest free and repayable on demand.

18. Interest in a Jointly Controlled Entity/Amount Due from a Jointly Controlled Entity

	2010 RMB'million	2009 RMB'million
Cost of investment, unlisted	–	–
Share of post-acquisition losses	–	–
	–	–
Amount due from a jointly controlled entity	**11**	11
Less: Allowance	**(11)**	(11)
	–	–

Particulars of the Group's jointly controlled entity at 31 December 2010 and 2009 are as follows:

Name of jointly controlled entity	Form of legal entity	Proportion of nominal value of issued ordinary share capital held by the Group	Place of incorporation and operation	Principal activity
Crystal Jade Food and Beverage (Hangzhou) Limited	Limited liability company	50%	Hong Kong	Investment holding

The amount due from a jointly controlled entity is unsecured, interest free and repayable on demand.

19. Accounts Receivable, Deposits and Prepayments

	2010 RMB'million	2009 RMB'million
Non-current accounts receivable comprise:		
Deferred rental receivables	**64**	59
Current accounts receivable comprise:		
Trade receivables (note a)	**146**	186
Prepayments of relocation costs (note b)	**1,304**	483
Deposit for land acquisition for properties under development for sale	**1,838**	–
Other deposits, prepayments and receivables	**316**	264
	3,604	933

Trade receivables comprise:

(i) receivables arising from sales of properties which are due for settlement in accordance with the terms of the relevant sale and purchase agreements; and

(ii) rental receivables which are due for settlement upon issuance of monthly debit notes to the tenants.

19. Accounts Receivable, Deposits and Prepayments (Continued)

The following is an aged analysis of trade receivables (net of allowance for bad and doubtful debts, if any) at the end of each reporting period:

	2010	2009
	RMB'million	RMB'million
Not yet due	**122**	172
Within 30 days	**20**	5
31 – 60 days	**1**	3
61 – 90 days	**–**	2
Over 90 days	**3**	4
	146	186

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB24 million (2009: RMB14 million) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

Ageing of trade receivables which are past due but not impaired:

	2010	2009
	RMB'million	RMB'million
Within 30 days	**20**	5
31 – 60 days	**1**	3
61 – 90 days	**–**	2
Over 90 days	**3**	4
	24	14

Movement in the allowance for bad and doubtful debts:

	2010	2009
	RMB'million	RMB'million
Balance at beginning of the year	**–**	–
Impairment losses recognised on trade receivables	**4**	–
Amounts written off as uncollectible	**(4)**	–
Balance at end of the year	**–**	–

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the date of the reporting period. Allowance for bad and doubtful debts are generally not required as the Group has collected rental deposits from the tenants to secure any potential losses from uncollectible debts.

19. Accounts Receivable, Deposits and Prepayments (Continued)

Notes:

(a) The amounts are unsecured and repayable on or before 31 December 2010 as follows:

	2010	2009
	RMB'million	RMB'million
Current accounts receivable		
Interest free	**146**	63
Interest bearing (note (i))	–	123
	146	186

Note (i): The interest bearing receivables had the following terms:

- the whole amount bore interest at simple interest rate of 6% per annum from 1 January 2009 to 31 December 2009; and
- the full amount bore interest at simple interest rate of 8% per annum in 2010. The amount is fully settled during the year.

These receivables are carried at amortised cost at effective interest rate of 8% per annum.

(b) The balance represents the amounts that will be capitalised to properties under development for sale in accordance with the Group's normal operating cycle, and not expected to be realised within twelve months from the end of the reporting period.

20. Pledged Bank Deposits/Bank Balances

Pledged bank deposits represent deposits pledged to the banks to secure the banking facilities granted to the Group. Deposits amounting to RMB1,569 million (2009: RMB1,222 million) have been pledged to secure long-term bank loans and are therefore classified as non-current assets.

Bank balances carry interest at market rates which range from 0.4% to 1.4% (2009: 0.4% to 1.4%) per annum. The pledged bank deposits carry interest at fixed rates ranging from 0.4% to 1.4% (2009: 0.4% to 1.4%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

21. Properties Held For Sale

The Group's properties held for sale are situated in the PRC. All the properties held for sale are stated at cost.

22. Loans Receivable

The loans are denominated in RMB, unsecured, fixed interest bearing ranging from 5.9% to 6.4% (2009: 5.9% to 7.5%) per annum and repayable on or before December 2011.

23. Amounts Due from/to Related Companies

The amounts are unsecured, interest free and repayable on demand. Related companies are subsidiaries or associates of SOCL.

24. Amounts Due from/to Non-controlling Shareholders of Subsidiaries

Particulars of the amounts due from/to non-controlling shareholders of subsidiaries are as follows:

	2010 RMB'million	2009 RMB'million
Amounts due from non-controlling shareholders of subsidiaries		
Interest free	**38**	17
Amounts due to non-controlling shareholders of subsidiaries		
Interest free	**462**	191
Interest bearing at 5% per annum	**–**	84
Interest bearing at 7.6% per annum	**–**	200
	462	475

The amounts due from/to non-controlling shareholders of subsidiaries are unsecured and repayable on demand.

25. Accounts Payable, Deposits Received and Accrued Charges

	2010 RMB'million	2009 RMB'million
Trade payables aged analysis:		
Not yet due	**1,683**	1,138
Within 30 days	**68**	5
31 – 60 days	**1**	6
61 – 90 days	**1**	2
Over 90 days	**12**	–
	1,765	1,151
Retention payables (note)	**169**	128
Deed tax, business tax and other tax payables	**481**	442
Deposits received and receipt in advance from property sales	**2,074**	2,235
Deposits received and receipt in advance in respect of rental of investment properties	**242**	174
Accrued charges	**256**	175
	4,987	4,305

Note: Retention payables are expected to be paid upon the expiry of the retention periods according to the respective contracts.

26 Loans From Non-controlling Shareholders of Subsidiaries

	2010	2009
	RMB'million	RMB'million
Current	**300**	442
Non-current	**1,653**	670
	1,953	1,112

The carrying amount of the loans from non-controlling shareholders of subsidiaries are analysed as follows:

		2010	2009
Denominated in	Interest rate per annum	**RMB'million**	RMB'million
RMB	110% of People's Bank of China ("PBOC") Prescribed Interest Rate (note a)	**1,003**	–
RMB	105.87% of PBOC Prescribed Interest Rate (note b)	**300**	–
United States dollars ("US$")	Interest free (note c)	**–**	442
US$	110% of PBOC Prescribed Interest Rate (2009: 8.4%) (note a)	**650**	670
		1,953	1,112

Notes:

(a) The loans are unsecured and will not be demanded for payment, until the group subsidiaries are in a position to repay the loans, which are to be mutually agreed between both parties. The Directors are in the opinion that the loans are not repayable in the next twelve months from the end of the reporting period.

(b) The amount is unsecured and repayable in April 2011.

(c) The amount was unsecured and settled during the year.

27. Bank and Other Borrowings

	2010	2009
	RMB'million	RMB'million
Bank borrowings repayable within a period of:		
– Not more than 1 year or on demand	**1,644**	2,098
– More than 1 year, but not exceeding 2 years	**6,321**	934
– More than 2 years, but not exceeding 5 years	**3,894**	6,684
– More than 5 years	**993**	487
	12,852	10,203
Other borrowings repayable within a period of:		
– More than 2 years, but not exceeding 5 years	**331**	–
	13,183	10,203
Less: Amount due within one year shown under current liabilities	**(1,644)**	(2,098)
Amount due after one year	**11,539**	8,105

27. Bank and Other Borrowings (Continued)

The carrying amount of the Group's bank and other borrowings are analysed as follows:

Denominated in	Interest rate	**2010 RMB'million**	2009 RMB'million
RMB	90% to 115% (2009: 90% to 115%) of PBOC Prescribed Interest Rate	**4,576**	3,595
HK$	Hong Kong Interbank Offered Rates ("HIBOR") plus 2% to 4.5% (2009: HIBOR plus 2% to 4.5%)	**8,276**	6,349
US$	London Interbank Offered Rates ("LIBOR") plus 14% (2009: LIBOR plus 0% to 2.5%)	**331**	259
		13,183	10,203

As at 31 December 2010, the weighted average effective interest rate on the bank and other borrowings was 4.4% (2009: 4.1%), and are further analysed as follows:

	2010	2009
Denominated in RMB	**5.7%**	5.7%
Denominated in HK$	**3.3%**	3.3%
Denominated in US$	**14.3%**	2.8%

The bank and other borrowings at the end of the reporting period were secured by the pledge of assets as set out in note 38.

28. Share Capital

	Authorised		**Issued and fully paid**	
	Number of shares	**US$'000**	**Number of shares**	**US$'000**
Ordinary shares of US$0.0025 each				
At 1 January 2009	12,000,000,000	30,000	4,185,597,171	10,464
Issue of bonus shares (note 11)	–	–	418,559,717	1,046
Issue of new shares	–	–	418,500,000	1,046
At 31 December 2009	12,000,000,000	30,000	5,022,656,888	12,556
Issue of shares in lieu of cash dividends (note 11)	–	–	**188,931,093**	**473**
At 31 December 2010	**12,000,000,000**	**30,000**	**5,211,587,981**	**13,029**

	2010 RMB'million	2009 RMB'million
Shown in the consolidated statement of financial position as	**102**	99

In June 2009, 418,500,000 new ordinary shares were issued to independent third parties at the price of HK$4.87 per share. The gross proceeds from the new issue were approximately HK$2,038 million (equivalent to RMB1,797 million). The new ordinary shares rank pari passu to the existing ordinary shares.

28. Share Capital (Continued)

The issue price of HK$4.87 per share represented a discount of approximately 7% to the closing price of HK$5.24 per share of the Company on 10 June 2009. The Directors considered that the terms of the new issue were on normal commercial terms and were fair and reasonable based on the then market conditions and the new issue was in the interests of the Company and the Shareholders as a whole.

29. Other Reserves

(a) Merger reserve represents the aggregate of:

(i) the difference between the nominal value of the share capital and share premium on the shares issued by the Company and the aggregate of the share capital and share premium of the holding companies of the subsidiaries acquired;

(ii) the share of profit attributable to the deemed non-controlling shareholders exchanged upon the group reorganisation in 2004; and

(iii) the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from a non-controlling shareholder upon the group reorganisation in 2004.

(b) Special reserve

Special reserve represents the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from non-controlling shareholders, which will be recognised in the consolidated income statement upon the earlier of the disposal of the assets, disposal of the subsidiary of the assets which the assets relate, or when the related assets affect profit or loss.

During the year ended 31 December 2010, an amount of RMB30 million (2009: RMB205 million) was released to the consolidated income statement upon the disposal by the subsidiaries of the assets to which it relates. In addition, an amount of RMB91 million was released to the consolidated income statement upon recognition of fair value changes of the related assets during the year ended 31 December 2009.

(c) Other reserve comprises:

(i) An amount of RMB483 million represents payable waived in 2004 by Shui On Investment Company Limited, a subsidiary of SOCL, in respect of development costs of the same amount originally paid by Shanghai Shui On Property Development Management Co., Ltd., a fellow subsidiary of Shui On Investment Company Limited, and recharged to certain subsidiaries of the Company.

(ii) Capital contribution of RMB21 million arising on the fair value adjustments at the initial recognition of an interest free loan advanced by a non-controlling shareholder of a subsidiary in 2005.

(iii) Non-distributable reserve of RMB99 million arising from the capitalisation of retained profits as registered capital of a subsidiary in the PRC in 2006.

(iv) An amount of RMB34 million represents the difference between the fair value of the consideration paid and the carrying value of the net assets attributable to the additional interest of 16.8% in Yang Pu Centre Development Co., Ltd being acquired from the non-controlling interests in 2010 (note 36(a)).

30. Convertible Bonds

On 29 September 2010, the Company issued RMB denominated US$ settled 4.5% convertible bonds with the aggregate principal amount of RMB2,720 million with initial conversion price of HK$4.87 at a fixed exchange rate of RMB1.00 to HK$1.1439. An adjustment has been made to the conversion price from HK$4.87 to HK$4.78 as a result of the interim dividend for 2010.

Conversion may occur at any time between 10 November 2010 and 19 September 2015. The Company will, at the option of the holder of any bond, redeem all or some only of such holder's bonds on 29 September 2013 at an amount equal to the US$ equivalent of their RMB principal amount, together with accrued but unpaid interest.

If the bonds have not been converted or redeemed at the date of maturity, they will be redeemed at an amount equal to the US$ equivalent of their RMB principal amount, together with accrued but unpaid interest.

The Company may at any time after 29 September 2013 redeem all, but not some only, of the bonds for the time being outstanding at the US$ equivalent of their RMB principal amount, together with interest accrued to the date fixed for redemption, provided that the closing price of the shares of the Company translated into RMB at the prevailing rate applicable to the relevant trading day, for 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is published was at least 130% of the conversion price then in effect, translated into RMB at the fixed rate of RMB1.00 = HK$1.1439.

The Company may at any time redeem all, but not some only, of the bonds being outstanding at a redemption price equal to the US$ equivalent of their RMB principal amount, together with accrued but unpaid interest to the date fixed for redemption, if prior to the date of notice at least 90% in RMB principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled.

The convertible bonds contain two components: equity and liability elements. The equity element of RMB605 million is presented in equity heading "convertible bond equity reserve". The movement of the liability component of the convertible bonds for the year is set out below:

	2010	2009
	RMB'million	RMB'million
At 1 January	**–**	–
Issue of convertible bonds	**2,115**	–
Expenses on issue of convertible bonds	**(54)**	–
Interest charged during the year	**56**	–
At 31 December	**2,117**	–

The effective interest rate of the liability component on initial recognition is 10.7% per annum.

The fair value of the liability component at inception date is determined based on the valuation carried out by an independent valuer.

31. Notes

	2010 RMB'million	2009 RMB'million
At 1 January	–	–
Issue of senior notes due 2013	3,000	
Expenses on issue of senior notes	(60)	–
Interest charged during the year	5	–
At 31 December	2,945	–

On 23 December 2010, Shui On Development (Holding) Limited ("SOD"), a wholly owned subsidiary of the Company, issued RMB3,000 million senior notes with a maturity of three years due on 23 December 2013 (the "2013 Notes"). The 2013 Notes are denominated in RMB and settled in US dollars, and bear coupon at 6.875% per annum payable semi-annually in arrears.

The principal terms of the notes

The 2013 Notes are:

(a) senior in right of payment to any existing and future obligations of SOD expressly subordinated in right of payment to the Notes;

(b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SOD (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); and

(c) guaranteed by the Company on a senior basis;

(d) effectively subordinated to the secured obligations (if any) of the Company and SOD, to the extent of the value of the assets serving as security therefore; and

(e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2013 Notes, SOD may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SOD, and the trustee of the 2013 Notes.

At any time on or before all the 2013 Notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to shareholders after taking into account certain adjustments prescribed in the terms of the 2013 Notes.

32. Derivative Financial Instruments Designated as Hedging Instruments

The derivative financial instruments are measured at fair value at the end of the reporting period. The fair value is determined based on valuation provided by the counterparty financial institution.

At 31 December 2010 and 31 December 2009, the Group has outstanding interest rate swaps to hedge against the variability of cash flows arising from the interest rate fluctuations. Under these swaps, the Group would receive interests at variable rates at HIBOR and pay interest at fixed rates ranging from 0.95% to 3.58% (2009: 3.32% to 3.58%) based on the notional amounts of HK$5,581 million (2009: HK$4,581 million) in aggregate. The Group designated the interest rate swaps as hedges against the variability of interest payments of certain bank borrowings of the Group amounting to HK$5,581 million (2009: HK$4,581 million) which bear variable interest rates at HIBOR plus spread ranging from 2.75% to 3.65% (2009: 2.75% to 2.90%) and mature on or before March 2013. The principal terms of the interest rate swaps have been negotiated to match the terms of the related bank borrowings.

During the year ended 31 December 2010, fair value loss arising from the interest rate swaps of RMB7 million (2009: gain of RMB45 million) was deferred in equity as hedge reserve, which is expected to be recognised in the consolidated income statement at various dates upon the interest payments of the related bank borrowings are expected to settle.

33. Deferred Tax Assets/Liabilities

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Revaluation of investment properties	Tax losses	Recognition of sales and related cost of sales	Withholding tax on income derived in the PRC	Others	Total
	RMB'million	RMB'million	RMB'million	RMB' million	RMB' million	RMB' million	RMB' million
At 1 January 2009	783	1,130	(31)	(40)	19	(105)	1,756
Charge (credit) to consolidated income statement	130	134	(9)	(29)	33	38	297
At 31 December 2009	913	1,264	(40)	(69)	52	(67)	2,053
Charge (credit) to consolidated income statement	**112**	**678**	**20**	**34**	**76**	**(113)**	**807**
Transfer to current taxation	**–**	**(11)**	**–**	**–**	**(10)**	**–**	**(21)**
At 31 December 2010	**1,025**	**1,931**	**(20)**	**(35)**	**118**	**(180)**	**2,839**

For the purposes of presentation of the consolidated statement of financial position, certain deferred tax (assets) liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2010	2009
	RMB'million	RMB'million
Deferred tax assets	**(162)**	(139)
Deferred tax liabilities	**3,001**	2,192
	2,839	2,053

At the end of the reporting period, the Group had unused tax losses of RMB511 million (2009: RMB633 million) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to RMB79 million (2009: RMB160 million). No deferred tax asset has been recognised in respect of the remaining tax losses of RMB432 million (2009: RMB473 million) due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years ending 31 December:

	2010	2009
	RMB'million	RMB'million
2010	**–**	46
2011	**44**	45
2012	**73**	73
2013	**241**	268
2014	**19**	41
2015	**55**	–
	432	473

34. Provident and Retirement Fund Schemes

Hong Kong

The Group participates in both a defined benefit plan (the "Plan") which is registered under the Occupational Retirement Schemes Ordinance and in a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The Plan was set up by the Group during 2004. The assets of the schemes are held separately from those of the Group and are invested in securities and funds under the control of trustees. Employees who were members of the Plan prior to the establishment of MPF Scheme were offered a choice of staying within the Plan or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The MPF Scheme

For members of the MPF Scheme, contributions made by the employees at 5% of relevant income and by the Group at rates ranging from 5% to 10% of the employees' salaries, depending on the employees' length of services with the Group.

The Group's contributions to the MPF Scheme charged to the consolidated income statement as staff costs during the year ended 31 December 2010 were less than RMB1 million.

The Plan

Contributions to the Plan are made by the members at 5% of their salaries and by the Group which are based on recommendations made by the actuary of the Plan. The current employer contribution rate ranges from 5% to 10% of the members' salaries. Under the Plan, a member is entitled to retirement benefits which comprise the sum of any benefits transferred from another scheme and the greater of the sum of employer's basic contribution plus the member's basic contribution accumulated with interest at a rate of no less than 6% per annum before 1 September 2003 and 1% per annum in respect of contributions made on or after 1 September 2003 or 1.8 times the final salary times the length of employment with the Group on the attainment of the retirement age of 60. For members who joined the Plan before 1997, the retirement age is 60 for male members and 55 for female members. No other post-retirement benefits are provided.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligation were carried out at 31 December 2010 and 31 December 2009 by Ms. Elaine Hwang of Towers Watson Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations and the related current service cost were measured using the Projected Unit Credit Method.

The principal actuarial assumptions used as at the end of the reporting period are as follows:

		2010		2009
Discount rate		**2.7%**		2.6%
Expected rate of salary increase	**2011+:**	**5.0%**	2010:	4.0%
			2011+:	5.0%
Expected rate of return on plan assets		**7.00%**		7.25%

The actuarial valuation showed that the fair value of the plan assets attributable to the Group at 31 December 2010 was RMB54 million (2009: RMB57 million), representing 63% (2009: 61%) of the benefits that had accrued to members.

34. Provident and Retirement Fund Schemes (Continued)

Hong Kong (Continued)

The Plan (Continued)

Amounts recognised in the consolidated income statement for the year ended 31 December 2010 and 31 December 2009 in respect of the defined benefit plan are as follows:

	2010	2009
	RMB'million	RMB'million
Current service cost	**3**	4
Interest cost	**2**	1
Expected return on plan assets	**(4)**	(3)
Net actuarial losses recognised during the year	**3**	5
Net amount charged to consolidated income statement as staff costs	**4**	7

The actual returns on plan assets allocated to the Group for the year ended 31 December 2010 were gains of RMB6 million (2009: RMB15 million).

The amounts included in the consolidated statement of financial position arising from the Group's obligations in respect of the Plan are as follows:

	2010	2009
	RMB'million	RMB'million
Present value of funded defined benefit obligations	**85**	94
Unrecognised actuarial losses	**(27)**	(35)
Fair value of plan assets	**(53)**	(57)
Defined benefit liabilities	**5**	2

Movements in the present value of the funded defined benefit obligations in the current year were as follows:

	2010	2009
	RMB'million	RMB'million
At 1 January	**94**	99
Exchange realignment	**(2)**	–
Current service cost	**3**	4
Interest cost	**2**	1
Contributions from plan participants	**1**	1
Actuarial gains	**(3)**	(8)
Transfer-out liabilities	**–**	(2)
Benefits paid	**(10)**	(1)
At 31 December	**85**	94

34. Provident and Retirement Fund Schemes (Continued)

Hong Kong (Continued)

The Plan (Continued)

Movements in the fair value of the plan assets in the current year were as follows:

	2010 RMB'million	2009 RMB'million
At 1 January	**(57)**	(44)
Exchange realignment	**2**	–
Expected return on plan assets	**(4)**	(3)
Actuarial gains	**(2)**	(11)
Contributions from the employer	**(1)**	(1)
Contributions from plan participants	**(1)**	(1)
Benefits paid	**10**	1
Transfer-in assets	**–**	2
At 31 December	**(53)**	(57)

The major categories of plan assets at the end of the reporting period are as follows:

	2010 RMB'million	2009 RMB'million
Equities	**30**	30
Hedge funds	**12**	15
Bonds and cash	**11**	12
	53	57

The Group expects to make a contribution of RMB2 million (2009: RMB1 million) to the defined benefit plans during the next financial year.

