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SHIMAO PROPERTY HOLDINGS LIMITED

世茂房地產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 813)

OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

References are made to the announcements of Shimao Property Holdings Limited (the “**Company**”) dated 3 February 2015 and 4 February 2015 in relation to the Notes Issue (the “**Announcements**”). All capitalized terms used herein have the same meaning as defined in the Announcements, unless otherwise defined.

Please refer to the attached offering memorandum dated 3 February 2015 in relation to the Notes Issue (the “**Offering Memorandum**”), which was published on the website of Singapore Exchange Limited on 13 February 2015.

The posting of the Offering Memorandum on the website of Hong Kong Exchanges and Clearing Limited is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.10B of the Listing Rules, and not for any other purposes.

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

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

By order of the Board
Shimao Property Holdings Limited
Lam Yee Mei, Katherine
Company Secretary

Hong Kong, 13 February 2015

As at the date of this announcement, the board of directors of the Company comprises five executive directors, namely, Mr. Hui Wing Mau (Chairman), Mr. Hui Sai Tan, Jason (Vice Chairman), Mr. Xu Younong, Ms. Tang Fei and Mr. Liao Lujiang; one non-executive director, namely, Mr. Liu Sai Fei; and three independent non-executive directors, namely, Ms. Kan Lai Kuen, Alice, Mr. Lu Hong Bing and Mr. Lam Ching Kam.

IMPORTANT NOTICE
THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE
NON-U.S. PERSONS OUTSIDE THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN 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 AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

The following offering memorandum is not a prospectus for the purposes of the European Union’s Directive 2003/71/EC (and any amendments thereto) as implemented in member states of the European Economic Area (the “EU Prospectus Directive”). The following offering memorandum has been prepared on the basis that all offers of the Notes made to persons in the European Economic Area will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus in connection with offers of the Notes.

Confirmation and your representation: In order to be eligible to view this offering memorandum or make an investment decision with respect to the securities, investors must be non-U.S. persons (as defined under Regulation S under the Securities Act) outside the United States. By accepting the e-mail and accessing this offering memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are non-U.S. persons outside the United States and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of such offering memorandum by electronic transmission.

Within the United Kingdom, the offering memorandum is being directed solely at and may only be communicated to persons: who (i) fall within Article 19(5) or Article 49(2)(a)-(d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or (ii) are persons to whom an invitation or inducement to engage in an investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise be lawfully communicated or caused to be communicated (all such persons collectively being referred to as “Relevant Persons”). The offering memorandum is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this offering memorandum relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. The offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. Any person who is not a Relevant Person should not act or rely on the offering memorandum or any of its contents.

You are reminded that this offering memorandum has been delivered to you on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this offering memorandum to any other person.

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 law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction. This offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, Goldman Sachs (Asia) L.L.C., UBS AG, Hong Kong Branch, J.P. Morgan Securities plc, Morgan Stanley & Co. International plc and CLSA Limited as initial purchasers, or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the initial purchasers.

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.

US\$800,000,000



SHIMAO PROPERTY HOLDINGS LIMITED

世茂房地產控股有限公司

(incorporated in the Cayman Islands with limited liability)

8.375% Senior Notes due 2022

Issue Price: 100%

Our 8.375% Senior Notes due 2022 (the “Notes”) will bear interest from February 10, 2015 at 8.375% per annum payable semi-annually in arrears on February 10 and August 10 of each year, beginning August 10, 2015. The Notes will mature on February 10, 2022.

The Notes are senior obligations of Shimao Property Holdings Limited (the “Company”) guaranteed (the “Subsidiary Guarantees”) by our existing subsidiaries (the “Subsidiary Guarantors”) other than (1) those organized under the laws of the PRC and (2) certain other subsidiaries specified in “Description of the Notes.”

We may at our option redeem the Notes, in whole or in part, at any time and from time to time on or after February 10, 2019, at redemption prices set forth in this offering memorandum plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to February 10, 2018, we may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 108.375% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. In addition, we may at our option redeem the Notes, in whole but not in part, at any time prior to February 10, 2019, at a redemption price equal to 100% of the principal amount of the Notes plus a premium as set forth in this offering memorandum. Upon the occurrence of a Change of Control Triggering Event (as defined in the indenture governing the Notes (the “Indenture”)), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Notes will be (1) at least *pari passu* in right of payment against the Company with respect to the 2011 Notes, the 2013 Notes, the 2014 Notes, the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities, the 2014 Syndicated Loan Facilities and all other unsecured, unsubordinated indebtedness of the Company (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law), (2) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes; (3) effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor (other than the collateral securing the Notes); and (4) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries, including a JV subsidiary guarantor under the 2011 Notes and the 2013 Notes which will not provide any guarantee with respect to the Notes. In addition, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) and the pledge of any collateral. See “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral.”

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

Investing in the Notes involves risks. See “Risk Factors” beginning on page 15.

We have received the approval in-principle for the listing and quotation of the Notes on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any other subsidiary or associated company of the Company, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any).

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

It is expected that delivery of the Notes will be made on or about February 10, 2015 through the book-entry facilities of Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme*, Luxembourg (“Clearstream”) against payment therefor in immediately available funds.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

HSBC

Standard Chartered Bank

Goldman Sachs (Asia) L.L.C.

UBS

Joint Bookrunners and Joint Lead Managers

J.P. Morgan

Morgan Stanley

CLSA (A CITIC Securities Company)

The date of this offering memorandum is February 3, 2015

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
SUMMARY	1	REGULATION	159
RISK FACTORS	15	MANAGEMENT	184
USE OF PROCEEDS	51	PRINCIPAL SHAREHOLDERS	188
EXCHANGE RATE INFORMATION...	52	RELATED PARTY TRANSACTIONS ..	189
CAPITALIZATION AND		DESCRIPTION OF OTHER	
INDEBTEDNESS	54	MATERIAL INDEBTEDNESS	191
SELECTED CONSOLIDATED		DESCRIPTION OF THE NOTES	206
FINANCIAL AND OTHER DATA...	56	TAXATION	275
MANAGEMENT'S DISCUSSION AND		PLAN OF DISTRIBUTION	277
ANALYSIS OF FINANCIAL		TRANSFER RESTRICTIONS	280
CONDITION AND RESULTS OF		RATINGS	282
OPERATIONS	59	LEGAL MATTERS	282
INDUSTRY OVERVIEW	92	INDEPENDENT AUDITOR	282
CORPORATE STRUCTURE	102	GENERAL INFORMATION	283
BUSINESS	113	INDEX TO FINANCIAL	
		INFORMATION	F-1

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

The following offering memorandum is not a prospectus for the purposes of the European Union's Directive 2003/71/EC (and any amendments thereto) as implemented in member states of the European Economic Area (the "EU Prospectus Directive"). The following offering memorandum has been prepared on the basis that all offers of the Notes made to persons in the European Economic Area will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus in connection with offers of the Notes.

IN CONNECTION WITH THIS OFFERING, STANDARD CHARTERED BANK, AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF STANDARD CHARTERED BANK, AND NOT FOR US OR ON OUR BEHALF.

We, having made all reasonable inquiries, confirm that: (i) this offering memorandum contains all information with respect to us, our subsidiaries and affiliates referred to in this offering memorandum and the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this offering memorandum relating to us and our subsidiaries and our affiliates are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this offering memorandum with regard to us and our subsidiaries and affiliates are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to us, our subsidiaries and affiliates, the

Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees, the omission of which would, in the context of the issue and offering of the Notes, make this offering memorandum, as a whole, misleading in any material respect; and (v) we have made all reasonable enquiries to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

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

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

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

No representation or warranty, express or implied, is made or given by The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, Goldman Sachs (Asia) L.L.C., UBS AG, Hong Kong Branch, J.P. Morgan Securities plc, Morgan Stanley & Co. International plc and CLSA Limited (the “Initial Purchasers”) or any of their affiliates or advisers as to the accuracy, completeness or sufficiency of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise, representation or warranty, whether as to the past or the future. None of the Initial Purchasers has independently verified any of the information contained in this offering memorandum or can give any assurance that this information is accurate, truthful or complete. To the fullest extent permitted by law, none of the Initial Purchasers accepts any responsibility for the contents of this offering memorandum or for any statement made or purported to be made by any Initial Purchaser or on its behalf in connection with the Company, the Subsidiary Guarantors or the issue and offering of the Notes. The Initial Purchasers accordingly disclaim all and any liability whether arising in tort or contract or otherwise which they might otherwise have in respect of this offering memorandum or any such statement.