PRC

According to the relevant laws and regulations in the PRC, certain subsidiaries established in the PRC are required to contribute a specific percentage of the payroll of their employees to retirement benefit schemes to fund the retirement benefits of their employees. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the respective schemes.

35. Acquisition of a Subsidiary

During the year ended 31 December 2010, a subsidiary of the Company acquired the entire interest of a company incorporated in the PRC from an independent third party for a cash consideration of RMB109 million. The acquired company owned the property development right on a piece of land adjacent to Shanghai Rui Hong Xin Cheng project.

The acquisition was accounted for as purchase of assets and liabilities rather than as business combination as the subsidiary acquired is an investment and property holding company with no business concerns.

The net assets acquired in the transaction were as follows:

	RMB'million
Investment properties under construction or development	67
Properties under development for sale	45
Accounts receivable, deposits and prepayments	4
Other payables and accrued charges	(7)
Net assets acquired	109
Cash consideration	109

During the year ended 31 December 2010, the acquired company did not contribute any turnover or results to the Group.

36. Acquisition of Additional Equity Interests in Subsidiaries

(a) 16.8% equity interest in Shanghai Yang Pu Centre Development Co., Ltd. ("KIC")

Pursuant to an amendment agreement dated 14 August 2009 (the "Amendment Agreement") entered into between Bright Continental Limited ("BCL", an indirect wholly owned subsidiary of the Company) and a non-controlling shareholder of KIC, the registered capital in KIC was increased from US$60,500,000 to US$137,500,000, by US$77,000,000, whereby BCL injected the entire portion of the increase in equity capital from US$60,500,000 to US$137,500,000 and at a premium of US$8,470,000 in cash (being US$85,470,000 in total). The non-controlling shareholder of KIC did not participate in injecting any additional equity capital into KIC. Upon completion of the Amendment Agreement in the year ended 31 December 2010, the interest of BCL in the equity capital of KIC was increased from 70% to 86.8% by 16.8% and interest of the non-controlling shareholder of KIC was diluted from 30% to 13.2% by 16.8%.

The difference of RMB34 million between the excess of the Group's share of additional interest in the carrying amount of the net assets of KIC attributable to the acquisition over the cost of the acquisition were recognised directly in equity (note 29(c)).

(b) 30% equity interest in Globe State Properties Limited ("Globe State")

On 29 July 2009, the Group entered into a sale and purchase agreement with the non-controlling shareholders of Globe State, an indirect 70% owned subsidiary of the Company, to acquire their entire interests in Globe State, being 30% equity interests in the issued share capital of Globe State, together with an amount due by Globe State to the non-controlling shareholders of RMB56 million, for a total cash consideration of RMB100 million. One third of the consideration was paid in July 2009, and the remaining two-thirds of the consideration was paid in December 2009 upon the completion of the sale and purchase agreement.

A gain of RMB6 million arose from the above acquisition, representing the excess of the Group's share of additional interest in the fair value of the net assets of Globe State attributable to the acquisition over the cost of the acquisition, has been recognised in the consolidated income statement for the year ended 31 December 2009.

37. Share-based Payment Transactions

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the shareholders on 8 June 2007 for the primary purpose of providing incentives to directors, eligible employees and consultants. Under the Scheme, the total number of shares in respect of which options may be granted is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

At 31 December 2010, 142,152,612 share options (2009: 166,375,605 share options) remained outstanding under the Scheme, representing 2.7% (2009: 3.3%) of the shares of the Company in issue at that date. The Scheme allows the Board of Directors, when offering the grant of any option, to impose any condition including any performance target which must be met before the option shall vest and become exercisable.

On 4 September 2009, an aggregate of 79,937,500 options granted on 3 November 2008 with exercise price of HK$1.60 were being replaced with an aggregate of 23,728,888 options at exercise price of HK$4.90. Other than the increase in exercise price and reduction in the number of options, the vesting period and other terms of these options remained unchanged.

The increase in exercise price and reduction in number of options did not increase the fair value of the share-based payment arrangement. Details of the replacement options are as follows:

Date of grant of replacement options	Exercise price HK$	Closing share price at date of replacement HK$	Weighted average estimated fair value at date of replacement HK$	Number of share options granted
4 September 2009	4.90	4.90	2.04	23,728,888

The options granted on 4 September 2009 were identified, on the date they were granted, as replacement options for the cancelled original options with exercise price of HK$1.60. The grant of replacement options would not have occurred without the cancellation of the original options with exercise price of HK$1.60 and vice versa. Accordingly, the replacement is accounted for as a modification to the terms and conditions on which the original options were granted.

These fair values of the share options of the Company immediately before and after modification at 4 September 2009 were calculated using the Binomial model. The inputs into the model were as follows:

	Before modification	After modification
Expected volatility	50%	50%
Expected life	6.16 to 8.16 years	6.16 to 8.16 years
Risk-free rate	1.86%	1.86%
Expected dividend yield	2.0%	2.0%

The risk-free interest rates are taken to be the linearly interpolated yields of the Hong Kong Exchange Fund Notes at the grant date. Expected volatility for the replacement grant during the year ended 31 December 2009 was determined with reference to the movement of the Company's and comparators' share prices over the last 6 years before the date of grant.

Other than the replacement of options as mentioned above, no share options were granted during the years ended 31 December 2010 and 2009.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

HK$1.00 is payable by each eligible participant to the Company on acceptance of an offer of options, to be paid within 1 month from the date of the offer.

37. Share-based Payment Transactions (Continued)

The vesting period and the exercisable period of the share options granted to eligible employees and directors are as follows:

	Vesting period	Exercisable period
The first 1/7 of the grant:	From date of grant to the 2nd anniversary	From the 2nd to the 7th anniversary to the date of grant
The second 1/7 of the grant:	From date of grant to the 3rd anniversary	From the 3rd to the 8th anniversary to the date of grant
The third 1/7 of the grant:	From date of grant to the 4th anniversary	From the 4th to the 9th anniversary to the date of grant
The fourth 1/7 of the grant:	From date of grant to the 5th anniversary	From the 5th to the 9th anniversary to the date of grant
The fifth 1/7 of the grant:	From date of grant to the 6th anniversary	From the 6th to the 9th anniversary to the date of grant
The sixth 1/7 of the grant:	From date of grant to the 7th anniversary	From the 7th to the 9th anniversary to the date of grant
The last 1/7 of the grant:	From date of grant to the 8th anniversary	From the 8th to the 9th anniversary to the date of grant

The vesting period and the exercisable period of the share options granted to a consultant are as follows:

	Vesting period	Exercisable period
The first 1/5 of the grant:	Unconditional and fully vested at the date of grant	Before the 5th anniversary to the date of grant
The second 1/5 of the grant:	From date of grant to the 1st anniversary	Before the 6th anniversary to the date of grant
The third 1/5 of the grant:	From date of grant to the 2nd anniversary	Before the 7th anniversary to the date of grant
The fourth 1/5 of the grant:	From date of grant to the 3rd anniversary	Before the 8th anniversary to the date of grant
The last 1/5 of the grant:	From date of grant to the 4th anniversary	Before the 9th anniversary to the date of grant

The share options granted to independent non-executive directors, a non-executive director and a consultant are unconditional and fully vested at the date of grant and exercisable on or before the 5th anniversary to the date of grant.

The Group recognised the total expense of RMB19 million (2009: RMB47 million) in the consolidated income statement in relation to share options granted by the Company.

During the years ended 31 December 2010 and 31 December 2009, none of the share options were exercised.

37. Share-based Payment Transactions (Continued)

The movement in the Company's share options is set out below:

		Number of options				
Date of grant	**Exercise price HK$**	**At 1 January 2010**	**Granted during the year**	**Replacement during the year**	**Lapsed during the year**	**At 31 December 2010**
20 June 2007	**7.00**	**106,632,098**	**–**	**–**	**(15,241,206)**	**91,390,892**
1 August 2007	**8.18**	**1,269,802**	**–**	**–**	**(159,869)**	**1,109,933**
2 October 2007	**10.00**	**2,468,768**	**–**	**–**	**(402,312)**	**2,066,456**
1 November 2007	**11.78**	**1,301,615**	**–**	**–**	**(577,065)**	**724,550**
3 December 2007	**9.88**	**1,234,329**	**–**	**–**	**(653,463)**	**580,866**
2 January 2008	**8.97**	**3,358,409**	**–**	**–**	**(180,400)**	**3,178,009**
1 February 2008	**8.05**	**1,717,382**	**–**	**–**	**(272,500)**	**1,444,882**
3 March 2008	**7.68**	**735,670**	**–**	**–**	**(102,662)**	**633,008**
2 May 2008	**7.93**	**7,238,273**	**–**	**–**	**(1,816,341)**	**5,421,932**
2 June 2008	**7.34**	**15,231,560**	**–**	**–**	**(1,565,848)**	**13,665,712**
2 July 2008	**6.46**	**1,482,175**	**–**	**–**	**(534,944)**	**947,231**
4 September 2009	**4.90**	**23,705,524**	**–**	**–**	**(2,716,383)**	**20,989,141**
		166,375,605	**–**	**–**	**(24,222,993)**	**142,152,612**
Number of options exercisable		**19,586,617**				**35,906,115**

		Number of options				
Date of grant	Exercise price HK$	At 1 January 2009	Granted during the year	Replacement during the year	Lapsed during the year	At 31 December 2009
20 June 2007	7.00	118,747,544	–	–	(12,115,446)	106,632,098
1 August 2007	8.18	1,371,013	–	–	(101,211)	1,269,802
2 October 2007	10.00	4,845,000	–	–	(2,376,232)	2,468,768
1 November 2007	11.78	4,272,054	–	–	(2,970,439)	1,301,615
3 December 2007	9.88	1,500,488	–	–	(266,159)	1,234,329
2 January 2008	8.97	3,449,266	–	–	(90,857)	3,358,409
1 February 2008	8.05	2,099,366	–	–	(381,984)	1,717,382
3 March 2008	7.68	774,732	–	–	(39,062)	735,670
2 May 2008	7.93	7,796,274	–	–	(558,001)	7,238,273
2 June 2008	7.34	15,837,819	–	–	(606,259)	15,231,560
2 July 2008	6.46	1,784,027	–	–	(301,852)	1,482,175
3 November 2008	1.60	100,250,000	–	(79,937,500)	(20,312,500)	–
4 September 2009	4.90	–	–	23,728,888	(23,364)	23,705,524
		262,727,583	–	(56,208,612)	(40,143,366)	166,375,605
Number of options exercisable		3,900,000				19,586,617

38. Pledge of Assets

The following assets were pledged to banks as securities to obtain certain banking facilities at the end of the reporting period:

	2010	2009
	RMB'million	RMB'million
Investment properties	**17,091**	13,243
Property, plant and equipment	**114**	128
Prepaid lease payments	**42**	43
Properties under development for sale	**6,065**	4,948
Properties held for sale	**33**	406
Accounts receivable	**45**	90
Bank deposits	**1,885**	2,019
	25,275	20,877

Included in pledged bank deposits above is an amount of RMB265 million (2009: RMB265 million) which has been pledged to a bank to secure the banking facilities granted to an associate. All the other assets were pledged to secure banking facilities granted to the Group.

In addition, the equity interests in certain subsidiaries were also pledged to banks as securities to obtain banking facilities granted to the Group at the end of the reporting period.

39. Lease Arrangements

As lessor

Property rental income in respect of the investment properties earned, net of outgoings of RMB13 million (2009: RMB10 million), was RMB584 million (2009: RMB532 million). The investment properties held have committed tenants for the next one to eleven years at fixed rentals. Certain leases contain contingent rental income recognised during the year ended 31 December 2010 amounting to RMB12 million (2009: RMB7 million). These contingent rentals are generally based on specified percentages of turnover of the tenants.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments which fall due as follows:

	2010	2009
	RMB'million	RMB'million
Within one year	**615**	526
In the second to fifth years inclusive	**1,005**	780
Over five years	**117**	100
	1,737	1,406

39. Lease Arrangements (Continued)

As lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010 RMB'million	2009 RMB'million
Within one year	**44**	46
In the second to fifth years inclusive	**39**	71
Over five years	**72**	81
	155	198

Operating lease payments represent rentals payable by the Group for certain of its office and retail properties. Leases are negotiated for an average term of one to thirteen years.

40. Commitments and Contingencies

(a) Capital and other commitments

(i) At the end of the reporting period, the Group had the following commitments:

	2010 RMB'million	2009 RMB'million
Contracted but not provided for:		
Development costs for investment properties under construction or development	**4,673**	6,534
Development costs for properties under development held for sale	**9,906**	7,884
	14,579	14,418

(ii) Pursuant to an agreement entered into with the 上海市虹口區衛生局 of the Hongkou District, Shanghai, the PRC on 20 June 2006, the Group has committed to build a hospital to be located in the Rui Hong Xin Cheng area of the Hongkou District as compensation for the removal of those medical and health care services originally located in that area. As at 31 December 2010 and 2009, no construction contracts related to the hospital were entered into. No provision for the construction costs has been made in the consolidated financial statements as the amount cannot be measured reliably.

(iii) On 28 April 2008, the Group agreed to provide further funding or financial assistance of RMB1,128 million to the associates formed for the development of Dalian Tiandi project, whereby the Group ultimately holds a 48% effective interest. Details of the transactions are set out in the announcement dated 28 April 2008 and the circular dated 19 May 2008.

At 31 December 2009, the Group had commitment in respect of provision of such further funding or financial assistance contracted but not provided for in the consolidated financial statements amounting to approximately RMB121 million. During the year ended 31 December 2010, the Group has made further investment to the associate and at 31 December 2010, the Group had had no outstanding commitment in respect of investments in associates.

40. Commitments and Contingencies (Continued)

(b) Contingent liabilities

Financial guarantee contracts:

(i) Pursuant to an agreement entered into with the district government (the "Hongkou Government") and the Education Authority of the Hongkou District, Shanghai, the PRC on 31 July 2002, guarantees of no more than RMB324 million (2009: RMB324 million) will be granted by the Group to support bank borrowings arranged in the name of a company to be nominated by the Hongkou Government, as part of the financial arrangement for the site clearance work in relation to the development of a parcel of land. As at 31 December 2010, no amount had been drawn down under this arrangement (2009: nil).

(ii) As at 31 December 2010, the Group has issued guarantees amounting to RMB265 million (2009: RMB528 million) to banks in respect of banking facilities granted to an associate, in which the associate has drawn down bank loans amounting to RMB250 million (2009: RMB480 million).

In the opinion of the Directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the Directors consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised in the consolidated statement of financial position as at 31 December 2010 and 31 December 2009.

41. Related Party Transactions

Apart from the related party transactions and balances as stated in notes 17, 18, 23, 24, 26 and 40, the Group had the following transactions with related parties during the year:

(a) SOCL and its subsidiaries and associates other than those of the Group

	2010	2009
	RMB'million	RMB'million
Project construction costs	**466**	196
Rental and building management fee expenses	**32**	36
Travelling expenses	**17**	–
Project management fee income	**17**	1
Rental and building management fee income	**–**	2
Interest income	**–**	1

41. Related Party Transactions (Continued)

(b) Other related parties

	2010 RMB'million	2009 RMB'million
Associates		
Project management fee income	**22**	8
Imputed interest income	**36**	55
Interest income	**31**	11
Non-controlling shareholders of subsidiaries		
Guarantee fee income	**19**	–
Interest income	**–**	2
Imputed interest expenses	**–**	1
Interest expenses	**125**	102
Project management fee expenses	**8**	7
Jointly controlled entity		
Rental and building management fee income	**4**	4
A director		
Interest expenses	**–**	35
Senior management		
Property sales	**20**	43
Close family members of senior management		
Property sales	**–**	20

42. Event After The Reporting Period

On 26 January 2011, SOD issued RMB3,500 million senior notes with a maturity of four years due on 26 January 2015 (the "2015 Notes"). The 2015 Notes are denominated in RMB and settled in US dollars, and bear coupon at 7.625% per annum payable semi-annually in arrears.

43. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings, convertible bonds and notes disclosed in notes 27, 30 and 31, respectively net of bank balances and cash and pledged bank deposits, and equity attributable to equity holders of the Company, comprising issued share capital and reserves, and non-controlling interests.

The Directors of the Company review the capital structure of the Group by using a gearing ratio, which is calculated on the basis of dividing the excess of the sum of convertible bonds, notes, bank and other borrowings over the sum of bank balances and cash (inclusive of pledged bank deposits) by total equity. The review is conducted at least quarterly and before each major financing or investment decision is made.

43. Capital Risk Management (Continued)

The gearing ratio at the end of reporting date was as follows:

	2010 RMB'million	2009 RMB'million
Bank and other borrowings	**13,183**	10,203
Convertible bonds	**2,117**	–
Notes	**2,945**	–
Pledged bank deposits	**(1,885)**	(2,019)
Bank balances and cash	**(4,905)**	(2,928)
Net debt	**11,455**	5,256
Total equity	**26,028**	22,574
Net debt to total equity	**44%**	23%

44. Financial Instruments

a. Categories of financial instruments

	2010 RMB'million	2009 RMB'million
Financial assets		
Loans and receivables (including bank balances and cash)	**12,730**	7,827
Financial liabilities		
Derivative instruments designated as hedging instruments	**218**	211
Amortised cost	**23,697**	13,974

b. Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, loans receivable, loans to associates, amounts due from associates, amounts due from related companies, amounts due from non-controlling shareholders of subsidiaries, pledged bank deposits, accounts payable, amounts due to related companies, amounts due to associates, amounts due to non-controlling shareholders of subsidiaries, loans from non-controlling shareholders of subsidiaries and bank borrowings.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Group's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Currency risk

All of the Group's turnover is denominated in RMB. However, the Group has certain bank balances and debt obligations that are denominated in foreign currency. As a result, the Group is exposed to fluctuations in foreign exchange rates. The management closely monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

44. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	2010	2009
	RMB'million	RMB'million
HK$		
Assets	**2,469**	2,006
Liabilities	**8,365**	6,458
US$		
Assets	**1,374**	313
Liabilities	**1,032**	1,285

Sensitivity analysis

The Group is mainly exposed to the currency of HK$ and US$.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items assuming the balances at the end of the reporting period outstanding for the whole year and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	Notes	**2010**	2009
		RMB'million	RMB'million
HK$			
Profit or loss	(i)	**281**	212
US$			
Profit or loss	(ii)	**(16)**	46

Notes:

(i) This is mainly attributable to the exposure outstanding on receivables and payables denominated in HK$ not subject to cash flow hedge at year end.

(ii) This is mainly attributable to the exposure outstanding on receivables and payables denominated in US$ not subject to cash flow hedge at year end.

The Group's sensitivity to foreign currency has increased in profit during the current year mainly due to both the significant depreciation of HK$ and US$ against RMB and increase in foreign currency bank borrowings.

44. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings at variable rates. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR, LIBOR, and PBOC prescribed interest rate arising from the Group's HK$ and RMB borrowings. In order to mitigate the cash flow interest rate risk, the Group has entered into several interest rate swaps (which have been designated as hedging instruments) whereby the Group will receive interest at variable rates at HIBOR and pay interests at fixed rates. Details of the interest rate swaps are set out in note 32.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank and other borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would decrease/increase by RMB10 million (2009: decrease/increase by RMB17 million). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank and other borrowings, after taking into consideration the effects of the interest rate swaps designated as hedging instruments.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate debt instruments.

Credit risk

The Group's principal financial assets are bank balances and cash, pledged bank deposits, accounts receivable, loans receivable, loans to associates, amounts due from associates, amounts due from non-controlling shareholders of subsidiaries and amounts due from related companies, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its loans to associates, accounts receivable, loans receivable and amount of contingent liabilities in relation to the financial guarantees provided by the Group. The amounts presented in the consolidated statement of financial position are net of allowances for bad and doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, except for as at 31 December 2010 where the largest debtor amounting to approximately RMB68 million (2009: RMB123 million) arising from sales of properties, loans to associates of RMB1,270 million (2009: RMB1,273 million) and loans receivable of RMB597 million (2009: RMB378 million).

The credit risk on liquid funds is limited because the funds were deposited with various creditworthy financial institutions located in Hong Kong and in the PRC.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of bank and other borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

44. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the maturities of the Group's financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative instruments that settle on a net basis, undiscounted net cash outflows are presented.

Liquidity and interest risk tables

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2010
	%	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
2010							
Non-derivative financial liabilities							
Accounts payable, deposits received and accrued charges	–	2,913	–	–	–	2,913	2,913
Bank and other borrowings at variable rates	4.4%	2,195	6,748	4,648	1,135	14,726	13,183
Convertible bonds	10.7%	122	122	3,087	–	3,331	2,117
Notes	7.5%	206	206	3,206	–	3,618	2,945
Amounts due to related companies	–	95	–	–	–	95	95
Amounts due to associates	–	29	–	–	–	29	29
Amounts due to non-controlling shareholders of subsidiaries	–	462	–	–	–	462	462
Loans from non-controlling shareholders of subsidiaries							
– variable rate	6.1%	407	101	303	1,754	2,565	1,953
Financial guarantee contracts	–	265	–	–	–	265	–
		6,694	7,177	11,244	2,889	28,004	23,697
Derivatives – net settlement							
Cash flow hedge instruments	–	130	130	–	–	260	218

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2009
	%	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
2009							
Non-derivative financial liabilities							
Accounts payable, deposits received and accrued charges	–	2,070	–	–	–	2,070	2,070
Bank borrowings at variable rates	4.1%	2,482	1,249	7,141	543	11,415	10,203
Amounts due to related companies	–	69	–	–	–	69	69
Amounts due to associates	–	45	–	–	–	45	45
Amounts due to non-controlling shareholders of subsidiaries	4.1%	494	–	–	–	494	475
Loans from non-controlling shareholders of subsidiaries							
– variable rate	8.4%	56	56	168	670	950	670
– interest free	–	442		–	–	442	442
Financial guarantee contracts	–	528	–	–	–	528	–
		6,186	1,305	7,309	1,213	16,013	13,974
Derivatives – net settlement							
Cash flow hedge instruments		130	130	–	–	260	211

44. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

c. Fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions as inputs; and

- the fair values of derivative instruments, are calculated using quoted prices as inputs. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

d. Fair value measurements recognised in the consolidated statement of financial position

Included in other comprehensive income is a loss of RMB7 million (2009: gain of RMB45 million) related to interest rate swaps designated in cash flow hedge held at the end of the reporting period.