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

The Notes and the Subsidiary Guarantees have not been approved or disapproved by the United States Securities and Exchange Commission (the “SEC”), any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

We are not, and the Initial Purchasers are not, making an offer to sell the Notes, including the Subsidiary Guarantees, in any jurisdiction except where an offer or sale is permitted. The distribution of this

offering memorandum and the offering of the securities, including the Notes and the Subsidiary Guarantees, may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the securities, including the Notes and the Subsidiary Guarantees, and distribution of this offering memorandum, see the sections entitled “Transfer Restrictions” and “Plan of Distribution” below.

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

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Notes to be issued from time to time by the Company may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the 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.

Where the Notes are subscribed or purchased in reliance on an exemption under Sections 274 or 275 of the SFA, the Notes shall not be sold within the period of six months from the date of the initial acquisition of the Notes, except to any of the following persons:

- (a) an institutional investor (as defined in Section 4A of the SFA);
- (b) a relevant person (as defined in Section 275(2) of the SFA); or
- (c) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore (“SFR”).

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six (6) months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or (in the case of such corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of such trust) where the transfer arises from an offer referred to in 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;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the SFR.

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

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

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

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

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

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollar amounts were made at the rate of RMB6.2036 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on June 30, 2014, and all translations from H.K. dollar amounts into U.S. dollar amounts were made at the rate of HK\$7.7502 to US\$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on June 30, 2014. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or H.K. dollars, or vice versa, at any particular rate, or at all. For further information relating to the exchange rates, see “Exchange Rate Information.”

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

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”) which differ in certain respects from generally accepted accounting principles in the United States (“U.S. GAAP”) and certain other jurisdictions. Unless the context otherwise requires, references to “2011,” “2012” and “2013” in this offering memorandum are to our financial years ended December 31, 2011, 2012 and 2013, respectively.

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

References to “Shanghai Shimao” are to Shanghai Shimao Co., Ltd., our subsidiary with shares listed on the Shanghai Stock Exchange. As of the date of this offering memorandum, we hold a 64.12% equity interest in Shanghai Shimao.

References to the “2006 Notes” are to our Senior Floating Rate Notes due 2011 (the “2006 Floating Rate Notes”) and 8% Senior Notes due 2016 (the “2006 Fixed Rate Notes”). We have fully redeemed the 2006 Notes as of the date of this offering memorandum.

References to the “2010 Notes” are to our 9.65% Senior Notes due 2017. We have fully redeemed the 2010 Notes as of the date of this offering memorandum.

References to the “2011 Notes” are to our 11% Senior Notes due 2018.

References to the “2012 Syndicated Loan Facilities” are to our multi-currency term loan facilities, comprising a US\$610,000,000 facility and a HK\$468,000,000 facility, that we entered into on November 26, 2012 with The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), Hang Seng Bank Limited, Standard Chartered Bank (Hong Kong) Limited (“SCB”), The Bank of East Asia, Limited and Sumitomo Mitsui Banking Corporation as mandated coordinating arrangers and SCB as facility agent.

References to the “2013 Notes” are to our 6.625% Senior Notes due 2020.

References to the “2013 Syndicated Loan Facilities” are to our multi-currency term loan facilities, comprising a US\$320,000,000 facility and a HK\$1,950,000,000 facility, that we entered into on June 14, 2013 with HSBC, Bank of China Limited Macau Branch, Hang Seng Bank Limited, SCB, The Bank of East Asia, Limited, Sumitomo Mitsui Banking Corporation, Tai Fung Bank Limited and Deutsche Bank AG, Singapore Branch as mandated coordinating arrangers and SCB as facility agent.

References to the “2014 Notes” are to our 8.125% Senior Notes due 2021.

References to the “2014 Syndicated Loan Facilities” are to our multi-currency term loan facilities, comprising a US\$665,000,000 facility and HK\$555,000,000 facility, that we entered into on June 12, 2014 with HSBC and Hang Seng Bank Limited as mandated lead arrangers and coordinators, The Bank of East Asia, Limited, SCB, Sumitomo Mitsui Banking Corporation, Tai Fung Bank Limited, Goldman Sachs Bank USA, China CITIC Bank International Limited, JPMorgan Chase Bank, N.A., Hong Kong Branch, Morgan Stanley Senior Funding, Inc. and UBS AG, Hong Kong Branch as mandated lead arrangers, certain financial institutions as specified therein as original lenders and SCB as facility agent.