45. Summarised Statement of Financial Position of The Company

	2010	2009
	RMB'million	RMB'million
Investments in subsidiaries	**2,413**	2,413
Loan to a subsidiary	**6,747**	6,365
Amounts due from subsidiaries	**4,014**	2,203
Other prepayment	**22**	22
Bank balances	**604**	–
Total assets	**13,800**	11,003
Convertible bonds	**2,117**	–
Total liabilities	**2,117**	–
Net assets	**11,683**	11,003
Share capital	**102**	99
Reserves	**11,581**	10,904
Total equity	**11,683**	11,003

46. Particulars of the Principal Subsidiaries

Particulars of the Company's principal subsidiaries at 31 December 2010 and 31 December 2009 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1) 2010	2009	Place of operation	Principal activities
Ally Victory Limited	BVI 18 April 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Atlantic Best Limited	Hong Kong 5 January 2001	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Best View Development Limited	Hong Kong 5 March 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Billion China Investments Limited	BVI 18 October 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Billion Glory Limited	Hong Kong 14 March 2003	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Billion World Limited	Hong Kong 19 November 2003	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Bondwise Profits Limited	BVI 28 December 2000	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Bright Continental Limited	Hong Kong 5 March 2003	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Bright Power Enterprises Limited	BVI 1 July 2004	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Bright Winner Limited	Hong Kong 27 December 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Brixworth International Limited	BVI 3 January 2001	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Central Fit Investments Limited	BVI 23 October 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Century Team Limited	Hong Kong 16 January 1998	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Chinalink Capital Limited	BVI 16 July 2003	999 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
China Advance Limited	Hong Kong 13 November 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
China Wealth (H.K.) Limited	Hong Kong 4 January 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Chongqing Shui On Tiandi Property Development Co. Ltd.	PRC 21 November 2003	Registered and paid up capital US$359,000,000	79.4%	79.4%	PRC	Property development and property investment
Citichamp Limited	Hong Kong 19 July 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Cititop Pacific Limited	Hong Kong 1 December 2000	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Costworth Investments Limited	BVI 12 January 2001	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Crown Fame Limited	Hong Kong 18 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Cybricity Limited	Hong Kong 28 April 2000	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding

46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1) 2010	2009	Place of operation	Principal activities
Dalian Yingjia Science and Technology Development Co., Ltd.	PRC 3 December 2009	Registered and paid up capital US$23,000,000	100%	100%	PRC	Science and Technology development
East Capital Development Limited	Hong Kong 18 April 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
East Trend Limited	Hong Kong 14 February 2001	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Eastern View Limited	Hong Kong 18 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Excel Efficient Limited	BVI 19 August 2002	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Excellent Win Enterprises Limited	Hong Kong 5 February 2010	1 ordinary share of HK$1	100%	-	Hong Kong	Investment holding
Fast China Limited	BVI 23 April 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Feng Cheng Property Management Services Limited	Hong Kong 14 November 2003	100 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Fieldcity Investments Limited	BVI 30 March 2005	100 ordinary shares of US$1 each	75%	75%	Hong Kong	Investment holding
Focus Top Limited	Hong Kong 24 April 1998	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Foresight Profits Limited	BVI 8 February 2001	100 ordinary shares of US$1 each	75%	75%	Hong Kong	Investment holding
Fo Shan An Ying Property Development Co., Ltd.	PRC 8 January 2008	Registered and paid up capital RMB700,000,000	100%	100%	PRC	Property development
Fo Shan Rui Dong Property Development Co., Ltd.	PRC 25 April 2008	Registered capital RMB690,000,000 Paid up capital RMB280,744,034	100%	100%	PRC	Property development
Fo Shan Rui Fang Property Development Co., Ltd.	PRC 21 May 2008	Registered capital RMB690,000,000 Paid up capital RMB105,768,504	100%	100%	PRC	Property development
Fo Shan Rui Kang Tian Di Property Development Co., Ltd.	PRC 21 May 2008	Registered capital RMB690,000,000 Paid up capital RMB539,797,592	100%	100%	PRC	Property development
Fo Shan Shui On Property Development Co., Ltd.	PRC 8 January 2008	Registered and paid up capital RMB700,000,000	100%	100%	PRC	Property development
Fo Shan Yi Kang Property Development Co., Ltd.	PRC 8 January 2008	Registered and paid up capital RMB700,000,000	100%	100%	PRC	Property development
Fo Shan Yong Rui Tian Di Property Development Co., Ltd.	PRC 21 March 2008	Registered capital RMB690,000,000 Paid up capital RMB483,779,914	100%	100%	PRC	Property development

46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1) 2010	2009	Place of operation	Principal activities
Fo Shan Yuan Kang Property Development Co., Ltd.	PRC 29 February 2008	Registered and paid up capital RMB700,000,000	100%	100%	PRC	Property development
Fo Shan Shui On Tiandi Trading Co., Ltd.	PRC 3 August 2010	Registered and paid up capital RMB1,000,000	100%	–	PRC	Retail business
Fuhui Limited	BVI 1 April 2010	1 ordinary share of US$1	100%	–	Hong Kong	Investment holding
Galore Profits Limited	BVI 23 January 2001	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Global Ocean Investments Limited	BVI 1 November 2002	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Globaland Limited	Hong Kong 30 October 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Globe State Properties Limited	BVI 12 October 2005	100 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Glory Advance Investments Limited	BVI 18 August 2006	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Glory Wing Holdings Limited	BVI 15 January 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Grand Hope Limited (Note 4)	Hong Kong 14 March 2003	100 A ordinary shares of HK$1 each and 2 B ordinary shares of HK$1 each	A shares: 80.2% B shares: 60.15%	A shares: 80.2% B shares: 60.15%	Hong Kong	Investment holding
Grand Rich Limited	Hong Kong 14 March 2003	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Hangzhou Xihu Tiandi Management Co., Ltd.	PRC 6 March 2003	Registered and paid up capital US$1,400,000	100%	100%	PRC	Property management
Hangzhou Xihu Tiandi Property Co., Ltd.	PRC 12 June 2003	Registered and paid up capital US$51,800,000	100%	100%	PRC	Property development
Hing Tin Investments Limited	BVI 23 October 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Hollyfield Holdings Limited	Mauritius 19 April 2001	2 ordinary shares of US$1 each	75%	75%	Hong Kong	Investment holding
Infoshore International Limited	BVI 1 November 2002	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Info Union Limited	Hong Kong 18 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Innovate Zone Group Limited	BVI 3 January 2007	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Intellect Profit Investments Limited	BVI 10 August 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Interchina International Limited	BVI 12 January 2001	100 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Join Legend Limited	Hong Kong 2 June 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding

46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1) 2010	2009	Place of operation	Principal activities
Joyous Bond Limited	BVI 18 April 2008	1 ordinary share of US$1	75%	75%	Hong Kong	Investment holding
Keen Allied Investments Limited	BVI 18 September 2002	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
King Concord Limited	Hong Kong 3 October 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Kinmax Limited	Hong Kong 24 April 1998	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Land Pacific Limited	Hong Kong 2 November 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Legend City Limited	Hong Kong 4 June 1997	2 ordinary shares of HK$1 each	51%	51%	Hong Kong	Investment holding
Lucky Gain Limited	Hong Kong 8 November 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Magic Best Investments Limited	BVI 19 July 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Magic Bright Investments Limited	BVI 18 September 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Marble Way Limited	BVI 28 August 1996	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Merry Wave Limited	BVI 23 April 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Modern Prosper Investments Limited	BVI 1 November 2002	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Mount Eastern Limited	BVI 18 April 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
New Asia Limited	Hong Kong 31 October 2003	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
New Power Profits Limited	BVI 18 October 2005	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Nice In Investments Limited	BVI 18 October 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Onfair Limited	Hong Kong 13 November 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Onwin Limited	Hong Kong 13 November 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Oriental Gain Limited	Hong Kong 2 February 2001	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Oriental Host Limited	Hong Kong 23 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Pacific Gain Limited	Hong Kong 11 September 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Portspin Limited	BVI 22 May 1997	100 ordinary shares of US$1 each	51%	51%	Hong Kong	Investment holding
Princemax Limited	Hong Kong 15 April 1998	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Profitstock Holdings Limited	BVI 2 June 2005	100 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding

46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1) 2010	2009	Place of operation	Principal activities
Regal Victory Limited	Hong Kong 18 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Rich Prime Limited	Hong Kong 18 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Rightchina Limited	BVI 2 July 2008	100 ordinary shares of US$1 each	60.15%	60.15%	Hong Kong	Investment holding
Rightidea Limited	BVI 2 July 2008	100 ordinary shares of US$1 each	80.2%	80.2%	Hong Kong	Investment holding
Rise Lake Investments Limited	BVI 23 August 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Score High Limited	BVI 12 February 2003	1,000 ordinary shares of US$1 each	80.2%	80.2%	Hong Kong	Investment holding
Selfers Limited	BVI 29 November 1995	1 ordinary share of US$1	75%	75%	Hong Kong	Investment holding
Shanghai Bai-Xing Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB151,300,000	97%	97%	PRC	Property development and property investment
Shanghai Fu Ji Properties Co., Ltd.	PRC 18 January 2004	Registered and paid up capital US$35,773,000	99%	99%	PRC	Property development
Shanghai Fu Xiang Properties Co., Ltd.	PRC 19 December 2001	Registered and paid up capital RMB645,000,000	99%	99%	PRC	Property development and property investment
Shanghai Ji-Xing Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB71,600,000	97%	97%	PRC	Property development and property investment
Shanghai Jing Fu Property Co., Ltd.	PRC 26 December 2001	Registered and paid up capital RMB400,000,000	99%	99%	PRC	Property development
Shanghai Jun Xing Property Co., Ltd.	PRC 5 March 2009	Registered and paid up capital RMB920,000,000	49.98%	49.98%	PRC	Property development
Shanghai Knowledge and Innovation Community Development Co., Ltd.	PRC 9 June 2010	Registered and paid up capital HK$1,550,000,000	99%	–	PRC	Property development
Shanghai Lakeville Properties Co., Ltd.	PRC 23 May 2001	Registered and paid up capital RMB165,000,000	99%	99%	PRC	Property development
Shanghai Le Fu Properties Co., Ltd.	PRC 20 February 2004	Registered and paid up capital US$130,500,000	99%	99%	PRC	Property development
Shanghai IPO Food & Beverage Co., Ltd.	PRC 6 September 2006	Registered and paid up capital US$1,890,000	100%	100%	PRC	Food and beverage services
Shanghai Rui Chen Property Co., Ltd.	PRC 6 May 1996	Registered and paid up capital RMB189,000,000	75%	75%	PRC	Property development and property investment
Shanghai Rui Qiao Property Development Co., Ltd.	PRC 28 December 2010	Registered capital RMB3,900,000,000 not yet paid up	100%	-	PRC	Property development

46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1) 2010	2009	Place of operation	Principal activities
Shanghai Rui Hong Xin Cheng Co., Ltd.	PRC 2 July 2001	Registered and paid up capital RMB3,300,000,000	74.25%	74.25%	PRC	Property development and property investment
Shanghai Rui Zhen Food & Beverage Co., Ltd.	PRC 7 November 2003	Registered and paid up capital US$2,100,000	99%	99%	PRC	Food and beverage services
Shanghai Shui On Club Business Management Co., Ltd.	PRC 29 July 2010	Registered and paid up capital RMB200,000	100%	–	PRC	Provision o f business management services
Shanghai Tai Ping Qiao Properties Management Co., Ltd.	PRC 31 August 2001	Registered and paid up capital US$200,000	99%	99%	PRC	Property management
Shanghai Xin-tian-di Plaza Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB101,300,000	97%	97%	PRC	Property development and property investment
Shanghai Xing Bang Properties Co., Ltd.	PRC 21 June 2001	Registered and paid up capital RMB290,500,000	99%	99%	PRC	Property development and property investment
Shanghai Xing-Qi Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB274,900,000	97%	97%	PRC	Property development and property investment
Shanghai Xing Qiao Properties Co., Ltd.	PRC 18 January 2004	Registered and paid up capital US$115,000,000	99%	99%	PRC	Property development
Shanghai Yang Pu Centre Development Co., Ltd.	PRC 26 August 2003	Registered and paid up capital US$137,500,000	86.8%	70%	PRC	Property development and property investment
Shui On Development (Holding) Limited	Cayman Islands 27 July 2005	22 ordinary shares of US$0.01 each	100%	100%	Hong Kong	Investment holding
Shui On Land Management Limited	Hong Kong 12 May 2004	1 ordinary share of HK$1	100%	100%	Hong Kong	Provision of management services
Shui On Resort Community (Dali) Holding Limited	BVI 6 May 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Dali) Limited	Hong Kong 13 May 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Lijiang) Holding Limited	BVI 28 April 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Lijiang) Limited	Hong Kong 5 May 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Shangri-La) Holding Limited	BVI 6 May 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Shangri-La) Limited	Hong Kong 13 May 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Kunming) Holding Limited	BVI 18 July 2006	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding

46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1) 2010	2009	Place of operation	Principal activities
Shui On Resort Community (Kunming) Limited	Hong Kong 25 July 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Yunnan) Development Limited	Cayman Islands 17 July 2006	1 ordinary share of US$0.01	100%	100%	Hong Kong	Investment holding
Shine First Limited	BVI 25 October 2006	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Shine Prime Investments Limited	BVI 2 November 2006	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Shui On Secretaries & Nominees Limited	Hong Kong 30 November 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Provision of secretarial services
Silomax Limited	BVI 25 March 1996	1 ordinary share of US$1	75%	75%	Hong Kong	Investment holding
Sino Realty Limited	Hong Kong 3 October 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Sino Wisdom Investments Limited	BVI 12 May 2006	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Sinoco Limited	Hong Kong 28 October 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Sinothink Holdings Limited	BVI 15 September 2000	100 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Smart Century Limited	Hong Kong 18 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Smart Silver Limited	BVI 18 December 2002	10 ordinary shares of US$1	100%	100%	Hong Kong	Investment holding
Super Field Limited	Hong Kong 25 February 2005	1 ordinary share of HK$1	75%	75%	Hong Kong	Investment holding
Timezone Management Limited	BVI 28 February 2001	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Tip Profit Limited	BVI 18 July 2006	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Top Faith Development Limited	Hong Kong 18 April 2008	1 ordinary share of HK$1	75%	75%	Hong Kong	Investment holding
Top Victory Development Limited	Hong Kong 5 March 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Triumph Sky Group Limited	BVI 23 October 2007	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Union Grow Limited	Hong Kong 8 November 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Victory Win Development Limited	Hong Kong 18 April 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Wuhan Shui On Tiandi Property Development Co., Ltd.	PRC 2 August 2005	Registered and paid up capital US$288,000,000	75%	75%	PRC	Property development and property investment

46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1) 2010	2009	Place of operation	Principal activities
上海百麗房地產開發有限公司 (Shanghai Baili Property Development Co., Ltd.*)	PRC 29 August 2002	Registered and paid up capital RMB100,000,000	75%	–	PRC	Property development and property investment
上海豐誠物業管理有限公司 (Shanghai Feng Cheng Property Management Co., Ltd.*)	PRC 18 January 2004	Registered and paid up capital RMB12,079,950	100%	100%	PRC	Property management
上海豐誠楊浦物業管理有限公司 (Shanghai Feng Cheng Yang Pu Property Management Co., Ltd.*)	PRC 21 July 2010	Registered and paid up capital RMB500,000	100%	–	PRC	Property management
上海瑞橋企業管理有限公司 (Shanghai Rui Qiao Enterprise Management Co., Ltd.*)	PRC 23 April 2009	Registered and paid up capital RMB1,000,000	86.8%	70%	PRC	Property development
上海瑞展教育信息咨詢有限公司 (Shanghai Rui Zhan Education Information Consultant Co., Ltd.*)	PRC 20 April 2010	Registered and paid up capital RMB100,000	75%	-	PRC	Provision of education information and consultancy services
上海新昌瑞安楊浦物業管理有限公司 (Shanghai Synergies Shui On Yang Pu Property Management Co., Ltd.*)	PRC 27 January 2006	Registered and paid up capital RMB450,000	100%	90%	PRC	Property management
上海瑞安房地產發展有限公司(Shui On Development Limited*)	PRC 14 June 2004	Registered and paid up capital US$28,000,000	100%	100%	PRC	Provision of management services
武漢瑞安天地商貿有限公司 (Wuhan Shui On Tian Di Trading Co., Ltd. *)	PRC 8 January 2007	Registered and paid up capital US$600,000	100%	100%	PRC	Retail business

Notes:

1. The Company directly holds the equity interest in Shui On Development (Holding) Limited. All other equity interests shown above are indirectly held by the Company.
2. All subsidiaries established in the PRC are either equity joint ventures or cooperative joint ventures except Dalian Yingjia Science and Technology Development Co., Ltd., Fo Shan An Ying Property Development Co., Ltd., Fo Shan Rui Dong Property Development Co., Ltd., Fo Shan Rui Fang Property Development Co., Ltd., Fo Shan Rui Kang Tian Di Property Development Co., Ltd., Fo Shan Shui On Property Development Co., Ltd., Fo Shan Yi Kang Property Development Co., Ltd., Fo Shan Yong Rui Tian Di Property Development Co., Ltd., Fo Shan Yuan Kang Property Devlopment Co., Ltd., Fo Shan Shui On Taindi Trading Co., Ltd., Hangzhou Xihu Tiandi Management Co., Ltd., Hangzhou Xihu Tiandi Property Co., Ltd., Shanghai IPO Food & Beverage Co., Ltd., Shanghai Rui Chen Property Co., Ltd., Shanghai Rui Qiao Property Development Co., Ltd., Shanghai Shui On Club Business Management Co., Ltd., Wuhan Shui On Tiandi Property Development Co., Ltd., 上海百麗房地產開發有限公司 (Shanghai Baili Property Development Co., Ltd.*), 上海豐誠物業管理有限公司 (Shanghai Feng Cheng Property Management Co., Ltd.*), 上海瑞安房地產發展有限公司 (Shui On Development Limited*) and 武漢瑞安天地商貿有限公司 (Wuhan Shui On Tian Di Trading Co., Ltd.*) which are wholly foreign owned enterprises.
3. Except for Shui On Development (Holding) Limited, none of the subsidiaries had any debt securities subsisting at 31 December 2010 or at any time during the year.
4. The holders of Class B ordinary shares of Grand Hope Limited have attributable interests in the Chongqing Super Rise Project whereas the holders of Class A ordinary shares of Grand Hope Limited have attributable interests in the Chongqing Shui On Tiandi Property Development Co., Ltd. other than the Chongqing Super High Rise Project.
5. The Group holds 51% equity interest in Portspin Limited, which holds 98% equity interest in Shanghai Jun Xing Property Co., Ltd. The Group's effective interest in Shanghai Jun Xing Property Co., Ltd. is therefore 49.98%.