In this offering memorandum, unless the context otherwise requires, all references to “Affiliate” are to person or entity directly or indirectly controlled by, or under the direct or indirect common control of, another person or entity; all references to “subsidiary” are used with the meaning ascribed to it in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”), as amended (the “Listing Rules”), which includes: (i) a “subsidiary undertaking” as defined in Schedule 1 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “Companies Ordinance”), (ii) any entity which is accounted for and consolidated in the audited consolidated accounts of another entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable, and (iii) any entity which will, as a result of acquisition of its equity interest by another entity, be accounted for and consolidated in the next audited consolidated accounts of such other entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable; all references to “associate” are used with the meaning ascribed thereto under the Listing Rules, which includes: (i) in relation to an individual, his spouse and children under the age of 18, certain trustees, his or his family holding companies, as well as companies over which he, his family, trustee interests and holding companies exercise at least 30% voting power, (ii) in relation to a company, its subsidiaries, its holding companies, subsidiaries of such holding companies, certain trustees, as well as companies over which such company and its subsidiaries, trustee interests, holding companies and subsidiaries of such holding companies together exercise at least 30% voting power and (iii) in the context of connected transactions, certain connected persons and enlarged family members of a director of our Company, chief executive or substantial shareholder of a listed issuer; and all references to “controlling shareholder” are used with the meaning ascribed thereto under the Listing Rules, including any person or group of persons who are entitled to exercise 30% or more of the voting power at our general meetings or are in a position to control the composition of a majority of our board of directors, and “controlling interest” will be construed accordingly.

In this offering memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

FORWARD-LOOKING STATEMENTS

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

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

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

ENFORCEMENT OF CIVIL LIABILITIES

We are an exempted company incorporated in the Cayman Islands with limited liability, and each Subsidiary Guarantor and JV Subsidiary Guarantor (if any) is also incorporated or may be incorporated, as the case may be, outside the United States, such as the British Virgin Islands (the “BVI”) and Hong Kong. The Cayman Islands, BVI, Hong Kong and other jurisdictions have different bodies of securities laws from the United States and protections for investors may differ.

All of our assets and all of the assets of the initial Subsidiary Guarantors are, and all of the assets of any future Subsidiary Guarantors or JV Subsidiary Guarantors may be, located outside the United States. In addition, all of our directors and officers and the directors and officers of the initial Subsidiary Guarantors are, and the directors and officers of any future Subsidiary Guarantors or JV Subsidiary Guarantors may be, nationals or residents of countries other than the United States (principally of the PRC), and all or a substantial portion of such persons’ assets are or may be located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us, any of the initial Subsidiary Guarantors or future Subsidiary Guarantors or JV Subsidiary Guarantors or such directors and officers or to enforce against us or any of the initial Subsidiary Guarantors or future Subsidiary Guarantors or JV Subsidiary Guarantors or such directors and officers judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

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

We have been advised by our Cayman Islands legal adviser, Harney Westwood & Riegels, that any final and conclusive monetary judgment for a definite sum obtained in the United States courts against us would be treated by the courts of the Cayman Islands as a cause of action in itself and sued upon as a debt at common law so that no retrial of the issues would be necessary provided that: (a) the court giving such judgment had jurisdiction in the matter and that we either submitted to such jurisdiction or were resident or had a fixed place of business within such jurisdiction and was duly served with process; (b) the judgment given was not in respect of penalties, taxes, fines or other amounts payable to any government entity; (c) the judgment was not procured by fraud; (d) recognition or enforcement of the judgment in the Cayman Islands would not be contrary to public policy; and (e) the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

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

GLOSSARY OF TECHNICAL TERMS

The following are definitions of certain terms appearing in this offering memorandum that are commonly used in connection with our business. The terms and their meanings may not correspond to standard industry meanings or usages of those terms.