* For identification purposes

Deloitte.
德勤

TO THE SHAREHOLDERS OF SHUI ON LAND LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shui On Land Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 128 to 198, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	2011 RMB'million	2010 RMB'million
Turnover			
– The Company and its subsidiaries ("the Group")		**8,484**	4,879
– Share of associates		**179**	–
		8,663	4,879
Turnover of the Group	5	**8,484**	4,879
Cost of sales		**(4,783)**	(2,869)
Gross profit		**3,701**	2,010
Other income	6	**244**	226
Selling and marketing expenses		**(195)**	(142)
General and administrative expenses		**(634)**	(561)
Operating profit	7	**3,116**	1,533
Increase in fair value of investment properties	13	**2,696**	2,711
Gain on disposal of investment properties		**17**	23
Share of results of associates	17	**137**	58
Finance costs, net of exchange gain	8	**94**	42
Profit before taxation		**6,060**	4,367
Taxation	9	**(2,062)**	(1,357)
Profit for the year		**3,998**	3,010
Attributable to:			
Shareholders of the Company		**3,428**	2,809
Non-controlling interests		**570**	201
		3,998	3,010
Earnings per share	12		
– Basic		**RMB0.66**	RMB0.55
– Diluted		**RMB0.58**	RMB0.53

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	2011 RMB'million	2010 RMB'million
Profit for the year		**3,998**	3,010
Other comprehensive income (expense)			
Exchange difference arising on translation of foreign operations		**5**	(4)
Fair value adjustments on interest rate swaps designated as cash flow hedges	32	**68**	(7)
Other comprehensive income (expense) for the year		**73**	(11)
Total comprehensive income for the year		**4,071**	2,999
Total comprehensive income attributable to:			
Shareholders of the Company		**3,501**	2,798
Non-controlling interests		**570**	201
		4,071	2,999

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December 2011

	Notes	2011 RMB'million	2010 RMB'million
Non-current assets			
Investment properties	13	**36,395**	26,893
Property, plant and equipment	14	**1,079**	540
Prepaid lease payments	15	**500**	73
Interests in associates	17	**1,057**	920
Loans to associates	17	**1,366**	1,270
Accounts receivable	19	**86**	64
Pledged bank deposits	20	**1,143**	1,569
Deferred tax assets	33	**154**	162
		41,780	31,491
Current assets			
Properties under development for sale	16	**17,247**	14,308
Properties held for sale	21	**987**	627
Accounts receivable, deposits and prepayments	19	**2,503**	3,604
Loans receivable	22	**152**	597
Amounts due from associates	17	**446**	318
Amounts due from related companies	23	**212**	49
Amounts due from non-controlling shareholders of subsidiaries	24	**50**	38
Pledged bank deposits	20	**1,369**	316
Restricted bank deposits	20	**335**	243
Bank balances and cash	20	**3,523**	4,662
		26,824	24,762
Current liabilities			
Accounts payable, deposits received and accrued charges	25	**5,068**	4,987
Amounts due to related companies	23	**368**	95
Amounts due to associates	17	**5**	29
Amounts due to non-controlling shareholders of subsidiaries	24	**404**	462
Loan from a non-controlling shareholder of a subsidiary	26	**–**	300
Tax liabilities		**1,855**	1,230
Bank borrowings – due within one year	27	**8,774**	1,644
		16,474	8,747
Net current assets		**10,350**	16,015
Total assets less current liabilities		**52,130**	47,506

	Notes	2011 RMB'million	2010 RMB'million
Capital and reserves			
Share capital	28	**102**	102
Reserves		**27,843**	24,718
Equity attributable to shareholders of the Company		**27,945**	24,820
Non-controlling interests		**1,526**	1,208
Total equity		**29,471**	26,028
Non-current liabilities			
Bank and other borrowings – due after one year	27	**7,969**	11,539
Convertible bonds	30	**2,225**	2,117
Notes	31	**6,520**	2,945
Derivative financial instruments designated as hedging instruments	32	**150**	218
Loans from non-controlling shareholders of subsidiaries	26	**2,078**	1,653
Deferred tax liabilities	33	**3,710**	3,001
Defined benefit liabilities	34	**7**	5
		22,659	21,478
Total equity and non-current liabilities		**52,130**	47,506

The consolidated financial statements on pages 128 to 198 were approved and authorised for issue by the Board of Directors on 21 March 2012 and are signed on its behalf by:

Vincent H. S. LO
DIRECTOR

Daniel Y. K. WAN
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to shareholders of the Company												
	Share capital	Share premium	Merger reserve	Special reserve	Share option reserve	Exchange reserve	Convertible bond equity reserve	Hedge reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total
	RMB' million	RMB' million	RMB' million (note 29(a))	RMB' million (note 29(b))	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million (note 29(c))	RMB' million	RMB' million	RMB' million	RMB' million
At 1 January 2010	99	12,433	122	(101)	136	19	–	(91)	603	8,359	21,579	995	22,574
Profit for the year	–	–	–	–	–	–	–	–	–	2,809	2,809	201	3,010
Exchange difference arising on translation of foreign operations	–	–	–	–	–	(4)	–	–	–	–	(4)	–	(4)
Fair value adjustments on interest rate swaps designated as cash flow hedges (note 32)	–	–	–	–	–	–	–	(7)	–	–	(7)	–	(7)
Total comprehensive (expense) income for the year	–	–	–	–	–	(4)	–	(7)	–	2,809	2,798	201	2,999
Recognition of equity-settled share-based payment expenses	–	–	–	–	19	–	–	–	–	–	19	–	19
Issue of convertible bonds (note 30)	–	–	–	–	–	–	605	–	–	–	605	–	605
Capital injection	–	–	–	–	–	–	–	–	–	–	–	50	50
Acquisition of additional interests in a subsidiary (note 35(b)(ii))	–	–	–	–	–	–	–	–	34	–	34	(34)	–
Release of special reserve upon disposal of the related assets	–	–	–	30	–	–	–	–	–	–	30	–	30
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(4)	(4)
Total dividends of HK$0.18 paid, comprising 2009 final dividend of HK$0.12 per share and 2010 interim dividend of HK$0.06 per share	–	–	–	–	–	–	–	–	–	(800)	(800)	–	(800)
Shares issued in lieu of cash dividend	3	552	–	–	–	–	–	–	–	–	555	–	555
At 31 December 2010	102	12,985	122	(71)	155	15	605	(98)	637	10,368	24,820	1,208	26,028
Profit for the year	–	–	–	–	–	–	–	–	–	3,428	3,428	570	3,998
Exchange difference arising on translation of foreign operations	–	–	–	–	–	5	–	–	–	–	5	–	5
Fair value adjustments on interest rate swaps designated as cash flow hedges (note 32)	–	–	–	–	–	–	–	68	–	–	68	–	68
Total comprehensive income for the year	–	–	–	–	–	5	–	68	–	3,428	3,501	570	4,071
Recognition of equity-settled share-based payment expenses	–	–	–	–	15	–	–	–	–	–	15	–	15
Capital injection	–	–	–	–	–	–	–	–	–	–	–	26	26
Acquisition of additional ownership interests in a subsidiary (note 35(b)(i))	–	–	–	(104)	–	–	–	–	–	–	(104)	(274)	(378)
Release of special reserve upon disposal of the related assets	–	–	–	40	–	–	–	–	–	–	40	–	40
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(4)	(4)
Total dividends of HK$0.075 paid, comprising 2010 final dividend of HK$0.05 per share and 2011 interim dividend of HK$0.025 per share	–	–	–	–	–	–	–	–	–	(327)	(327)	–	(327)
At 31 December 2011	102	12,985	122	(135)	170	20	605	(30)	637	13,469	27,945	1,526	29,471

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'million	2010 RMB'million
Operating activities		
Profit before taxation	**6,060**	4,367
Adjustments for:		
Depreciation of property, plant and equipment	**67**	66
Release of prepaid lease payments	**2**	1
Loss on disposal of property, plant and equipment	**–**	1
Net foreign exchange gain	**(125)**	(46)
Share of results of associates	**(137)**	(58)
Gain on disposal of investment properties	**(17)**	(23)
Finance costs, net of exchange gain	**(94)**	(42)
Interest income	**(152)**	(150)
Increase in fair value of investment properties	**(2,696)**	(2,711)
Increase in defined benefit liabilities	**2**	3
Equity-settled share-based payment expenses	**15**	19
Release of special reserve	**40**	30
Operating cash flows before movements in working capital	**2,965**	1,457
Decrease (increase) in accounts receivable, deposits and prepayments	**1,079**	(2,672)
Increase in properties under development for sale	**(7,010)**	(4,448)
Decrease in properties held for sale	**4,485**	2,619
(Increase) decrease in amounts due from related companies	**(163)**	24
Increase in amounts due to related companies	**273**	26
Decrease in amounts due to associates	**(24)**	(16)
(Decrease) increase in accounts payable, deposits received and accrued charges	**(265)**	675
Increase in restricted bank deposits	**(92)**	(243)
Cash generated from (used in) operations	**1,248**	(2,578)
Tax paid	**(720)**	(745)
Net cash from (used in) operating activities	**528**	(3,323)

	Notes	2011 RMB'million	2010 RMB'million
Investing activities			
Interest received		**119**	114
Purchase of property, plant and equipment		**(237)**	(33)
Additions to investment properties		**(7,280)**	(3,426)
Proceeds from disposal of investment properties		**613**	185
Additions to prepaid lease payments		**(434)**	–
Increase in loans to associates		**(120)**	(171)
Net cash outflow from acquisition of a subsidiary	35(a)	**–**	(109)
Net cash inflow from disposal of subsidiaries	36	**342**	–
Withdrawal of pledged bank deposits		**645**	954
Placement of pledged bank deposits		**(1,272)**	(820)
Decrease (increase) in loans receivable		**445**	(219)
Net cash used in investing activities		**(7,179)**	(3,525)
Financing activities			
Advance from non-controlling shareholders of subsidiaries		**410**	1,118
Repayment to non-controlling shareholders of subsidiaries		**(733)**	(311)
Capital injected by non-controlling shareholders of subsidiaries		**26**	50
Deposit received in respect of partial disposal of equity interests in subsidiaries	25(b)	**352**	–
New bank and other loans raised		**6,106**	6,761
Repayment of bank loans		**(2,082)**	(3,483)
Issue of convertible bonds	30	**–**	2,720
Expenses on issue of convertible bonds	30	**–**	(54)
Issue of notes	31	**3,500**	3,000
Expenses on issue of notes	31	**(70)**	(60)
Interest and bank charges paid		**(1,547)**	(827)
Payment of dividends		**(327)**	(245)
Dividend payment to non-controlling shareholders		**(4)**	(4)
Net cash from financing activities		**5,631**	8,665
Net (decrease) increase in cash and cash equivalents		**(1,020)**	1,817
Cash and cash equivalents at the beginning of the year		**4,662**	2,928
Effect of foreign exchange rate changes		**(119)**	(83)
Cash and cash equivalents at the end of the year		**3,523**	4,662
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**3,523**	4,662

1. GENERAL

Shui On Land Limited (the "Company") was incorporated on 12 February 2004 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 4 October 2006.

The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 46. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new and revised International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and interpretations ("IFRIC") (hereinafter collectively referred to as "new and revised IFRSs"), which are effective for the Group's financial year beginning on 1 January 2011.

Amendments to IFRSs	Improvements to IFRSs issued in 2010
IAS 24 (Revised 2009)	Related Party Disclosures
Amendments to IAS 32	Classification of Rights Issues
Amendments to IFRC 14	Prepayments of a Minimum Funding Requirement
IFRC 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters[1]
Amendments to IFRS 1	Government Loans[2]
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
IFRS 9	Financial Instruments[3]
Amendments to IFRS 9 & IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets[4]
IAS 19 (Revised 2011)	Employee Benefits[2]
IAS 27 (Revised 2011)	Separate Financial Statements[2]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[6]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

IFRS 9 Financial Instruments was issued in November 2009 and revised in October 2010. It introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of each accounting period. All other debt investments and equity investments are measured at their fair values at the end of each accounting period. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The Directors of the Company anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2015 and that the application of this new Standard will not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

New and revised IFRSs issued but not yet effective (Continued)

The amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The Directors of the Company anticipate that the adoption of the amendments to IAS 12 in the financial year ending 31 December 2012 may not have any impact on the consolidated financial statements of the Group because the Directors of the Company consider that the presumption would be rebutted as all of the Group's investment properties, which are located in the Peoples's Republic of China ("PRC"), are held within a business model of the Group which the business objective is to consume substantially all the economic benefits embodied in the investment properties over time, rather than through sale, and accordingly, the measurement of the deferred tax liabilities under the amendments to IAS 12 would reflect the tax consequences of recovering the carrying amount of the investment properties through use, which is the current practice of the Group.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deals with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. The Directors of the Company are in the process of assessing the financial impact.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope. The Directors of the Company anticipate that the adoption of IFRS 13 in the financial year ending 31 December 2013 may affect the valuation of the investment properties of the Group, which are measured at fair value at the end of each reporting period.

The Directors of the Company anticipate that the application of the other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and derivative financial instruments which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The significant accounting policies adopted are set out as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the end of previous reporting period or when they first came under common control, whichever is shorter.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted, based on the carrying amount of the net assets attributable to the change in interests, and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Construction costs incurred for investment properties under construction or development are capitalised as part of the carrying amount of the investment properties under construction or development.

Subsequent to initial recognition, investment properties are measured at their fair values at the end of each reporting period using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in consolidated income statement for the period in which they arise.

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

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of buildings over their estimated useful lives or where shorter, the terms of leasehold land where the buildings are located, using the straight-line method.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than buildings and hotels under development, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. No depreciation is provided on hotels under development which have not been in use. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments for leasehold land classified as operating leases are charged to the consolidated income statement on a straight-line basis over the period of the land use rights.

Properties under development for sale

Properties under development which are intended to be held for sale are carried at lower of cost and net realisable value and are shown as current assets. Cost includes the costs of land, development expenditure incurred and, where appropriate, borrowing costs capitalised during construction period.

Properties under development for sales are transferred to properties held for sale when the relevant completion certificates are issued by the respective government authorities.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realised value is determined based on prevailing market conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Impairment

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment (Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts receivable, loans receivable, loans to associates, amounts due from associates, amounts due from related companies, amounts due from non-controlling shareholders of subsidiaries, pledged bank deposits, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of loans and receivables have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of loans and receivables (Continued)

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of loans and receivables is reduced by the impairment loss directly for all financial assets with the exception of the amount due from a jointly controlled entity and trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement. When the amount due from a jointly controlled entity and trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

If, in a subsequent period, the amount of impairment loss of loans and receivables decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had no impairment loss been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Convertible bonds

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into the Company's own equity instruments, is included in equity (convertible bond equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bond equity reserve until the embedded option is exercised (in which case the balance stated in convertible bond equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bond equity reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Notes

At the date of issue, the net proceeds received were assigned to the notes according to their fair values. Transaction costs are included in the carrying amount of the notes and amortised over the period of the notes using the effective interest method.

Other financial liabilities

The Group's other financial liabilities (including accounts payable, amounts due to related companies, amounts due to associates, amounts due to non-controlling shareholders of subsidiaries, loans from non-controlling shareholders of subsidiaries and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in consolidated income statement depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges. At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement as part of other income or other expenses. Amounts deferred in equity are reclassified in the consolidated income statement in the periods when the hedged item is recognised in the consolidated income statement.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the consolidated income statement.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the consolidated income statement.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in the consolidated income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in the consolidated income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to the consolidated income statement on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

Equity-settled share-based payment transactions

Share options granted to employees (including Directors)

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in consolidated income statement, such that the cumulative expenses reflects the revised estimates, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity-settled share-based payment transactions (Continued)

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the reporting period. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's defined benefit obligations and the fair value of plan assets at the end of the previous reporting period are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Government grants

Government grants are recognised in the consolidated income statement over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable for expenses or losses already incurred are recognised in the consolidated income statement in the period when they become receivable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from properties developed for sale in the ordinary business is recognised upon delivery of properties to the purchasers pursuant to the sales agreements.

Rental income from properties under operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised on straight-line basis over the lease term.

Revenue from serviced apartment operation is recognised when the services for provision of the serviced apartment rooms and ancillary services are provided.

Property management, project management and service fees are recognised as revenue in the consolidated income statement on an appropriate basis over the relevant period in which the services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, the Directors of the Company have made the following judgements concerning key sources of estimation uncertainty at the end of the reporting period. The key assumptions concerning the future that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Investment properties

The fair values of completed investment properties and certain investment properties under construction or development that are measured using the fair value model are determined based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the Directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation reflect market condition. The basis of valuation is disclosed in note 13. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated income statement.

Land appreciation tax

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and the Group has not finalised its land appreciation tax calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation tax and its related income tax provisions. The Group recognised the land appreciation tax based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax provisions in the periods in which such tax is finalised with local tax authorities.

5. TURNOVER AND SEGMENTAL INFORMATION

An analysis of the turnover of the Group and associates for the year is as follows:

	2011			2010
	Group	Share of associates	Total	Group and total
	RMB'million	RMB'million	RMB'million	RMB'million
Property development:				
Property sales	7,581	160	7,741	4,133
Property investment:				
Rental income received from investment properties	744	19	763	597
Income from serviced apartments	14	–	14	22
Property management fees	38	–	38	34
Rental related income	53	–	53	53
	849	19	868	706
Others	54	–	54	40
Total	8,484	179	8,663	4,879

For management purposes, the Group is organised based on its business activities which are broadly categorised into property development and property investment.

5. TURNOVER AND SEGMENTAL INFORMATION (CONTINUED)

Principal activities of the two major reportable and operating segments are as follows:

Property development	– development and sale of properties, mainly residential units
Property investment	– offices and retail shops letting, management and operations of serviced apartments

For the year ended 31 December 2011

	Property development RMB'million	Property investment RMB'million	Others RMB'million	Consolidated RMB'million
Segment Revenue				
Turnover of the Group	7,581	849	54	8,484
Share of turnover of associates	160	19	–	179
Total	7,741	868	54	8,663
Segement Results				
Segment results of the Group	2,781	3,190	43	6,014
Interest income				152
Share of results of associates				137
Finance costs, net of exchange gain				94
Net unallocated expenses				(337)
Profit before taxation				6,060
Taxation				(2,062)
Profit for the year				3,998
Other Information				
Amounts included in the measure of segment profit or loss or segment assets:				
Capital additions of completed investment properties and property, plant and equipment	14	263	5	282
Development costs for investment properties under construction or development and prepaid lease payments	–	8,510	–	8,510
Development costs for properties under development held for sale	7,784	–	–	7,784
Depreciation of property, plant and equipment	23	32	12	67
Release of prepaid lease payments charged to consolidated income statement	–	2	–	2
Increase in fair value of investment properties	–	2,696	–	2,696
Financial Position				
Assets				
Segment assets	20,832	38,067	27	58,926
Interests in associates				1,057
Loans to associates				1,366
Amounts due from associates				446
Unallocated corporate assets				6,809
Consolidated total assets				68,604
Liabilities				
Segment liabilities	(4,110)	(768)	(1)	(4,879)
Amounts due to associates				(5)
Unallocated corporate liabilities				(34,249)
Consolidated total liabilities				(39,133)

5. TURNOVER AND SEGMENTAL INFORMATION (CONTINUED)

For the year ended 31 December 2010

	Property development RMB'million	Property investment RMB'million	Others RMB'million	Consolidated RMB'million
Segment Revenue				
Turnover of the Group	4,133	706	40	4,879
Segment Results				
Segment results of the Group	1,323	3,120	26	4,469
Interest income				150
Share of results of associates				58
Finance costs, net of exchange gain				42
Net unallocated expenses				(352)
Profit before taxation				4,367
Taxation				(1,357)
Profit for the year				3,010
Other Information				
Amounts included in the measure of segment profit or loss or segment assets:				
Capital additions of completed investment properties and property, plant and equipment	23	47	5	75
Development costs for investment properties under construction or development	–	3,790	–	3,790
Development costs for properties under development held for sale	4,884	–	–	4,884
Depreciation of property, plant and equipment	13	39	14	66
Allowance for bad and doubtful debts	–	4	–	4
Release of prepaid lease payments charged to consolidated income statement	–	1	–	1
Increase in fair value of investment properties	–	2,711	–	2,711
Financial Position				
Assets				
Segment assets	19,070	27,571	58	46,699
Interests in associates				920
Loans to associates				1,270
Amounts due from associates				318
Unallocated corporate assets				7,046
Consolidated total assets				56,253
Liabilities				
Segment liabilities	(4,427)	(464)	(3)	(4,894)
Amounts due to associates				(29)
Unallocated corporate liabilities				(25,302)
Consolidated total liabilities				(30,225)

5. TURNOVER AND SEGMENTAL INFORMATION (CONTINUED)

Segment revenue represents the turnover of the Group and the share of turnover of associates.

Segment profit represents the profit earned by each segment without allocation of central administration costs, Directors' salaries, share of results of associates and finance costs. This is the measure reported to the chief operating decision makers that are the Directors of the Company for the purpose of resource allocation and performance assessment.

For the purpose of monitoring segment performances and allocating resources between segments:

– all assets are allocated to reportable segments other than interests in associates, loans to associates, amounts due from associates, amounts due from non-controlling shareholders of subsidiaries, deferred tax assets, amounts due from related companies, pledged bank deposits, restricted bank deposits, bank balances and cash and other unallocated corporate assets; and

– all liabilities are allocated to reportable segments other than amounts due to associates, amounts due to related companies, amounts due to non-controlling shareholders of subsidiaries, loans from non-controlling shareholders of subsidiaries, bank borrowings, tax liabilities, deferred tax liabilities, derivative financial instruments designated as hedging instruments and other unallocated corporate liabilities.

Over 90% of the Group's turnover and contribution to operating profit is attributable to customers in the PRC. Accordingly, no analysis of geographical segment is presented.

No geographical segment information of the Group's non-current assets is shown as the assets are substantially located in the PRC.

6. OTHER INCOME

	2011 RMB'million	2010 RMB'million
Interest income from banks	**84**	75
Interest income on non-current accounts receivable from sales of properties	**–**	8
Interest income from amounts due from associates	**9**	8
Interest income from loans to associates	**26**	23
Imputed interest income from loans to associates	**33**	36
Guarantee fee income from a non-controlling shareholder of a subsidiary	**–**	19
Sundry income	**89**	24
Grants received from local government	**3**	33
	244	226

7. OPERATING PROFIT

	2011 RMB'million	2010 RMB'million
Operating profit has been arrived at after charging (crediting):		
Auditor's remuneration	5	5
Depreciation of property, plant and equipment	69	67
Less: Amount capitalised to properties under development for sale	(2)	(1)
	67	66
Release of prepaid lease payments	7	1
Less: Amount capitalised to property, plant and equipment	(5)	–
	2	1
Loss on disposal of property, plant and equipment	–	1
Allowance for bad and doubtful debts	–	4
Employee benefits expenses		
Directors' emoluments		
Fees	2	2
Salaries, bonuses and allowances	21	25
Retirement benefits costs	2	2
Share-based payment expenses	(4)	2
	21	31
Other staff costs		
Salaries, bonuses and allowances	346	309
Retirement benefits costs	23	23
Share-based payment expenses	19	17
	388	349
Total employee benefits expenses	409	380
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	(106)	(91)
	303	289
Cost of properties sold recognised as an expense	4,485	2,619
Rental charges under operating leases	40	54

8. FINANCE COSTS, NET OF EXCHANGE GAIN

	2011 RMB'million	2010 RMB'million
Interest on bank loans and overdrafts wholly repayable within five years	**790**	573
Interest on loans from non-controlling shareholders of subsidiaries wholly repayable within five years (notes 26 and 41)	**151**	125
Interest on convertible bonds (note 30)	**230**	56
Interest on notes (note 31)	**485**	5
Add: Net interest expenses from interest rate swaps designated as cash flow hedge (note 32)	**144**	129
Total interest costs	**1,800**	888
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	**(1,608)**	(796)
Interest expense charged to consolidated income statement	**192**	92
Net exchange gain on bank borrowings and other financing activities	**(311)**	(200)
Others	**25**	66
	(94)	(42)

Borrowing costs capitalised during the year ended 31 December 2011 arose on the general borrowing pool of the Group and were calculated by applying a capitalisation rate of approximately 7.2% (2010: 6.6%) per annum to expenditure on the qualifying assets.

9. TAXATION

	2011 RMB'million	2010 RMB'million
PRC Enterprise Income Tax		
– Current provision	**572**	335
Deferred taxation (note 33)		
– Provision for the year	**849**	807
PRC Land Appreciation Tax		
– Provision for the year	**641**	215
	2,062	1,357

9. TAXATION (CONTINUED)

No provision for Hong Kong Profits Tax has been made as the income of the Group neither arises in, nor is derived from, Hong Kong.

PRC Enterprise Income Tax has been provided for at the applicable income tax rate of 25% (2010: 25%) on the assessable profits of the companies in the Group during the year.

The PRC Enterprise Income Tax Law requires withholding tax to be levied on distribution of profits earned by a PRC entity to a Hong Kong resident company (which is the beneficial owner of the dividend received) for profits generated after 1 January 2008 at the rate of 5%. As at 31 December 2011 and 31 December 2010, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditures.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2011	2010
	RMB'million	RMB'million
Profit before taxation	**6,060**	4,367
PRC Enterprise Income Tax at 25% (2010: 25%)	**1,515**	1,092
PRC Land Appreciation Tax	**641**	215
Tax effect of PRC Land Appreciation Tax	**(160)**	(54)
Deferred tax provided for withholding tax on income derived in the PRC	**70**	76
Tax effect of share of results of associates	**(34)**	(14)
Tax effect of expenses not deductible for tax purposes	**209**	122
Tax effect of income not taxable for tax purposes	**(127)**	(85)
Tax effect of tax losses not recognised	**2**	6
Tax effect of utilisation of tax losses previously not recognised	**(54)**	(1)
Tax charge for the year	**2,062**	1,357

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

The emoluments paid or payable to the Directors of the Company were as follows:

Name of Director	Notes	Fees RMB'000	Salaries RMB'000	Other benefits RMB'000	Performance related incentive payments RMB'000	Retirement benefit costs RMB'000	Share-based payment expenses RMB'000	2011 Total RMB'000	2010 Total RMB'000
Mr. Vincent H.S. LO		–	–	–	–	–	–	–	–
Mr. Freddy C.L. LEE		–	3,892	4,184	1,391	846	936	11,249	8,205
Mr. Daniel Y.K. WAN		–	3,623	3,333	1,500	–	–	8,456	11,171
Mr. Louis H.W. WONG	(a)	–	804	1,061	1,547	655	(5,210)	(1,143)	9,334
Mr. Frankie Y.L. WONG	(b)	122	–	–	–	–	–	122	–
Mr. LEUNG Chun Ying	(c)	248	–	–	–	–	–	248	261
Sir John R.H. BOND	(d)	331	–	–	–	–	–	331	348
Dr. William K.L. FUNG	(d)	373	–	–	–	–	–	373	391
Professor Gary C. BIDDLE	(d)	497	–	–	–	–	–	497	522
Dr. Roger L. McCARTHY	(d)	331	–	–	–	–	–	331	349
Mr. David J. SHAW	(d)	248	–	–	–	–	–	248	261
Dr. Edgar W.K. CHENG	(e)	278	–	–	–	–	–	278	349
Total for 2011		2,428	8,319	8,578	4,438	1,501	(4,274)	20,990	31,191
Total for 2010		2,481	9,514	8,593	7,332	1,485	1,786	31,191	

Notes:

(a) Executive Director resigned during the year 2011

(b) Non-executive Director appointed during the year 2011

(c) Non-executive Director resigned during the year 2011

(d) Independent Non-executive Directors

(e) Independent Non-executive Directors resigned during the year 2011

Of the five highest paid individuals in the Group, two (2010: three) are Executive Directors of the Company whose emoluments are set out above. The emoluments of the remaining three (2010: two) individuals are as follows:

	2011 RMB'million	2010 RMB'million
Salaries	7	5
Other benefits	6	3
Performance related incentive payments	2	–
Retirement benefit costs	1	1
Share-based payment expenses	2	1
	18	10

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

The emoluments of the remaining highest paid employees were within the following bands:

	2011 Number of employees	2010 Number of employees
Emolument bands		
HK$5,000,001 – HK$5,500,000	–	1
HK$5,500,001 – HK$6,000,000	–	1
HK$6,500,001 – HK$7,000,000	1	–
HK$7,000,001 – HK$7,500,000	1	–
HK$8,000,001 – HK$8,500,000	1	–
	3	2

No Directors waived any emoluments in the years ended 31 December 2011 and 31 December 2010.

11. DIVIDENDS

	2011 RMB'million	2010 RMB'million
Interim dividend paid in respect of 2011 of HK$0.025 per share (2010: HK$0.06 per share)	107	270
Final dividend proposed in respect of 2011 of HK$0.10 per share (2010: HK$0.05 per share)	473	220
	580	490

A final dividend for the year ended 31 December 2011 of HK$0.10 (equivalent to RMB0.08) per share, amounting to HK$583 million (equivalent to RMB473 million) in aggregate, was proposed by the Directors on 21 March 2012 and is subject to the approval of the shareholders at the forthcoming annual general meeting. Subject to the approval of the shareholders and the Stock Exchange, the proposed final dividend will be payable in the form of cash and shareholders will be given the option to elect to receive their final dividend in new, fully paid shares in lieu of all or part of cash.

In October 2011, an interim dividend in respect of 2011 of HK$0.025 (equivalent to RMB0.021) per share was paid to the shareholders of the Company.

A final dividend in respect of 2010 of HK$0.05 (equivalent to RMB0.042) per share was approved by the shareholders of the Company at the annual general meeting on 19 May 2011 and was paid to the shareholders of the Company in June 2011.

In November 2010, an interim dividend in respect of 2010 of HK$0.06 (equivalent to RMB0.053) per share was paid to the shareholders. The 2010 interim dividend was paid in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their dividend in new, fully paid shares in lieu of all or part of cash. Totally, 71.7% of the shareholdings elected to receive shares in lieu of cash dividends at HK$3.84 per share and accordingly, 57,753,920 new and fully paid ordinary shares of the Company were issued. These new ordinary shares rank pari passu to the existing shares of the Company.

In May 2010, a final dividend in respect of 2009 of HK$0.12 (equivalent to RMB0.11) per share was approved by the shareholders of the Company at the annual general meeting on 27 May 2010. The 2009 final dividend was paid in July 2010 in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their dividend in new, fully paid shares in lieu of all or part of cash. Totally, 69.0% of the shareholdings elected to receive shares in lieu of cash dividends at HK$3.168 per share and accordingly, 131,177,173 new and fully paid ordinary shares of the Company were issued. These new ordinary shares rank pari passu to the existing shares of the Company.

188,931,093 ordinary shares of the Company in aggregate were issued during the year ended 31 December 2010 on the shareholders' election to receive shares. Details of these shares issuances are set out in note 28.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to shareholders of the Company is based on the following data:

Earnings

	2011 RMB'million	2010 RMB'million
Earnings for the purposes of basic earnings per share and diluted earnings per share, being profit for the year attributable to shareholders of the Company	**3,428**	2,809

Number of shares

	2011 'million	2010 'million
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,212**	5,091
Effect of dilutive potential shares:		
Convertible bonds	**669**	168
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,881**	5,259
Basic earnings per share (note (b))	**RMB0.66** **HK$0.80**	RMB0.55 HK$0.63
Diluted earnings per share (note (b))	**RMB0.58** **HK$0.70**	RMB0.53 HK$0.61

Notes:

(a) There are no dilution effects for share options granted as the exercise prices of these share options granted were higher than the average market price for 2011 and 2010.

(b) The Hong Kong dollar figures presented above are shown for reference only and have been arrived at based on the exchange rate of RMB1.000 to HK$1.208 for 2011 and RMB1.000 to HK$1.150 for 2010, being the average exchange rates that prevailed during the respective years.

13. INVESTMENT PROPERTIES

	Completed investment properties RMB'million	Investment properties under construction or development at fair value RMB'million	Investment properties under construction or development at cost RMB'million	Total RMB'million
At 1 January 2010	9,384	6,129	5,693	21,206
Additions	42	969	2,821	3,832
Acquisition of a subsidiary (note 35(a))	–	–	67	67
Eliminated upon disposal	(162)	–	–	(162)
Transfers	–	2,264	(2,264)	–
Transfer upon completion	3,965	(3,965)	–	–
Transfer from properties, plant and equipment (note 14)	39	–	–	39
Transfer to properties, plant and equipment (note 14)	(258)	–	–	(258)
Transfer to prepaid lease payments (note 15)	(31)	–	–	(31)
Transfer to properties under development for sale (note 16)	–	(153)	(358)	(511)
Increase in fair value recognised in the consolidated income statement	1,140	1,571	–	2,711
At 31 December 2010	14,119	6,815	5,959	26,893
At 31 December 2010				
– Stated at fair value	14,119	6,815	–	20,934
– Stated at cost	–	–	5,959	5,959
At 1 January 2011	**14,119**	**6,815**	**5,959**	**26,893**
Additions	**40**	**4,856**	**3,220**	**8,116**
Disposal of subsidiaries (note 36)	**–**	**–**	**(348)**	**(348)**
Eliminated upon disposal	**(596)**	**–**	**–**	**(596)**
Transfers	**–**	**344**	**(344)**	**-**
Transfer upon completion	**2,801**	**(2,801)**	**–**	**-**
Transfer to properties, plant and equipment (note 14)	**(31)**	**(335)**	**–**	**(366)**
Increase in fair value recognised in the consolidated income statement	**1,648**	**1,048**	**–**	**2,696**
At 31 December 2011	**17,981**	**9,927**	**8,487**	**36,395**
At 31 December 2011				
– Stated at fair value	**17,981**	**9,927**	**–**	**27,908**
– Stated at cost	**–**	**–**	**8,487**	**8,487**

The investment properties are all situated in the PRC and held under long term leases of RMB3,510 million (2010: RMB1,463 million) and medium-term leases of RMB32,885 million (2010: RMB25,430 million). All the completed investment properties are rented out under operating leases or are held for capital appreciation purposes.

In circumstances where the fair value of an investment property under construction or development is not reliably determinable but the fair value of the property is expected to be reliably determinable when construction is completed, such investment properties under construction or development are measured at cost less impairment, if any, until either its fair value becomes reliably determinable or construction is completed, whichever is the earlier.

13. INVESTMENT PROPERTIES (CONTINUED)

The fair values of the Group's investment properties at 31 December 2011 and 31 December 2010 and at dates of transfer upon completion of development of investment properties under construction or development and at the dates of transfer to property, plant and equipment have been arrived at on the basis of valuations carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuers not connected to the Group.

For completed investment properties, the valuations have been arrived at mainly by using the capitalisation of net income method and where appropriate, also by reference to direct comparison method. In the valuation, the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuer for the similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties.

For investment properties under construction or development that are measured at fair value, the valuations have been arrived at assuming that the investment properties will be completed in accordance with the development proposals and the relevant approvals for the proposals have been obtained. The key inputs in the valuations include the market value of the completed investment properties, which are estimated with reference to sales evidence of similar properties in the nearest locality, with adjustments made to account for differences in locations and other factors specific to the respective properties based on the valuers' judgement. Costs of development are also taken into account including construction costs, finance costs and professional fees, as well as developer's profit margin which reflects the remaining risks associated with the development of the properties at the valuation date and the return that the developer would require for bringing them to completion status, which is determined by the valuers based on its analyses of recent land transactions and market value of similar completed properties in the respective locations.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Hotels under development	Furniture, fixtures, equipment and motor vehicles	Total
	RMB'million	RMB'million	RMB'million	RMB'million
At Cost				
At 1 January 2010	304	–	221	525
Transfer from investment properties (note 13)	258	–	–	258
Transfer to investment properties (note 13)	(42)	–	–	(42)
Additions	5	–	28	33
Disposals	–	–	(2)	(2)
At 31 December 2010	525	–	247	772
Transfer from investment properties (note 13)	**31**	**335**	**–**	**366**
Additions	**–**	**198**	**44**	**242**
Disposals	**–**	**–**	**(8)**	**(8)**
At 31 December 2011	**556**	**533**	**283**	**1,372**
Accumulated Depreciation				
At 1 January 2010	41	–	128	169
Charge for the year	18	–	49	67
Transfer to investment properties (note 13)	(3)	–	–	(3)
Eliminated on disposals	–	–	(1)	(1)
At 31 December 2010	56	–	176	232
Charge for the year	**26**	**–**	**43**	**69**
Eliminated on disposals	**–**	**–**	**(8)**	**(8)**
At 31 December 2011	**82**	**–**	**211**	**293**
Carrying Values				
At 31 December 2011	**474**	**533**	**72**	**1,079**
At 31 December 2010	469	–	71	540

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The owner-occupied leasehold land and buildings of RMB100 million (2010: RMB77 million) and hotels under development of RMB533 million (2010: nil) at the end of the reporting period are included in property, plant and equipment, as in the opinion of the Directors, allocations between the land and buildings elements could not be made reliably.

The land and buildings are all situated in the PRC under medium term leases and are depreciated using the straight-line method over their estimated useful lives of 50 years or, where shorter, the terms of leasehold land where the buildings are located.

Furniture, fixtures, equipment and motor vehicles are depreciated using the straight-line method after taking into account their estimated residual values over their estimated useful lives of 3 to 5 years.

15. PREPAID LEASE PAYMENTS

	2011 RMB'million	2010 RMB'million
At beginning of the year	**73**	43
Additions	**434**	–
Transfer from investment properties (note 13)	**–**	31
Release for the year (note 7)	**(7)**	(1)
At end of the year	**500**	73

The cost of prepaid lease payments represents the amount paid to the government of the PRC with lease terms ranging from 40 to 70 years.

16. PROPERTIES UNDER DEVELOPMENT FOR SALE

	2011 RMB'million	2010 RMB'million
At beginning of the year	**14,308**	11,532
Transfer from investment properties (note 13)	**–**	511
Additions	**7,784**	4,839
Acquisition of a subsidiary (note 35)	**–**	45
Transfer to properties held for sale	**(4,845)**	(2,619)
At end of the year	**17,247**	14,308

The properties under development are all situated in the PRC.

Included in the properties under development for sale as at 31 December 2011 is carrying value of RMB15,445 million (2010: RMB11,524 million) which represents the carrying value of the properties expected to be completed after more than twelve months from the end of the reporting period.

17. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/ AMOUNTS DUE TO ASSOCIATES

	Notes	2011 RMB'million	2010 RMB'million
Cost of investments, unlisted		357	357
Share of post-acquisition profits		700	563
		1,057	920
Loans to associates			
– Interest free	(a)	808	805
– Interest bearing at 5% per annum	(b)	558	465
		1,366	1,270
Amounts due from associates	(c)	446	318
Amounts due to associates	(d)	5	29

The summarised financial information in respect of the Group's associates is set out below:

	2011 RMB'million	2010 RMB'million
Total assets	10,868	8,822
Total liabilities	(8,294)	(6,564)
Net assets	2,574	2,258
Group's share of net assets of associates	1,057	920

	2011 RMB'million	2010 RMB'million
Revenue	372	–
Profit for the year	224	94
Group's share of results of associates for the year	137	58

Notes:

(a) These loans to associates represent the loans to subsidiaries of Richcoast, an associate of the Group, for financing the development of Dalian Tiandi project. Pursuant to the Joint Venture Agreement dated 25 May 2007, the loans are unsecured, interest-free and with no fixed terms of repayment until Many Gain, a shareholder of Richcoast which is an independent third party, has contributed its share of the shareholder's loan to the subsidiaries of Richcoast. Thereafter, the loans will bear interest at a rate of 5% per annum, subject to shareholders' approval. The loans are carried at amortised cost using the effective interest rate of 5.4% (31 December 2010: 5.4%) per annum.

(b) These loans to associates represent the loans to subsidiaries of Richcoast are unsecured, interest bearing at a rate of 5% per annum and with no fixed terms of repayment.

(c) The amounts due from associates are unsecured, interest bearing at 6.1% (31 December 2010: 5.7%) per annum and repayable on demand.

(d) The amounts due to associates are unsecured, interest free and repayable on demand.

17. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/ AMOUNTS DUE TO ASSOCIATES (CONTINUED)

Particulars of the Group's principal associates at 31 December 2011 and 31 December 2010 are as follows:

Name of associate	Form of legal entity	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Group	Place of incorporation/ registration and operations	Principal activities
Richcoast Group Limited ("Richcoast") (notes 1 and 2)	Sino-Foreign Joint Venture	61.54%	British Virgin Islands ("BVI")	Investment holding
Dalian Qiantong Science & Technology Development Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Ruisheng Software Development Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Delan Software Development Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Jiadao Science & Technology Development Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Software Park Shuion Fazhan Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Software Park Shuion Kaifa Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
88 Tiandi (BVI) Limited	Limited liability company	40%	BVI	Investment holding
88 Tiandi (BVI) Alpha Limited	Limited liability company	40%	BVI	Investment holding
88 Tiandi Limited	Limited liability company	40%	Hong Kong	Hotel management

Notes:

1. The Group does not have control over Richcoast because the Group has the power to appoint only 4 out of the 10 directors of that company.
2. Pursuant to the Joint Venture Agreement dated 25 May 2007 entered into among Innovate Zone Group Limited ("Innovate Zone"), an indirect subsidiary of the Company, Main Zone Group Limited ("Main Zone"), a direct wholly-owned subsidiary of SOCAM Development Limited ("SOCAM", an associate of Shui On Company Limited "SOCL", a substantial shareholder of the Company which has significant influence over the Company) and Many Gain International Limited ("Many Gain"), an independent third party, whereby the parties agreed to form a joint venture company, Richcoast, which is owned 61.54%, 28.20% and 10.26% by Innovate Zone, Main Zone, and Many Gain, respectively, for the development and operation of Dalian Tiandi project in Dalian, the PRC.
3. These companies are non-wholly owned subsidiaries of Richcoast.

18. INTEREST IN A JOINTLY CONTROLLED ENTITY/AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

	2011 RMB'million	2010 RMB'million
Cost of investment, unlisted	–	–
Share of post-acquisition losses	–	–
	–	–
Amount due from a jointly controlled entity	11	11
Less: Allowance	(11)	(11)
	–	–

Particulars of the Group's jointly controlled entity at 31 December 2011 and 2010 are as follows:

Name of jointly controlled entity	Form of legal entity	Proportion of nominal value of issued ordinary share capital held by the Group	Place of incorporation and operation	Principal activity
Crystal Jade Food and Beverage (Hangzhou) Limited	Limited liability company	50%	Hong Kong	Investment holding

The amount due from a jointly controlled entity is unsecured, interest free and repayable on demand.

19. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	2011 RMB'million	2010 RMB'million
Non-current accounts receivable comprise:		
Rental receivables in respect of rent-free periods	86	64
Current accounts receivable comprise:		
Trade receivables	458	146
Prepayments of relocation costs (note)	1,815	1,304
Deposit for land acquisition	–	1,838
Other deposits, prepayments and receivables	230	316
	2,503	3,604

Note:
The balance represents the amounts that will be capitalised to properties under development for sale in accordance with the Group's normal operating cycle, and not expected to be realised within twelve months from the end of the reporting period.

Trade receivables comprise:

(i) receivables arising from sales of properties which are due for settlement in accordance with the terms of the relevant sales and purchase agreements; and

(ii) rental receivables which are due for settlement upon issuance of monthly debit notes to the tenants.

19. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS (CONTINUED)

The following is an ageing analysis (based on the repayment terms set out in the sales and purchase agreements or debit notes to the tenants) of trade receivables (net of allowance for bad and doubtful debts, if any) at the end of each reporting period:

	2011 RMB'million	2010 RMB'million
Not yet due	**401**	122
Past due within 30 days	**32**	20
Past due 31 – 60 days	**23**	1
Past due 61 – 90 days	**1**	-
Past due over 90 days	**1**	3
	458	146

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB57 million (2010: RMB24 million) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

Ageing of trade receivables which are past due but not impaired:

	2011 RMB'million	2010 RMB'million
Past due within 30 days	**32**	20
Past due 31 – 60 days	**23**	1
Past due 61 – 90 days	**1**	–
Past due over 90 days	**1**	3
	57	24

Movement in the allowance for bad and doubtful debts:

	2011 RMB'million	2010 RMB'million
Balance at beginning of the year	**–**	–
Impairment losses recognised on trade receivables	**–**	4
Amounts written off as uncollectible	**–**	(4)
Balance at end of the year	**–**	–

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the date of the reporting period. Allowance for bad and doubtful debts are generally not required for rental receivables as the Group has collected rental deposits from the tenants to secure any potential losses from uncollectible debts.

20. PLEDGED BANK DEPOSITS/RESTRICTED BANK DEPOSITS/BANK BALANCES

Pledged bank deposits represent deposits pledged to banks to secure the banking facilities granted to the Group. Deposits amounting to RMB1,143 million (2010: RMB1,569 million) have been pledged to secure long-term bank loans and are therefore classified as non-current assets.