<i>CAGR</i>	compound annual growth rate
<i>certificate of completion</i>	a construction project planning inspection and clearance certificate (建設工程規劃驗收合格證) issued by local urban zoning and planning bureaus or equivalent authorities or equivalent certificate issued by relevant authorities in China with respect to the completion of property projects subsequent to their on-site examination and inspection
<i>commodity properties</i>	residential properties, commercial properties and other buildings that are developed by property developers for the purposes of sale or lease after their completion
<i>construction land planning permit</i>	a construction land planning permit (建設用地規劃許可證) issued by local urban zoning and planning bureaus or equivalent authorities in China; a construction works planning permit refers to a construction works planning permit (建設工程規劃許可證) issued by local urban zoning and planning bureaus or equivalent authorities in China; a construction permit refers to a construction works commencement permit (建築工程施工許可證) issued by local construction committees or equivalent authorities in China
<i>GFA</i>	gross floor area
<i>land grant contract</i>	an agreement between a property developer and a PRC land authority, typically the local state owned land resources bureaus, in respect of the grant of the state-owned land use rights of a parcel of land to such property developer
<i>land grant confirmation letter</i>	a letter issued by the relevant PRC land and resources bureau confirming that a property developer has been selected as the winner of the tender, auction or listing-for-sale process for the grant of the state-owned land use rights of a parcel of land
<i>land use rights certificate</i>	a state-owned land use rights certificate (國有土地使用證) issued by a local real estate and land resources bureau with respect to the land use rights
<i>LAT</i>	land appreciation tax
<i>low-density</i>	the low-density property that we develop includes stand-alone houses, semi-detached houses and townhouses
<i>pre-sale</i>	sales of properties prior to the completion of their construction, after the satisfaction of certain conditions under PRC laws and regulations
<i>pre-sale permit</i>	a commodity property pre-sale permit (商品房預售許可證) issued by local housing and building administrative bureaus or equivalent authorities with respect to the pre-sale of relevant properties
<i>properties for sale</i>	our completed properties held for sale and properties under development for sale, collectively
<i>property ownership certificate</i>	a property ownership and land use rights certificate (房地產權證) issued by a local real estate and land resources bureau with respect to the land use rights and the ownership rights of the buildings on the relevant land
<i>sq.m.</i>	square meter(s)

SUMMARY

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

Overview

We are a large-scale developer and owner of high-quality real estate projects in China. We specialize in developing mid- to high-end residential, retail and office properties for sale and prime and well-located hotel, retail and office properties for long-term investment. We have a track record of successfully bringing to market real estate projects in Shanghai, Beijing, Hangzhou, Suzhou, Nanjing, Fuzhou and other fast-growing cities in China. We believe that this track record, together with the strong recognition of our “Shimao” brand name, positions us well as we continue to develop and market our real estate projects in cities throughout China. In 2014, we expanded into the Hong Kong real estate market through land acquisition. We aim to continue to grow as a leading property developer and investor with a strong presence in China’s key cities and economic regions as well as Hong Kong by continuing to enhance our “Shimao” brand name, create and develop innovative and market-leading properties, pursue property diversification and increase our proportion of investment properties and hotels to achieve a balanced revenue profile and expand our business operations and land bank in a disciplined manner.

As of June 30, 2014, we had a total of 112 projects (including projects we develop with our joint venture partners) at various stages of development in 42 cities located in the Yangtze River Delta Region (including Jiangsu and Shanghai District and Zhejiang District), Bohai Rim Region, Northeastern Region, Western and Southern Central Region, Southern China and Fujian Province and other regions of rapid economic growth. As of June 30, 2014, we had a land bank with an estimated total GFA attributable to us of approximately 36.9 million sq.m., comprising properties under development with an aggregate planned GFA attributable to us of approximately 16.5 million sq.m. and properties held for future development with an aggregate planned GFA attributable to us of approximately 20.4 million sq.m. As of June 30, 2014, we had completed properties unsold or held for investment or hotel management with an aggregate GFA attributable to us of approximately 1.4 million sq.m. As of June 30, 2014, our projects (including projects we develop with our joint venture partners) held for future development included an aggregate planned GFA attributable to us of approximately 3.8 million sq.m. for which we had not obtained land use rights certificates but had entered into land grant contracts or obtained land grant confirmation letters and were in the process of applying for the relevant land use rights. Our average land cost for our land bank reserve as of June 30, 2014 was approximately RMB2,246 per sq.m. We believe our relatively low cost of land will enable us to continue to achieve a high profit margin in the future.

In addition, we have acquired certain parcels of land, including those for projects we develop with our joint venture partners, with an aggregate planned GFA of approximately 1.7 million sq.m. subsequent to June 30, 2014, of which approximately 1.3 million sq.m. are attributable to us and for which we have not obtained land use rights certificates but have entered into land grant contracts or obtained land grant confirmation letters and are in the process of applying for the relevant land use rights. These parcels of land include development sites in Hefei, Xiamen, Shanghai, Beijing, Chengdu, Hong Kong, Jianyang and Nanjing. See “Business—Recent Developments.”

Our property portfolio comprises high-quality residential, retail and office properties for sale as well as high-end hotels, retail and office properties held for long-term investment, which include, among others, Le Royal Méridien Shanghai and its retail podium, Shanghai Shimao International Plaza, Hyatt on the Bund Shanghai, Le Méridien Sheshan Shanghai, Beijing Shimao Tower, Shaoxing Shimao Holiday Inn and Hilton Nanjing Riverside. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we generated 94.5%, 92.9%, 95.2% and 95.5% respectively, of our revenue from the sale of properties and the remaining 5.5%, 7.1%, 4.8% and 4.5% respectively, from our hotel operations, leasing of commercial properties and other operations.

We believe our past success is partially due to our well-developed knowledge of the socio-economic policies and development trends in China. We have been able to identify high-growth markets such as Beijing and the Bohai Rim Region as well as Shanghai and the Yangtze River Delta Region and have entered these markets in a timely manner. We believe that this has, in turn, allowed us to obtain land at prime locations (or locations that we expect will become prime) at a reasonable cost. Going forward, we intend to continue to increase our land bank reserve in a prudent and strategic manner.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, our revenue was RMB26,031.4 million, RMB28,652.2 million, RMB41,502.7 million (US\$6,690.1 million) and RMB23,675.4 million (US\$3,816.4 million), respectively, and the profit for the year/period attributable to equity holders of our Company was RMB5,722.8 million, RMB5,764.6 million, RMB7,389.9 million (US\$1,191.2 million) and RMB4,180.3 million (US\$673.9 million), respectively.

Our Strengths

We believe our primary competitive strengths are:

- market leadership and proven execution capabilities;
- sizable and geographically diversified low-cost land bank in high growth cities;
- balanced property portfolio with strong recurring income;
- expertise in integrated development projects;
- valuable and well-recognized brand name associated with high quality and innovative products;
- diversified funding channels with strong financing capabilities;
- strong relationships with international business and real estate industry partners; and
- experienced and stable management team.

Our Strategies

We aim to continue to grow as a leading property developer and investor with a strong presence in key cities and economic regions in China as well as Hong Kong. We have developed the following business strategies to pursue our growth objectives:

- continue to enhance our “Shimao” brand name;
- continue to pursue product diversification and refine our asset portfolio to achieve a balanced revenue profile;
- continue to expand our business operations and land bank in a disciplined manner;
- promote environmental protection, energy-saving and low carbon emission in planning and design work; and
- continue to adopt prudent financial policy and proactive approach to capital structure management.

Recent Developments

Hefei Jade Mansion

In July 2014, we entered into a land grant contract with the relevant PRC land authority to acquire a parcel of land situated in Hefei, Anhui Province for a consideration of approximately RMB1,546.2 million (US\$249.2 million). This parcel of land comprises an aggregate site area of approximately 184,070 sq.m. and a planned GFA of approximately 555,044 sq.m. The development on this parcel of land is expected to feature high-rise residential buildings.

Xiamen Xiang'an Project

In July 2014, we entered into a land grant confirmation letter with the relevant PRC land authority to acquire a parcel of land situated in Xiamen, Fujian Province for a consideration of approximately RMB2,000.0 million (US\$322.4 million). This parcel of land comprises an aggregate site area of approximately 90,981 sq.m. and a planned GFA of approximately 225,100 sq.m. The development on this parcel of land is expected to feature high-rise residential buildings. We hold a 51% equity interest in the project.

Shanghai Zhoupu Project

In September 2014, we entered into a land grant contract with the relevant PRC land authority to acquire a parcel of land situated in Shanghai for a consideration of approximately RMB1,535.0 million (US\$247.4 million). This parcel of land comprises an aggregate site area of approximately 49,369 sq.m. and a planned GFA of approximately 83,927 sq.m. The development on this parcel of land is expected to feature high-rise residential buildings.