Bank balances carry interest at market rates which range from 0.5% to 1.5% (2010: 0.4% to 1.4%) per annum. Pledged bank deposits carry interest at fixed rates which range from 0.5% to 1.5% (2010: 0.4% to 1.4%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Restricted bank deposits of RMB335 million (2010: RMB243 million) represent deposits placed by the Group with banks which can only be applied to designated property development projects of the Group.

21. PROPERTIES HELD FOR SALE

The Group's properties held for sale are situated in the PRC. All the properties held for sale are stated at cost.

22. LOANS RECEIVABLE

The amount represents entrusted loans which are denominated in RMB, unsecured, and carry fixed interest rates which range from 6.4% to 6.7% (2010: 5.9% to 6.4%) per annum and have been fully settled in March 2012.

23. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amounts are unsecured, interest free and repayable on demand. Related companies are subsidiaries or associates of SOCL.

24. AMOUNTS DUE FROM/TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts due from/to non-controlling shareholders of subsidiaries are unsecured, interest free and repayable on demand.

25. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

	2011 RMB'million	2010 RMB'million
Trade payables with ageing analysis (based on invoice date):		
0 – 30 days	2,519	1,751
31 – 60 days	4	1
61 – 90 days	5	1
Over 90 days	11	12
	2,539	1,765
Retention payables (note (a))	224	169
Deed tax, business tax and other tax payables	397	481
Deposits received and receipt in advance from property sales	860	2,074
Deposits received and receipt in advance in respect of rental of investment properties	259	242
Deposit received in respect of partial disposal of equity interests in subsidiaries (note (b))	352	–
Accrued charges	437	256
	5,068	4,987

Notes:

(a) Retention payables are expected to be paid upon the expiry of the retention periods according to the respective contracts.

(b) Pursuant to a sales and purchase agreement dated 29 November 2011, entered into between Shui On Development (Holding) Limited ("SOD") and Mitsui Fudosan Residential Co., Ltd. ("Mitsui", a non-controlling shareholder of an associate's subsidiary), SOD agreed to dispose of, and Mitsui agreed to acquire from SOD, SOD's 49% equity interests in relation to Value Land Limited ("Value Land", an indirect wholly owned subsidiary of the Company which engages in the property development in Foshan, the PRC), for a consideration of RMB391 million. An amount of RMB352 million was received in December 2011 and the remaining balance of RMB39 million would be received upon completion of the transaction pursuant to the terms of the sales and purchase agreement. Upon completion of the transaction, the Group will hold 51% equity interest in Value Land and still have control over Value Land.

26. LOANS FROM NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

	2011 RMB'million	2010 RMB'million
Current	–	300
Non-current	2,078	1,653
	2,078	1,953

The carrying amount of the loans from non-controlling shareholders of subsidiaries are analysed as follows:

Denominated in	Interest rate per annum	2011 RMB'million	2010 RMB'million
RMB	110% (2010: 110%) of People's Bank of China ("PBOC") Prescribed Interest Rate (note a)	1,460	1,003
RMB	105.87% of PBOC Prescribed Interest Rate (2010: 105.87%) (note b)	–	300
United States dollars ("US$")	110% of PBOC Prescribed Interest Rate (2010: 110%) (note a)	618	650
		2,078	1,953

Notes:

(a) The loans are unsecured and will not be demanded for payment, until the Group's subsidiaries are in a position to repay the loans, which are to be mutually agreed between both parties. The Directors are in the opinion that the loans are not repayable in the next twelve months from the end of the reporting period.

(b) The amount was unsecured and settled during the year.

27. BANK AND OTHER BORROWINGS

	2011 RMB'million	2010 RMB'million
Bank borrowings repayable within a period of:		
– Not more than 1 year or on demand	**8,774**	1,644
– More than 1 year, but not exceeding 2 years	**3,490**	6,321
– More than 2 years, but not exceeding 5 years	**3,026**	3,894
– More than 5 years	**1,138**	993
	16,428	12,852
Other borrowings repayable within a period of:		
– More than 1 year, but not exceeding 2 years	**315**	–
– More than 2 years, but not exceeding 5 years	**–**	331
	315	331
Total bank and other borrowings	**16,743**	13,183
Less: Amount due within one year shown under current liabilities	**(8,774)**	(1,644)
Amount due after one year	**7,969**	11,539

The carrying amount of the Group's bank and other borrowings are analysed as follows:

Denominated in	Interest rate	2011 RMB'million	2010 RMB'million
RMB	90% to 120% (2010: 90% to 115%) of PBOC Prescribed Interest Rate	**6,760**	4,576
HK$	Hong Kong Interbank Offered Rates ("HIBOR") plus 2% to 4.5% (2010: HIBOR plus 2% to 4.5%)	**9,166**	8,276
US$	London Interbank Offered Rates ("LIBOR") plus 14% (2010: LIBOR plus 14%)	**315**	331
US$	Singapore Interbank Offered Rates ("SIBOR") plus 2.75% to 3.5% (2010: nil)	**502**	–
		16,743	13,183

As at 31 December 2011, the weighted average effective interest rate on the bank and other borrowings was 4.9% (2010: 4.4%), and are further analysed as follows:

	2011	2010
Denominated in RMB	**6.8%**	5.7%
Denominated in HK$	**3.3%**	3.3%
Denominated in US$	**7.8%**	14.3%

The bank and other borrowings at the end of the reporting period are secured by the pledge of assets as set out in note 38.

28. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	US$'000	Number of shares	US$'000
Ordinary shares of US$0.0025 each				
At 1 January 2010	12,000,000,000	30,000	5,022,656,888	12,556
Issue of shares in lieu of cash dividends (note 11)	–	–	188,931,093	473
At 31 December 2010 and 31 December 2011	**12,000,000,000**	**30,000**	**5,211,587,981**	**13,029**

	2011	2010
	RMB'million	RMB'million
Shown in the consolidated statement of financial position as	**102**	102

29. RESERVES

(a) Merger reserve represents the aggregate of:

(i) the difference between the nominal value of the share capital and share premium on the shares issued by the Company and the aggregate of the share capital and share premium of the holding companies of the subsidiaries acquired;

(ii) the share of profit attributable to the deemed non-controlling shareholders exchanged upon the group reorganisation in 2004; and

(iii) the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from a non-controlling shareholder upon the group reorganisation in 2004.

(b) Special reserve comprise:

(i) The difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from non-controlling shareholders, which will be recognised in the consolidated income statement upon the earlier of the disposal of the assets, disposal of the subsidiary of the assets which the assets relate, or when the related assets affect profit or loss.

During the year ended 31 December 2011, an amount of RMB40 million (2010: RMB30 million) was released to the consolidated income statement upon the disposal by the subsidiaries of the assets to which it relates.

(ii) An amount of RMB104 million recognised against the special reserve in the current year represents the difference between the fair value of the consideration paid and the carrying value of the net assets attributable to the additional interest in a residential development on a parcel of land of the Rui Hong Xin Cheng project.

(c) Other reserves comprise:

(i) An amount of RMB483 million represents payable waived in 2004 by Shui On Investment Company Limited ("SOI"), a subsidiary of SOCL, in respect of development costs of the same amount originally paid by Shanghai Shui On Property Development Management Co., Ltd., a fellow subsidiary of Shui On Investment Company Limited, and recharged to certain subsidiaries of the Company.

(ii) Capital contribution of RMB21 million arising on the fair value adjustments at the initial recognition of an interest free loan advanced by a non-controlling shareholder of a subsidiary in 2005.

29. RESERVES (CONTINUED)

(c) Other reserves comprise: (Continued)

(iii) Non-distributable reserve of RMB99 million arising from the capitalisation of retained profits as registered capital of a subsidiary in the PRC in 2006.

(iv) An amount of RMB34 million recognised in the year ended 31 December 2010 represents the difference between the fair value of the consideration paid and the carrying value of the net assets attributable to the additional interest of 16.8% in Yang Pu Centre Development Co., Ltd. being acquired from the non-controlling interests in 2010.

30. CONVERTIBLE BONDS

On 29 September 2010, the Company issued RMB denominated US$ settled 4.5% convertible bonds with the aggregate principal amount of RMB2,720 million with initial conversion price of HK$4.87 at a fixed exchange rate of RMB1.00 to HK$1.1439. An adjustment had been made to the conversion price from HK$4.87 to HK$4.65 as a result of the dividends paid since the convertible bonds were issued.

Conversion may occur at any time between 10 November 2010 and 19 September 2015. The Company will, at the option of the holder of any bond, be required to redeem all or some only of such holder's bonds on 29 September 2013 at an amount equal to the US$ equivalent of their RMB principal amount, together with accrued but unpaid interest.

If the bonds have not been converted or redeemed by the date of maturity, they will be redeemed at an amount equal to the US$ equivalent of their RMB principal amount, together with accrued but unpaid interest.

The Company may at any time after 29 September 2013 redeem all, but not some only, of the bonds for the time being outstanding at the US$ equivalent of their RMB principal amount, together with interest accrued to the date fixed for redemption, provided that the closing price of the shares of the Company translated into RMB at the prevailing rate applicable to the relevant trading day, for 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is published was at least 130% of the conversion price then in effect, translated into RMB at the fixed rate of RMB1.00 = HK$1.1439.

The Company may at any time redeem all, but not some only, of the bonds being outstanding at a redemption price equal to the US$ equivalent of their RMB principal amount, together with accrued but unpaid interest to the date fixed for redemption, if prior to the date of notice at least 90% in RMB principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled.

The convertible bonds contain two components: equity and liability elements. The equity element of RMB605 million is presented in equity heading "convertible bond equity reserve". The movement of the liability component of the convertible bonds for the year is set out below:

	2011 RMB'million	2010 RMB'million
At 1 January	2,117	–
Issue of convertible bonds	–	2,115
Expenses on issue of convertible bonds	–	(54)
Interest charged during the year	230	56
Less: Interest paid	(122)	–
At 31 December	2,225	2,117

The effective interest rate of the liability component on initial recognition is 10.7% per annum.

The fair value of the liability component at inception date is determined based on the valuation carried out by an independent valuer.

31. NOTES

	2011 RMB'million	2010 RMB'million
At 1 January	**2,945**	–
Issue of senior notes due 2015/due 2013	**3,500**	3,000
Expenses on issue of senior notes	**(70)**	(60)
Interest charged during the year	**485**	5
Less: Interest paid	**(340)**	–
At 31 December	**6,520**	2,945

On 23 December 2010, SOD issued RMB3,000 million senior notes to independent third parties with a maturity of three years due on 23 December 2013 (the "2013 RMB Notes"). The 2013 RMB Notes are denominated in RMB and settled in US dollars, and bear coupon at 6.875% per annum payable semi-annually in arrears.

On 26 January 2011, SOD further issued RMB3,500 million senior notes to independent third parties with a maturity of four years due on 26 January 2015 (the "2015 RMB Notes"). The 2015 RMB Notes are denominated in RMB and settled in US dollars, and bear coupon at 7.625% per annum payable semi-annually in arrears.

The principal terms of the notes

The 2013 RMB Notes are:

(a) senior in right of payment to any existing and future obligations of SOD expressly subordinated in right of payment to the Notes;

(b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SOD (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); and

(c) guaranteed by the Company on a senior basis;

(d) effectively subordinated to the secured obligations (if any) of the Company and SOD, to the extent of the value of the assets serving as security therefore; and

(e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2013 RMB Notes, SOD may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SOD, and the trustee of the 2013 RMB Notes.

At anytime on or before all the 2013 RMB Notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to the shareholders' after taking into account certain adjustments prescribed in the terms of the 2013 RMB Notes.

31. NOTES (CONTINUED)

The principal terms of the notes (Continued)

The 2015 RMB Notes are:

(a) senior in right of payment to any existing and future obligations of SOD expressly subordinated in right of payment to the Notes;

(b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SOD (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); and

(c) guaranteed by the Company on a senior basis;

(d) effectively subordinated to the secured obligations (if any) of the Company and SOD, to the extent of the value of the assets serving as security therefore; and

(e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2015 RMB Notes, SOD may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SOD, and the trustee of the 2015 RMB Notes.

At anytime on or before all the 2015 RMB Notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to the shareholders' after taking into account certain adjustments prescribed in the terms of the 2015 RMB Notes.

32. DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS

The derivative financial instruments are measured at fair value at the end of the reporting period. The fair value is determined based on valuation provided by the counterparty financial institution.

At 31 December 2011 and 31 December 2010, the Group has outstanding interest rate swaps to hedge against the variability of cash flows arising from the interest rate fluctuations. Under these swaps, the Group would receive interests at variable rates at HIBOR and pay interests at fixed rates ranging from 0.69% to 3.58% (2010: 0.95% to 3.58%) based on the notional amounts of HK$8,210 million (2010: HK$5,581 million) in aggregate. The Group has designated the interest rate swaps as hedges against the variability of interest payments of certain bank borrowings of the Group amounting to HK$8,210 million (2010: HK$5,581 million) which bear variable interest rates at HIBOR plus spread ranging from 2.4% to 3.65% (2010: 2.75% to 3.65%) and mature on or before March 2014. The principal terms of the interest rate swaps have been negotiated to match the terms of the related bank borrowings.

During the year ended 31 December 2011, fair value gain arising from the interest rate swaps of RMB68 million (2010: fair value loss of RMB7 million) has been deferred in equity as hedge reserve, which is expected to be recognised in the consolidated income statement at various dates upon the interest payments of the related bank borrowings are expected to settle.

33. DEFERRED TAX ASSETS/LIABILITIES

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Revaluation of investment properties	Tax losses	Recognition of sales and related cost of sales	Withholding tax on income derived in the PRC	Others	Total
	RMB'million	RMB'million	RMB'million	RMB' million	RMB' million	RMB' million	RMB' million
At 1 January 2010	913	1,264	(40)	(69)	52	(67)	2,053
Charge (credit) to consolidated income statement	112	678	20	34	76	(113)	807
Transfer to current taxation	–	(11)	–	–	(10)	–	(21)
At 31 December 2010	1,025	1,931	(20)	(35)	118	(180)	2,839
Charge (credit) to consolidated income statement	**80**	**674**	**3**	**1**	**70**	**21**	**849**
Transfer to current taxation	–	**(79)**	–	**(25)**	**(2)**	**(26)**	**(132)**
At 31 December 2011	**1,105**	**2,526**	**(17)**	**(59)**	**186**	**(185)**	**3,556**

For the purposes of presentation of the consolidated statement of financial position, certain deferred tax (assets) liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2011	2010
	RMB'million	RMB'million
Deferred tax assets	**(154)**	(162)
Deferred tax liabilities	**3,710**	3,001
	3,556	2,839

At the end of the reporting period, the Group has unused tax losses of RMB267 million (2010: RMB511 million) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to RMB66 million (2010: RMB79 million). No deferred tax asset has been recognised in respect of the remaining tax losses of RMB201 million (2010: RMB432 million) due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years ending 31 December:

	2011	2010
	RMB'million	RMB'million
2011	**–**	44
2012	**7**	73
2013	**135**	241
2014	**7**	19
2015	**43**	55
2016	**9**	–
	201	432

34. PROVIDENT AND RETIREMENT FUND SCHEMES

Hong Kong

The Group participates in both a defined benefit plan (the "Plan") which is registered under the Occupational Retirement Schemes Ordinance and in a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The Plan was set up by the Group during 2004. The assets of the schemes are held separately from those of the Group and are invested in securities and funds under the control of trustees. Employees who were members of the Plan prior to the establishment of MPF Scheme were offered a choice of staying within the Plan or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The MPF Scheme

For members of the MPF Scheme, contributions are made by the employees at 5% of relevant income and by the Group at rates ranging from 5% to 10% of the employees' salaries, depending on the employees' length of services with the Group.

The Group's contributions to the MPF Scheme charged to the consolidated income statement as staff costs during the year ended 31 December 2011 are less than RMB1 million.

The Plan

Contributions to the Plan are made by the members at 5% of their salaries and by the Group which are based on recommendations made by the actuary of the Plan. The current employer contribution rate ranges from 5% to 10% of the members' salaries. Under the Plan, a member is entitled to retirement benefits which comprise the sum of any benefits transferred from another scheme and the greater of the sum of employer's basic contribution plus the member's basic contribution accumulated with interest at a rate of no less than 6% per annum before 1 September 2003 and 1% per annum in respect of contributions made on or after 1 September 2003 or 1.8 times the final salary times the length of employment with the Group on the attainment of the retirement age of 60. For members who joined the Plan before 1997, the retirement age is 60 for male members and 55 for female members. No other post-retirement benefits are provided.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligation are carried out at 31 December 2011 and 31 December 2010 by Ms. Elaine Hwang of Towers Watson Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations and the related current service cost are measured using the Projected Unit Credit Method.

The principal actuarial assumptions used as at the end of the reporting period are as follows:

		2011		2010
Discount rate		**1.4%**		2.7%
Expected rate of salary increase	**2012+:**	**5.0%**	2011+:	5.0%
Expected rate of return on plan assets		**7.0%**		7.0%

The actuarial valuation shows that the fair value of the plan assets attributable to the Group at 31 December 2011 was RMB33 million (2010: RMB54 million), representing 38% (2010: 63%) of the benefits that has accrued to members.

34. PROVIDENT AND RETIREMENT FUND SCHEMES (CONTINUED)

Hong Kong (Continued)

The Plan (Continued)

Amounts recognised in the consolidated income statement for the year ended 31 December 2011 and 31 December 2010 in respect of the defined benefit plan are as follows:

	2011 RMB'million	2010 RMB'million
Current service cost	3	3
Interest cost	2	2
Expected return on plan assets	(3)	(4)
Net actuarial losses recognised during the year	2	3
Net amount charged to consolidated income statement as staff costs	4	4

The actual returns on plan assets allocated to the Group for the year ended 31 December 2011 are gains of RMB5 million (2010: RMB6 million).

The amounts included in the consolidated statement of financial position arising from the Group's obligations in respect of the Plan are as follows:

	2011 RMB'million	2010 RMB'million
Present value of funded defined benefit obligations	86	85
Unrecognised actuarial losses	(46)	(27)
Fair value of plan assets	(33)	(53)
Defined benefit liabilities	7	5

Movements in the present value of the funded defined benefit obligations are as follows:

	2011 RMB'million	2010 RMB'million
At 1 January	85	94
Exchange realignment	(3)	(2)
Current service cost	3	3
Interest cost	2	2
Contributions from plan participants	1	1
Actuarial losses (gains)	15	(3)
Benefits paid	(17)	(10)
At 31 December	86	85

34. PROVIDENT AND RETIREMENT FUND SCHEMES (CONTINUED)

Hong Kong (Continued)

The Plan (Continued)

Movements in the fair value of the plan assets are as follows:

	2011 RMB'million	2010 RMB'million
At 1 January	**(53)**	(57)
Exchange realignment	**3**	2
Expected return on plan assets	**(3)**	(4)
Actuarial losses (gains)	**6**	(2)
Contributions from the employer	**(2)**	(1)
Contributions from plan participants	**(1)**	(1)
Benefits paid	**17**	10
At 31 December	**(33)**	(53)

The major categories of plan assets at the end of the reporting period are as follows:

	2011 RMB'million	2010 RMB'million
Equities	**18**	30
Hedge funds	**7**	12
Bonds and cash	**8**	11
	33	53

The Group expects to make a contribution of RMB3 million (2010: RMB2 million) to the defined benefit plans during the next financial year.

PRC

According to the relevant laws and regulations in the PRC, certain subsidiaries established in the PRC are required to contribute a specific percentage of the payroll of their employees to retirement benefit schemes to fund the retirement benefits of their employees. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the respective schemes.

35. ACQUISITIONS OF A SUBSIDIARY AND ADDITIONAL INTERESTS IN SUBSIDIARIES

(a) Acquisition of a subsidiary

During the year ended 31 December 2010, a subsidiary of the Company acquired the entire interest of a company incorporated in the PRC from an independent third party for a cash consideration of RMB109 million. The acquired company owned the property development right on a piece of land adjacent to Shanghai Rui Hong Xin Cheng project.

The acquisition was accounted for as purchase of assets and liabilities rather than as business combination as the subsidiary acquired is an investment and property holding company with no business concerns.

The net assets acquired in the transaction were as follows:

	RMB'million
Investment properties under construction or development	67
Properties under development for sale	45
Accounts receivable, deposits and prepayments	4
Other payables and accrued charges	(7)
Net assets acquired	109
Cash consideration	109

During the year ended 31 December 2010, the acquired company did not contribute any turnover or results to the Group.

(b) Acquisition of additional interests in subsidiaries

(i) Pursuant to a supplementary shareholder agreement entered into between SOD, Foresight Profits Limited ("Foresight"), Hollyfield Holdings Limited, Selfers Limited, Silomax Limited (indirect subsidiaries of the Company) and Elegant Partners Limited ("EPL", a non-controlling shareholder which owns 24.75% of equity interest in Foresight which indirectly owns all ownership interest in a PRC enterprise which is engaged in Rui Hong Xin Cheng project) dated 1 April 2011, EPL agreed to dispose of, and SOD agreed to acquire from EPL, EPL's rights and interests in relation to a particular phase of the Rui Hong Xin Cheng project for a consideration of RMB378 million.

EPL agreed that the consideration of RMB378 million was advanced to Foresight to finance the Rui Hong Xin Cheng project, which is included in loan from non-controlling shareholder of subsidiaries. The amount owed to EPL is unsecured, interest bearing at 110% of PBOC Prescribed Interest Rate and will not be demanded for payment, until Foresight is in a position to repay the loan, which is to be mutually agreed between both parties. The Directors are in the opinion that the loan is not repayable in the next twelve months from the end of the reporting period.