Beijing Tongzhou Project

In October 2014, we entered into a joint venture agreement with an independent third party to develop the Beijing Tongzhou Project. The project is situated in Tongzhou, Beijing and expected to comprise high-rise commercial and office properties, with an aggregate site area of approximately 49,759 sq.m. and a planned GFA of approximately 206,600 sq.m. We hold a 50% equity interest in the joint venture.

Chengdu Chenghua Project

In October 2014, we entered into a land grant confirmation letter with the relevant PRC land authority to acquire a parcel of land situated in Chengdu, Sichuan Province for a consideration of approximately RMB248.1 million (US\$40.0 million). This parcel of land comprises an aggregate site area of approximately 18,799 sq.m. and a planned GFA of approximately 93,994 sq.m. The development on this parcel of land is expected to feature commercial properties.

Hong Kong Tung Chung Commercial Project

In November 2014, we entered into a land grant contract with Hong Kong Lands Department to acquire a parcel of land situated in Tung Chung, Hong Kong Special Administrative Region for a consideration of approximately HK\$1,830.0 million (US\$236.1 million). This parcel of land comprises an aggregate site area of approximately 12,902 sq.m. and a planned GFA of approximately 56,715 sq.m. The development on this parcel of land is expected to feature a hotel. We hold a 80% equity interest in the joint venture.

Jianyang Sancha Lake Project

In December 2014, we entered into a land grant contract with the relevant PRC land authority to acquire a parcel of land situated in Jianyang, Sichuan Province for a consideration of approximately RMB80.0 million (US\$12.9 million). This parcel of land comprises a site area of approximately 93,739 sq.m. and a planned GFA of approximately 112,486 sq.m. The development on this parcel of land is expected to feature low-rise and high-rise residential buildings.

Nanjing Qixia Project

In December 2014, we entered into a land grant confirmation letter with the relevant PRC land authority to acquire a parcel of land situated in Qixia, Nanjing for a consideration of approximately RMB740.0 million (US\$ 119.3 million) and expected to comprise low-rise and high-rise residential properties, with an aggregate site area of approximately 56,357 sq.m. and a planned GFA of approximately 67,628 sq.m. We hold a 51% equity interest in the project.

Nanjing Pukou Project

In December 2014, we entered into a joint venture agreement with an independent third party to acquire a parcel of land situated in Pukou, Nanjing for a consideration of approximately RMB1,640.0 million (US\$264.4 million) and expected to comprise low-rise and high-rise residential properties, with an aggregate site area of approximately 137,437 sq.m. and a planned GFA of approximately 264,552 sq.m. Pursuant to the joint venture agreement, we will hold a 49% equity interest in the joint venture.

Change in Borrowings

Subsequent to June 30, 2014, we fully redeemed the 2010 Notes and drew down the 2014 Syndicated Loan Facilities in full and have from time to time entered into additional loan agreements to finance our property developments or for general corporate purposes in the ordinary course of business. See “Description of Other Material Indebtedness.”

General Information

We were incorporated in the Cayman Islands on October 29, 2004, as an exempted company with limited liability. Our shares have been listed on the Hong Kong Stock Exchange since July 5, 2006. Our place of business in Hong Kong is at Units 4307-12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong. Our registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our website is www.shimaoproperty.com. Information contained on our website does not constitute part of this offering memorandum.

THE OFFERING

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

Issuer	Shimao Property Holdings Limited
Notes Offered	US\$800,000,000 aggregate principal amount of 8.375% Senior Notes due 2022.
Offering Price	100% of the principal amount of the Notes.
Maturity Date	February 10, 2022.
Interest	The Notes will bear interest at a rate of 8.375% per annum from February 10, 2015, payable semi-annually in arrears on February 10 and August 10 of each year, commencing August 10, 2015.
Ranking of the Notes	The Notes are: • general obligations of the Company; • senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes; • at least <i>pari passu</i> in right of payment against the Company with respect to the 2011 Notes, the 2013 Notes, the 2014 Notes, the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities, the 2014 Syndicated Loan Facilities and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law); • guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “Description of the Notes—The Subsidiary Guarantees and JV Subsidiary Guarantees” and in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral;” • effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor (other than the Collateral); and • effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries, including the Prior Notes JV Subsidiary Guarantor (as defined below).

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

- be entitled to a security interest in