(ii) Pursuant to an amendment agreement dated 14 August 2009 (the "Amendment Agreement") entered into between Bright Continental Limited ("BCL", an indirect wholly owned subsidiary of the Company) and a non-controlling shareholder of Shanghai Yang Pu Centre Development Co., Ltd. ("KIC"), a subsidiary of the Group, the registered capital in KIC was increased from US$60,500,000 to US$137,500,000, by US$77,000,000, whereby BCL injected the entire portion of the increase in equity capital from US$60,500,000 to US$137,500,000 and at a premium of US$8,470,000 in cash (being US$85,470,000 in total). The non-controlling shareholder of KIC did not participate in injecting any additional equity capital into KIC. Upon completion of the Amendment Agreement in the year ended 31 December 2010, the interest of BCL in the equity capital of KIC was increased from 70% to 86.8% by 16.8% and interest of the non-controlling shareholder of KIC was diluted from 30% to 13.2% by 16.8%.

The difference of RMB34 million between the excess of the Group's share of additional interest in the carrying amount of the net assets of KIC attributable to the acquisition over the cost of the acquisition were recognised directly in equity for the year ended 31 December 2010 (note 29(c)).

36. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2011, the Group disposed of certain subsidiaries which were engaged in the property development of a project in Hangzhou, the PRC to an independent third party for a cash consideration RMB438 million. The net assets disposed of in the transaction were as follows:

	RMB'million
Investment properties under construction or development	348
Bank balances and cash	96
Other payables and accrued charges	(6)
Net assets disposed of	438
Consideration received	438
Gain on disposal	–
Cash consideration in cash and cash equivalent	438
Less: cash and cash equivalent balances disposed of	(96)
Net cash inflow on disposal of subsidiaries	342

During the years ended 31 December 2011 and 31 December 2010, the disposed subsidiaries do not contribute any turnover or results to the Group.

37. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the shareholders on 8 June 2007 for the primary purpose of providing incentives to Directors, eligible employees and consultants. Under the Scheme, the total number of shares in respect of which options may be granted is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

At 31 December 2011, 112,704,751 share options (2010: 142,152,612 share options) remains outstanding under the Scheme, representing 2.2% (2010: 2.7%) of the shares of the Company in issue at that date. The Scheme allows the Board of Directors, when offering the grant of any option, to impose any condition including any performance target which must be met before the option shall vest and become exercisable.

No share options are granted during the years ended 31 December 2011 and 31 December 2010.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

HK$1.00 is payable by each eligible participant to the Company on acceptance of an offer of options, to be paid within 1 month from the date of the offer.

37. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The vesting period and the exercisable period of the share options granted to eligible employees and Directors are as follows:

	Vesting period	Exercisable period
The first 1/7 of the grant:	From date of grant to the 2nd anniversary	From the 2nd to the 7th anniversary to the date of grant
The second 1/7 of the grant:	From date of grant to the 3rd anniversary	From the 3rd to the 8th anniversary to the date of grant
The third 1/7 of the grant:	From date of grant to the 4th anniversary	From the 4th to the 9th anniversary to the date of grant
The fourth 1/7 of the grant:	From date of grant to the 5th anniversary	From the 5th to the 9th anniversary to the date of grant
The fifth 1/7 of the grant:	From date of grant to the 6th anniversary	From the 6th to the 9th anniversary to the date of grant
The sixth 1/7 of the grant:	From date of grant to the 7th anniversary	From the 7th to the 9th anniversary to the date of grant
The last 1/7 of the grant:	From date of grant to the 8th anniversary	From the 8th to the 9th anniversary to the date of grant

The vesting period and the exercisable period of the share options granted to a consultant are as follows:

	Vesting period	Exercisable period
The first 1/5 of the grant:	Unconditional and fully vested at the date of grant	Before the 5th anniversary to the date of grant
The second 1/5 of the grant:	From date of grant to the 1st anniversary	Before the 6th anniversary to the date of grant
The third 1/5 of the grant:	From date of grant to the 2nd anniversary	Before the 7th anniversary to the date of grant
The fourth 1/5 of the grant:	From date of grant to the 3rd anniversary	Before the 8th anniversary to the date of grant
The last 1/5 of the grant:	From date of grant to the 4th anniversary	Before the 9th anniversary to the date of grant

The share options granted to Independent Non-executive Directors, a resigned Non-executive Director and a consultant are unconditional and fully vested at the date of grant and exercisable on or before the 5th anniversary to the date of grant.

The Group has recognised the total expense of RMB15 million (2010: RMB19 million) in the consolidated income statement in relation to share options granted by the Company.

During the years ended 31 December 2011 and 31 December 2010, none of the share options have been exercised.

37. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The movement in the Company's share options is set out below:

		Number of options				
Date of grant	**Exercise price HK$**	**At 1 January 2011**	**Granted during the year**	**Replacement during the year**	**Lapsed during the year**	**At 31 December 2011**
20 June 2007	**7.00**	**91,390,892**	**–**	**–**	**(19,215,479)**	**72,175,413**
1 August 2007	**8.18**	**1,109,933**	**–**	**–**	**(301,302)**	**808,631**
2 October 2007	**10.00**	**2,066,456**	**–**	**–**	**(386,734)**	**1,679,722**
1 November 2007	**11.78**	**724,550**	**–**	**–**	**(226,695)**	**497,855**
3 December 2007	**9.88**	**580,866**	**–**	**–**	**(464,710)**	**116,156**
2 January 2008	**8.97**	**3,178,009**	**–**	**–**	**(329,607)**	**2,848,402**
1 February 2008	**8.05**	**1,444,882**	**–**	**–**	**(174,890)**	**1,269,992**
3 March 2008	**7.68**	**633,008**	**–**	**–**	**(142,627)**	**490,381**
2 May 2008	**7.93**	**5,421,932**	**–**	**–**	**(981,278)**	**4,440,654**
2 June 2008	**7.34**	**13,665,712**	**–**	**–**	**(3,095,133)**	**10,570,579**
2 July 2008	**6.46**	**947,231**	**–**	**–**	**(250,694)**	**696,537**
4 September 2009	**4.90**	**20,989,141**	**–**	**–**	**(3,878,712)**	**17,110,429**
		142,152,612	**–**	**–**	**(29,447,861)**	**112,704,751**
Number of options exercisable		**35,906,115**				**43,104,768**

		Number of options				
Date of grant	Exercise price HK$	At 1 January 2010	Granted during the year	Replacement during the year	Lapsed during the year	At 31 December 2010
20 June 2007	7.00	106,632,098	–	–	(15,241,206)	91,390,892
1 August 2007	8.18	1,269,802	–	–	(159,869)	1,109,933
2 October 2007	10.00	2,468,768	–	–	(402,312)	2,066,456
1 November 2007	11.78	1,301,615	–	–	(577,065)	724,550
3 December 2007	9.88	1,234,329	–	–	(653,463)	580,866
2 January 2008	8.97	3,358,409	–	–	(180,400)	3,178,009
1 February 2008	8.05	1,717,382	–	–	(272,500)	1,444,882
3 March 2008	7.68	735,670	–	–	(102,662)	633,008
2 May 2008	7.93	7,238,273	–	–	(1,816,341)	5,421,932
2 June 2008	7.34	15,231,560	–	–	(1,565,848)	13,665,712
2 July 2008	6.46	1,482,175	–	–	(534,944)	947,231
4 September 2009	4.90	23,705,524	–	–	(2,716,383)	20,989,141
		166,375,605	–	–	(24,222,993)	142,152,612
Number of options exercisable		19,586,617				35,906,115

38. PLEDGE OF ASSETS

The following assets are pledged to banks as securities to obtain certain banking facilities at the end of the reporting period:

	2011 RMB'million	2010 RMB'million
Investment properties	**20,959**	17,091
Property, plant and equipment	**592**	114
Prepaid lease payments	**41**	42
Properties under development for sale	**4,537**	6,065
Properties held for sale	**266**	33
Accounts receivable	**56**	45
Bank deposits	**2,512**	1,885
	28,963	25,275

Included in pledged bank deposits above is an amount of RMB265 million (2010: RMB265 million) which has been pledged to a bank to secure the banking facilities granted to an associate. All the other assets are pledged to secure banking facilities granted to the Group.

In addition, the equity interests in certain subsidiaries with carrying amount of net assets of RMB15,688 million (2010: RMB9,457 million) are also pledged to banks as securities to obtain banking facilities granted to the Group at the end of the reporting period.

39. LEASE ARRANGEMENTS

As lessor

Property rental income in respect of the investment properties earned, net of outgoings of RMB122 million (2010: RMB99 million), is RMB622 million (2010: RMB498 million). The investment properties held have committed tenants for the next one to eleven years at fixed rentals. Certain leases contain contingent rental income recognised during the year ended 31 December 2011 amounting to RMB15 million (2010: RMB12 million). These contingent rentals are generally based on specified percentages of turnover of the tenants.

At the end of the reporting period, the Group has contracted with tenants for the following future minimum lease payments which fall due as follows:

	2011 RMB'million	2010 RMB'million
Within one year	**765**	615
In the second to fifth years inclusive	**1,196**	1,005
Over five years	**93**	117
	2,054	1,737

39. LEASE ARRANGEMENTS (CONTINUED)

As lessee

At the end of the reporting period, the Group has commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 RMB'million	2010 RMB'million
Within one year	95	44
In the second to fifth years inclusive	60	39
Over five years	54	72
	209	155

Operating lease payments represent rentals payable by the Group for certain of its office and retail properties. Leases are negotiated for an average term of one to thirteen years.

40. COMMITMENTS AND CONTINGENCIES

(a) Capital and other commitments

(i) At the end of the reporting period, the Group has the following commitments:

	2011 RMB'million	2010 RMB'million
Contracted but not provided for:		
Development costs for investment properties under construction or development	5,278	4,673
Development costs for properties under development held for sale	6,689	9,906
	11,967	14,579

(ii) Pursuant to an agreement entered into with the 上海市虹口區衛生局 of the Hongkou District, Shanghai, the PRC on 20 June 2006, the Group had committed to build a hospital to be located in the Rui Hong Xin Cheng area of the Hongkou District as compensation for the removal of those medical and health care services originally located in that area. As at 31 December 2011 and 2010, no construction contracts related to the hospital have been entered into. No provision for the construction costs has been made in the consolidated financial statements as the amount cannot be measured reliably.

40. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) Contingent liabilities

Financial guarantee contracts:

(i) Pursuant to an agreement entered into with the district government (the "Hongkou Government") and the Education Authority of the Hongkou District, Shanghai, the PRC on 31 July 2002, guarantees of no more than RMB324 million (2010: RMB324 million) will be granted by the Group to support bank borrowings arranged in the name of a company to be nominated by the Hongkou Government, as part of the financial arrangement for the site clearance work in relation to the development of a parcel of land. As at 31 December 2011, no amount has been drawn down under this arrangement (2010: nil).

(ii) As at 31 December 2011, the Group has issued guarantees amounting to RMB265 million (2010: RMB265 million) to banks in respect of banking facilities granted to an associate, in which the associate has drawn down bank loans amounting to RMB250 million (2010: RMB250 million).

(iii) As at 31 December 2011, the Group has provided a guarantee to a joint venture, which was formed between Richcoast and Mitsui, and Mitsui for an amount not exceeding RMB345 million (2010: nil) in respect of Richcoast's payment obligations to the joint venture and Mitsui.

In determining whether financial liabilities should be recognised in respect of the Group's financial guarantee contracts, the Directors of the Company exercise judgment in evaluation of the probability of resources outflow that will be required and the assessment of whether a reliable estimate can be made of the amount of the obligation.

In the opinion of the Directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the Directors consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised in the consolidated statement of financial position as at 31 December 2011 and 31 December 2010. Should the actual outcome be different from expected, provision for losses will be recognised in the consolidated financial statements.

41. RELATED PARTY TRANSACTIONS

Apart from the related party transactions and balances as stated in notes 10, 17, 18, 23, 24, 25(b), 26 and 40, the Group has the following transactions with related parties during the year:

	2011 RMB'million	2010 RMB'million
SOCL and its subsidiaries		
Rental and building management fee expenses	**30**	32
Travelling expenses	**11**	17
Project management fee income	**15**	17
SOCAM and its subsidiaries		
Project construction costs	**746**	466
Property sales	**19**	–
Associates		
Project management fee income	**19**	22
Imputed interest income	**33**	36
Interest income	**35**	31
Non-controlling shareholders of subsidiaries		
Guarantee fee income	**–**	19
Interest expenses	**151**	125
Project management fee expenses	**12**	8
Jointly controlled entity		
Rental and building management fee income	**4**	4
Directors		
Property sales	**4**	–
Senior management		
Property sales	**3**	20
Remunerations	**35**	29
Share option expenses	**4**	3

42. EVENTS AFTER THE REPORTING PERIOD

(a) In January 2012, Shui On Development (Singapore) Pte. Ltd., a wholly owned subsidiary of the Company, issued Singapore dollar 250 million senior notes with a maturity of three years due on 26 January 2015 (the "2015 SGD Notes"). The 2015 SGD Notes bear coupon at 8% per annum payable semi-annually in arrears.

(b) In February 2012, SOD issued US$475 million senior notes with a maturity of three years due on 16 February 2015 (the "2015 US$ Notes"). The 2015 US$ Notes bear coupon at 9.75% per annum payable semi-annually in arrears.

(c) Pursuant to a sale and purchase agreement dated 9 September 2011 entered into between Rich Bright Holdings Limited ("Rich Bright", an indirect wholly-owned subsidiary of the Company), as purchaser and Cassidy Enterprises Corp. ("Cassidy", an indirect wholly-owned subsidiary of SOI) and SOI, as sellers, Rich Bright agreed to acquire from Cassidy and SOI, respectively, the entire equity interest in Rimmer Investments Limited ("Rimmer", which indirectly owns Shui On Plaza, an office and retail complex located at Huangpu District, Shanghai, the PRC; and 24% equity interest in Shanghai Xintiandi Plaza Business Co., Ltd., which is principally engaged in retail business) and 66.7% equity interest in Magic Garden Investments Limited ("Magic Garden", which indirectly owns Langham Xintiandi Hotel located at Huangpu District, Shanghai, the PRC) for an initial consideration of HK$2,086 million (equivalent to RMB1,694 million). For more information on the sale and purchase agreement, please refer to the announcement of the Company published on 9 September 2011 and the Company's circular dated 6 October 2011.

On 16 March 2012, the acquisitions of Rimmer and Magic Garden were completed and 613,529,412 new and fully paid ordinary shares of the Company were issued on the same date as consideration shares to SOI. These new shares ranked pari passu in all respect to the existing shares of the Company. Upon completion of the transaction, Rimmer and Magic Garden become subsidiaries of the Group.

43. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings, convertible bonds and notes disclosed in notes 27, 30 and 31, respectively net of bank balances and cash, restricted bank deposits and pledged bank deposits, and equity attributable to equity holders of the Company, comprising issued share capital and reserves, and non-controlling interests.

The Directors of the Company review the capital structure of the Group by using a gearing ratio, which is calculated on the basis of dividing the excess of the sum of convertible bonds, notes, bank and other borrowings over the sum of bank balances and cash (inclusive of restricted bank deposits and pledged bank deposits) by total equity. The review is conducted at least quarterly and before each major financing or investment decision is made.

The gearing ratios at the end of reporting dates are as follows:

	2011	2010
	RMB'million	RMB'million
Bank and other borrowings	**16,743**	13,183
Convertible bonds	**2,225**	2,117
Notes	**6,520**	2,945
Pledged bank deposits	**(2,512)**	(1,885)
Restricted bank deposits	**(335)**	(243)
Bank balances and cash	**(3,523)**	(4,662)
Net debt	**19,118**	11,455
Total equity	**29,471**	26,028
Net debt to total equity	**65%**	44%

44. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2011 RMB'million	2010 RMB'million
Financial assets		
Loans and receivables (including bank balances and cash)	**11,185**	12,730
Financial liabilities		
Derivative instruments designated as hedging instruments	**150**	218
Amortised cost	**32,199**	23,697

b. Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, loans receivable, loans to associates, amounts due from associates, amounts due from related companies, amounts due from non-controlling shareholders of subsidiaries, pledged bank deposits, restricted bank deposits, bank balances and cash, accounts payable, amounts due to related companies, amounts due to associates, amounts due to non-controlling shareholders of subsidiaries, loans from non-controlling shareholders of subsidiaries and bank borrowings.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Group's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Currency risk

All of the Group's turnover is denominated in RMB. However, the Group has certain bank balances and debt obligations that are denominated in foreign currency. As a result, the Group is exposed to fluctuations in foreign exchange rates. The management closely monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	2011 RMB'million	2010 RMB'million
HK$		
Assets	**2,470**	2,469
Liabilities	**9,249**	8,365
US$		
Assets	**34**	1,374
Liabilities	**1,507**	1,032

44. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the currency of HK$ and US$.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items assuming the balances at the end of the reporting period outstanding for the whole year and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	Notes	2011 RMB'million	2010 RMB'million
HK$			
Profit or loss	(i)	**323**	281
US$			
Profit or loss	(ii)	**70**	(16)

Notes:

(i) This is mainly attributable to the exposure outstanding on receivables and payables denominated in HK$ not subject to cash flow hedges at year end.

(ii) This is mainly attributable to the exposure outstanding on receivables and payables denominated in US$ not subject to cash flow hedges at year end.

The Group's sensitivity to foreign currency has increased in profit during the current year mainly due to both the significant depreciation of HK$ and US$ against RMB and increase in foreign currency bank borrowings.

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings at variable rates. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR, LIBOR, SIBOR, and PBOC prescribed interest rate arising from the Group's HK$, US$ and RMB borrowings. In order to mitigate the cash flow interest rate risk, the Group has entered into several interest rate swaps (which have been designated as hedging instruments) whereby the Group will receive interest at variable rates at HIBOR and pay interests at fixed rates. Details of the interest rate swaps are set out in note 32.

44. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank and other borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables are held constant, the Group's profit for the year ended 31 December 2011 would decrease/increase by RMB13 million (2010: decrease/increase by RMB10 million). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank and other borrowings, after taking into consideration the effects of the interest rate swaps designated as hedging instruments.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

Credit risk

The Group's principal financial assets are bank balances and cash, restricted bank deposits, pledged bank deposits, accounts receivable, loans receivable, loans to associates, amounts due from associates, amounts due from non-controlling shareholders of subsidiaries and amounts due from related companies, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its loans to associates, accounts receivable, loans receivable and amount of contingent liabilities in relation to the financial guarantees provided by the Group. The amounts presented in the consolidated statement of financial position are net of allowances for bad and doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, except for as at 31 December 2011 where the largest debtor amounting to approximately RMB227 million (2010: RMB68 million) arising from sales of properties, loans to associates of RMB1,366 million (2010: RMB1,270 million) and loans receivable of RMB152 million (2010: RMB597 million).

The credit risk on liquid funds is limited because the funds have been deposited with various creditworthy financial institutions located in Hong Kong and in the PRC.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of bank and other borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The following table details the maturities of the Group's financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative instruments that settle on a net basis, undiscounted net cash outflows are presented.

44. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2011
	%	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
2011							
Non-derivative financial liabilities							
Accounts payable, deposits received and accrued charges		3,856	–	–	–	3,856	3,856
Bank and other borrowings at variable rates	4.8%	9,402	4,197	3,458	1,263	18,320	16,743
Convertible bonds	10.7%	122	3,056	–	–	3,178	2,225
Notes	7.8%	473	3,473	3,900	–	7,846	6,520
Amounts due to related companies		368	–	–	–	368	368
Amounts due to associates		5	–	–	–	5	5
Amounts due to non-controlling shareholders of subsidiaries		404	–	–	–	404	404
Loans from non-controlling shareholders of subsidiaries							
– variable rate	7.2%	150	150	450	2,228	2,978	2,078
Financial guarantee contracts	–	610	–	–	–	610	–
		15,390	10,876	7,808	3,491	37,565	32,199
Derivatives – net settlement							
Cash flow hedge instruments		144	–	–	–	144	150

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2010
	%	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
2010							
Non-derivative financial liabilities							
Accounts payable, deposits received and accrued charges	–	2,913	–	–	–	2,913	2,913
Bank and other borrowings at variable rates	4.4%	2,195	6,748	4,648	1,135	14,726	13,183
Convertible bonds	10.7%	122	122	3,087	–	3,331	2,117
Notes	7.5%	206	206	3,206	–	3,618	2,945
Amounts due to related companies		95	–	–	–	95	95
Amounts due to associates		29	–	–	–	29	29
Amounts due to non-controlling shareholders of subsidiaries		462	–	–	–	462	462
Loans from non-controlling shareholders of subsidiaries							
– variable rate	6.1%	407	101	303	1,754	2,565	1,953
Financial guarantee contracts	–	265	–	–	–	265	–
		6,694	7,177	11,244	2,889	28,004	23,697
Derivatives – net settlement							
Cash flow hedge instruments		130	130	–	–	260	218

44. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

c. Fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions as inputs; and
- the fair values of derivative instruments, are calculated using quoted prices as inputs. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

d. Fair value measurements recognised in the consolidated statement of financial position

Included in other comprehensive income is a gain of RMB68 million (2010: loss of RMB7 million) related to interest rate swaps designated in cash flow hedge held at the end of the reporting period.

45. SUMMARISED STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 RMB'million	2010 RMB'million
Investments in subsidiaries	**2,413**	2,413
Loan to a subsidiary	**7,153**	6,747
Amounts due from subsidiaries	**4,149**	4,014
Other prepayment	**22**	22
Bank balances	**1**	604
Total assets	**13,738**	13,800
Convertible bonds	**2,225**	2,117
Total liabilities	**2,225**	2,117
Net assets	**11,513**	11,683
Share capital	**102**	102
Reserves	**11,411**	11,581
Total equity	**11,513**	11,683

46. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2011 and 31 December 2010 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held 2011 (Note 1)	Attributable equity interest held 2010 (Note 1)	Place of operation	Principal activities
Ally Victory Limited	BVI 18 April 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Atlantic Best Limited	Hong Kong 5 January 2001	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Best View Development Limited	Hong Kong 5 March 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Billion China Investments Limited	BVI 18 October 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Billion World Limited	Hong Kong 19 November 2003	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Bondwise Profits Limited	BVI 28 December 2000	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Bright Continental Limited	Hong Kong 5 March 2003	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Bright Power Enterprises Limited	BVI 1 July 2004	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Brixworth International Limited	BVI 3 January 2001	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Central Fit Investments Limited	BVI 23 October 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Century Team Limited	Hong Kong 16 January 1998	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Chinalink Capital Limited	BVI 16 July 2003	999 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
China Advance Limited	Hong Kong 13 November 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
China Wealth (H.K.) Limited	Hong Kong 4 January 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
China Xintiandi Company Limited	Hong Kong 4 April 2011	1 ordinary share of HK$1	100%	–	Hong Kong	Dormant
China Xintiandi Company Limited	BVI 21 March 2011	1 ordinary share of US$1	100%	–	Hong Kong	Investment holding
China Xintiandi Company Limited	Cayman Islands 18 April 2011	1 ordinary share of US$0.01	100%	–	Hong Kong	Investment holding
China Xintiandi Development Company Limited	Cayman Islands 3 November 2011	1 ordinary share of US$0.01	100%	–	Hong Kong	Investment holding
China Xintiandi Holding Company Limited	Cayman Islands 27 October 2011	1 ordinary share of US$0.01	100%	–	Hong Kong	Investment holding
China Xintiandi Investment Company Limited	Cayman Islands 27 October 2011	1 ordinary share of US$0.01	100%	–	Hong Kong	Investment holding
China Xintiandi Property Company Limited	Cayman Islands 27 October 2011	1 ordinary share of US$0.01	100%	–	Hong Kong	Investment holding

46. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held 2011 (Note 1)	Attributable equity interest held 2010 (Note 1)	Place of operation	Principal activities
Chongqing Shui On Tiandi Property Development Co. Ltd.	PRC 21 November 2003	Registered and paid up capital US$359,000,000	79.4%	79.4%	PRC	Property development and property investment
Citichamp Limited	Hong Kong 19 July 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Cititop Pacific Limited	Hong Kong 1 December 2000	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Costworth Investments Limited	BVI 12 January 2001	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Crown Fame Limited	Hong Kong 18 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Cybricity Limited	Hong Kong 28 April 2000	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Dalian Yingjia Science and Technology Development Co., Ltd.	PRC 3 December 2009	Registered and paid up capital US$23,000,000	100%	100%	PRC	Science and technology development
East Capital Development Limited	Hong Kong 18 April 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
East Trend Limited	Hong Kong 14 February 2001	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Eastern View Limited	Hong Kong 18 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Excel Efficient Limited	BVI 19 August 2002	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Excellent Win Enterprises Limited	Hong Kong 5 February 2010	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Fast China Limited	BVI 23 April 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Feng Cheng Property Management Services Limited	Hong Kong 14 November 2003	100 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Fieldcity Investments Limited	BVI 30 March 2005	100 ordinary shares of US$1 each	75%	75%	Hong Kong	Investment holding
Focus Top Limited	Hong Kong 24 April 1998	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Foresight Profits Limited	BVI 8 February 2001	100 ordinary shares of US$1 each	75%	75%	Hong Kong	Investment holding
Fo Shan An Ying Property Development Co., Ltd.	PRC 8 January 2008	Registered and paid up capital RMB700,000,000	100%	100%	PRC	Property development
Fo Shan Rui Dong Property Development Co., Ltd.	PRC 25 April 2008	Registered capital RMB690,000,000 Paid up capital RMB280,744,034	100%	100%	PRC	Property development
Fo Shan Rui Fang Property Development Co., Ltd.	PRC 21 May 2008	Registered capital RMB690,000,000 Paid up capital RMB607,261,359	100%	100%	PRC	Property development

46. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held 2011 (Note 1)	Attributable equity interest held 2010 (Note 1)	Place of operation	Principal activities
Fo Shan Rui Kang Tian Di Property Development Co., Ltd.	PRC 21 May 2008	Registered and paid up capital RMB690,000,000	100%	100%	PRC	Property development
Fo Shan Shui On Property Development Co., Ltd.	PRC 8 January 2008	Registered and paid up capital RMB700,000,000	100%	100%	PRC	Property development
Fo Shan Yi Kang Property Development Co., Ltd.	PRC 8 January 2008	Registered and paid up capital RMB700,000,000	100%	100%	PRC	Property development
Fo Shan Ying Kong Hotel Management Co., Ltd.	PRC 2 August 2011	Registered and paid up capital RMB1,000,000	100%	–	PRC	Hotel management
Fo Shan Yong Rui Tian Di Property Development Co., Ltd.	PRC 21 March 2008	Registered and paid up capital RMB690,000,000	100%	100%	PRC	Property development
Fo Shan Yuan Kang Property Development Co., Ltd.	PRC 29 February 2008	Registered and paid up capital RMB700,000,000	100%	100%	PRC	Property development
Fo Shan Shui On Tiandi Trading Co., Ltd.	PRC 3 August 2010	Registered and paid up capital RMB1,000,000	100%	100%	PRC	Retail business
Fuhui Limited	BVI 1 April 2010	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Firm Gain Investments Limited	BVI 26 July 2011	1 ordinary share of US$1	100%	–	Hong Kong	Dormant
Galore Profits Limited	BVI 23 January 2001	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Global Ocean Investments Limited	BVI 1 November 2002	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Globaland Limited	Hong Kong 30 October 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Globe State Properties Limited	BVI 12 October 2005	100 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Glory Advance Investments Limited	BVI 18 August 2006	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Glory Wing Holdings Limited	BVI 15 January 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Grand Hope Limited (Note 4)	Hong Kong 14 March 2003	100 A ordinary shares of HK$1 each and 2 B ordinary shares of HK$1 each	A shares: 80.2% B shares: 60.15%	A shares: 80.2% B shares: 60.15%	Hong Kong	Investment holding
Hangzhou Xihu Tiandi Management Co., Ltd.	PRC 6 March 2003	Registered and paid up capital US$7,000,000	100%	100%	PRC	Property management
Hing Tin Investments Limited	BVI 23 October 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding

46. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held 2011 (Note 1)	Attributable equity interest held 2010 (Note 1)	Place of operation	Principal activities
Hollyfield Holdings Limited	Mauritius 19 April 2001	2 ordinary shares of US$1 each	75%	75%	Hong Kong	Investment holding
Infoshore International Limited	BVI 1 November 2002	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Info Union Limited	Hong Kong 18 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Innovate Zone Group Limited	BVI 3 January 2007	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Intellect Profit Investments Limited	BVI 10 August 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Interchina International Limited	BVI 12 January 2001	100 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Join Legend Limited	Hong Kong 2 June 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Joyous Bond Limited	BVI 18 April 2008	1 ordinary share of US$1	75%	75%	Hong Kong	Investment holding
Keen Allied Investments Limited	BVI 18 September 2002	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
King Concord Limited	Hong Kong 3 October 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Kinmax Limited	Hong Kong 24 April 1998	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Land Pacific Limited	Hong Kong 2 November 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Legend City Limited	Hong Kong 4 June 1997	2 ordinary shares of HK$1 each	51%	51%	Hong Kong	Investment holding
Lucky Gain Limited	Hong Kong 8 November 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Magic Best Investments Limited	BVI 19 July 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Magic Bright Investments Limited	BVI 18 September 2007	10 A ordinary shares of HK$1 each and 10 B ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Marble Way Limited	BVI 28 August 1996	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Merry Wave Limited	BVI 23 April 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Modern Prosper Investments Limited	BVI 1 November 2002	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Mount Eastern Limited	BVI 18 April 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Nation Development Limited	Hong Kong 26 October 2010	1 ordinary share of HK$1	100%	–	Hong Kong	Dormant
New Asia Limited	Hong Kong 31 October 2003	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
New Power Profits Limited	BVI 18 October 2005	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding

46. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held 2011 (Note 1)	Attributable equity interest held 2010 (Note 1)	Place of operation	Principal activities
New Venture Enterprises Limited	Hong Kong 26 October 2010	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Nice In Investments Limited	BVI 18 October 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Onfair Limited	Hong Kong 13 November 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Onwin Limited	Hong Kong 13 November 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Oriental Gain Limited	Hong Kong 2 February 2001	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Oriental Host Limited	Hong Kong 23 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Pacific Gain Limited	Hong Kong 11 September 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Portspin Limited	BVI 22 May 1997	100 ordinary shares of US$1 each	51%	51%	Hong Kong	Investment holding
Princemax Limited	Hong Kong 15 April 1998	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Profitstock Holdings Limited	BVI 2 June 2005	100 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Regal Victory Limited	Hong Kong 18 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Rich Bright Holdings Limited	BVI 29 July 2011	1 ordinary share of US$1	100%	–	Hong Kong	Investment holding
Rich Prime Limited	Hong Kong 18 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Rightchina Limited	BVI 2 July 2008	100 ordinary shares of US$1 each	60.15%	60.15%	Hong Kong	Investment holding
Rightidea Limited	BVI 2 July 2008	100 ordinary shares of US$1	80.2%	80.2%	Hong Kong	Investment holding
Rise Lake Investments Limited	BVI 23 August 2007	10 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Score High Limited	BVI 12 February 2003	1,000 ordinary shares of US$1 each	80.2%	80.2%	Hong Kong	Investment holding
Selfers Limited	BVI 29 November 1995	1 ordinary share of US$1	75%	75%	Hong Kong	Investment holding
Shanghai Bai-Xing Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB151,300,000	97%	97%	PRC	Property development and property investment
Shanghai Fu Ji Properties Co., Ltd.	PRC 18 January 2004	Registered and paid up capital US$35,773,000	99%	99%	PRC	Property development
Shanghai Fu Xiang Properties Co., Ltd.	PRC 19 December 2001	Registered and paid up capital RMB645,000,000	99%	99%	PRC	Property development and property investment

46. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held 2011 (Note 1)	Attributable equity interest held 2010 (Note 1)	Place of operation	Principal activities
Shanghai Ji-Xing Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB71,600,000	97%	97%	PRC	Property development and property investment
Shanghai Jing Fu Property Co., Ltd.	PRC 26 December 2001	Registered and paid up capital RMB400,000,000	99%	99%	PRC	Property development
Shanghai Jun Xing Property Co., Ltd. (note 5)	PRC 5 March 2009	Registered Capital RMB1,902,500,000 Paid up capital RMB1,311,076,115	49.98%	49.98%	PRC	Property development
Shanghai Knowledge and Innovation Community Development Co., Ltd	PRC 9 June 2010	Registered and paid up capital RMB1,550,000,000	99%	99%	PRC	Property development
Shanghai Lakeville Properties Co., Ltd.	PRC 23 May 2001	Registered and paid up capital RMB165,000,000	99%	99%	PRC	Property development
Shanghai Le Fu Properties Co., Ltd.	PRC 20 February 2004	Registered and paid up capital US$180,500,000	99%	99%	PRC	Property development
Shanghai IPO Food & Beverage Co., Ltd.	PRC 6 September 2006	Registered and paid up capital US$1,890,000	100%	100%	PRC	Food and beverage services
Shanghai Rui Chen Property Co., Ltd.	PRC 6 May 1996	Registered and paid up capital RMB189,000,000	75%	75%	PRC	Property development and property investment
Shanghai Rui Qiao Property Development Co., Ltd.	PRC 28 December 2010	Registered and paid up capital RMB3,900,000,000	100%	100%	PRC	Property development
Shanghai Rui Hong Xin Cheng Co., Ltd.	PRC 2 July 2001	Registered and paid up capital RMB4,800,000,000	74.25%	74.25%	PRC	Property development and property investment
Shanghai Rui Zhen Food & Beverage Co., Ltd.	PRC 7 November 2003	Registered and paid up capital US$6,420,000	99%	99%	PRC	Food and beverage services
Shanghai Shui On Club Business Management Co., Ltd.	PRC 29 July 2010	Registered and paid up capital RMB200,000	100%	100%	PRC	Provision of business management services
Shanghai Tai Ping Qiao Properties Management Co., Ltd.	PRC 31 August 2001	Registered and paid up capital US$200,000	99%	99%	PRC	Property management
Shanghai Xin-tian-di Plaza Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB101,300,000	97%	97%	PRC	Property development and property investment
Shanghai Xing Bang Properties Co., Ltd.	PRC 21 June 2001	Registered and paid up capital RMB290,500,000	99%	99%	PRC	Property development and property investment
Shanghai Xing-Qi Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB274,900,000	97%	97%	PRC	Property development and property investment
Shanghai Xing Qiao Properties Co., Ltd.	PRC 18 January 2004	Registered and paid up capital US$115,000,000	99%	99%	PRC	Property development

46. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held 2011 (Note 1)	Attributable equity interest held 2010 (Note 1)	Place of operation	Principal activities
Shanghai Yang Pu Centre Development Co., Ltd.	PRC 26 August 2003	Registered and paid up capital US$137,500,000	86.8%	86.8%	PRC	Property development and property investment
Shui On Development (Holding) Limited	Cayman Islands 27 July 2005	22 ordinary shares of US$0.01 each	100%	100%	Hong Kong	Investment holding
Shui On Development (Singapore) Pte. Limited	Singapore 27 December 2011	1 ordinary share of US$10	100%	–	Singapore	Debt financing
Shui On Land Management Limited	Hong Kong 12 May 2004	1 ordinary share of HK$1	100%	100%	Hong Kong	Provision of management services
Shui On Resort Community (Dali) Holding Limited	BVI 6 May 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Dali) Limited	Hong Kong 13 May 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Lijiang) Holding Limited	BVI 28 April 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Lijiang) Limited	Hong Kong 5 May 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Shangri-La) Holding Limited	BVI 6 May 2008	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Shangri-La) Limited	Hong Kong 13 May 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Kunming) Holding Limited	BVI 18 July 2006	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Kunming) Limited	Hong Kong 25 July 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Yunnan) Development Limited	Cayman Islands 17 July 2006	1 ordinary share of US$0.01	100%	100%	Hong Kong	Investment holding
Shine First Limited	BVI 25 October 2006	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Shine Prime Investments Limited	BVI 2 November 2006	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Shui On Secretaries & Nominees Limited	Hong Kong 30 November 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Provision of secretarial services
Silomax Limited	BVI 25 March 1996	1 ordinary share of US$1	75%	75%	Hong Kong	Investment holding

46. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held 2011 (Note 1)	Attributable equity interest held 2010 (Note 1)	Place of operation	Principal activities
Sino Realty Limited	Hong Kong 3 October 2006	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Sino Wisdom Investments Limited	BVI 12 May 2006	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Sinoco Limited	Hong Kong 28 October 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Sinothink Holdings Limited	BVI 15 September 2000	100 ordinary shares of US$1 each	100%	100%	Hong Kong	Investment holding
Smart Century Limited	Hong Kong 18 October 2007	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Super Field Limited	Hong Kong 25 February 2005	1 ordinary share of HK$1	75%	75%	Hong Kong	Investment holding
Taipingqiao Holding Company Limited	BVI 25 October 2011	1 ordinary share of US$1	100%	–	Hong Kong	Dormant
Timezone Management Limited	BVI 28 February 2001	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Tip Profit Limited	BVI 18 July 2006	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Top Faith Development Limited	Hong Kong 18 April 2008	1 ordinary share of HK$1	75%	75%	Hong Kong	Investment holding
Top Victory Development Limited	Hong Kong 5 March 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Triumph Sky Group Limited	BVI 23 October 2007	1 ordinary share of US$1	100%	100%	Hong Kong	Investment holding
Union Grow Limited	Hong Kong 8 November 2002	2 ordinary shares of HK$1 each	100%	100%	Hong Kong	Investment holding
Value Land Investment Limited	Cayman Islands 2 September 2011	10,000 ordinary shares of US$0.01 each	100%	–	Hong Kong	Investment holding
Victory Win Development Limited	Hong Kong 18 April 2008	1 ordinary share of HK$1	100%	100%	Hong Kong	Investment holding
Wuhan Shui On Tiandi Property Development Co., Ltd.	PRC 2 August 2005	Registered and paid up capital US$288,000,000	75%	75%	PRC	Property development and property investment
上海百麗房地產開發有限公司 (Shanghai Baili Property Development Co., Ltd.*)	PRC 29 August 2002	Registered and paid up capital RMB100,000,000	75%	75%	PRC	Property development and property investment
上海豐誠物業管理有限公司 (Shanghai Feng Cheng Property Management Co., Ltd.*)	PRC 18 January 2004	Registered and paid up capital RMB12,079,950	100%	100%	PRC	Property management

46. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held 2011 (Note 1)	Attributable equity interest held 2010 (Note 1)	Place of operation	Principal activities
上海豐誠楊浦物業管理有限公司 (Shanghai Feng Cheng Yang Pu Property Management Co., Ltd*)	PRC 21 July 2010	Registered and paid up capital RMB500,000	100%	100%	PRC	Property management
上海瑞橋企業管理有限公司 (Shanghai Rui Qiao Enterprise Management Co., Ltd.*)	PRC 23 April 2009	Registered and paid up capital RMB1,000,000	86.8%	86.8%	PRC	Property development
上海瑞展教育信息咨詢有限公司 (Shanghai Rui Zhan Education Information Consultant Co., Ltd.*)	PRC 20 April 2010	Registered and paid up capital RMB1,000,000	75%	75%	PRC	Provision of education information and consultancy services
上海瑞安房地產發展有限公司 (Shui On Development Limited*)	PRC 14 June 2004	Registered and paid up capital US$28,000,000	100%	100%	PRC	Provision of management services
武漢瑞安天地商貿有限公司 (Wuhan Shui On Tian Di Trading Co., Ltd.*)	PRC 8 January 2007	Registered and paid up capital US$1,800,000	100%	100%	PRC	Retail business

Notes:

1. The Company directly holds the equity interest in Shui On Development (Holding) Limited. All other equity interests shown above are indirectly held by the Company.
2. All subsidiaries established in the PRC are either equity joint ventures or cooperative joint ventures except Dalian Yingjia Science and Technology Development Co., Ltd., Fo Shan An Ying Property Development Co., Ltd., Fo Shan Rui Dong Property Development Co., Ltd., Fo Shan Rui Fang Property Development Co., Ltd., Fo Shan Rui Kang Tian Di Property Development Co., Ltd., Fo Shan Shui On Property Development Co., Ltd., Fo Shan Yi Kang Property Development Co., Ltd., Fo Shan Ying Kong Hotel Management Co., Ltd., Fo Shan Yong Rui Tian Di Property Development Co., Ltd., Fo Shan Yuan Kang Property Development Co., Ltd., Fo Shan Shui On Taindi Trading Co., Ltd., Hangzhou Xihu Tiandi Management Co., Ltd., Shanghai IPO Food & Beverage Co., Ltd., Shanghai Rui Qiao Property Development Co., Ltd., Shanghai Shui On Club Business Management Co., Ltd., 上海豐誠物業管理有限公司 (Shanghai Feng Cheng Property Management Co., Ltd.*), 上海瑞安房地產發展有限公司 (Shui On Development Limited*) and 武漢瑞安天地商貿有限公司 (Wuhan Shui On Tian Di Trading Co., Ltd.*) which are wholly foreign owned enterprises.
3. Except for Shui On Development (Holding) Limited, none of the subsidiaries had any debt securities subsisting at 31 December 2011 or at any time during the year.
4. The holders of Class B ordinary shares of Grand Hope Limited have attributable interests in the Chongqing Super Rise Project whereas the holders of Class A ordinary shares of Grand Hope Limited have attributable interests in the Chongqing Shui On Tiandi Property Development Co., Ltd. other than the Chongqing Super High Rise Project.
5. The Group holds 51% equity interest in Portspin Limited, which indirectly holds 98% equity interest in Shanghai Jun Xing Property Co., Ltd. The Group's effective interest in Shanghai Jun Xing Property Co., Ltd. is therefore 49.98%.

* For identification purposes

PRINCIPAL AND REGISTERED OFFICE OF THE GUARANTOR AND THE ISSUER

Shui On Land Limited
Shui On Development (Holding) Limited
26/F Shui On Plaza
333, Huai Hai Zhong Road
Shanghai 2200021
China

TRUSTEE

DB Trustees (Hong Kong) Limited
Level 52, International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

PRINCIPAL AGENT, CALCULATION AGENT AND TRANSFER AGENT

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

REGISTRAR

Deutsche Bank Luxembourg S.A.
2 Boulevard Konrad Adenauer
L-1115 Luxembourg, Luxembourg

LEGAL ADVISERS TO THE GUARANTOR AND THE ISSUER

as to English law

Freshfields Bruckhaus Deringer
11th Floor
Two Exchange Square
Central
Hong Kong

as to PRC law

Jin Mao PRC Lawyers
13th Floor
Hong Kong New World Tower
No. 300 Huai Hai Zhong Road
Shanghai, 200021
PRC

as to Cayman Islands law and British Virgin Islands law

Walkers
15th Floor
Alexandra House
18 Chater Road
Central
Hong Kong

LEGAL ADVISERS TO THE JOINT LEAD MANAGERS

as to English law

Linklaters
10th Floor
Alexandra House
Chater Road
Central
Hong Kong

as to PRC law

Commerce & Finance Law Office
6/F NCI Tower, A12
Jianguomenwai Avenue
Chaoyang District, Beijing
PRC

LEGAL ADVISER TO THE TRUSTEE

as to English Law

Linklaters
10th Floor
Alexandra House
Chater Road
Central
Hong Kong

INDEPENDENT ACCOUNTANTS

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong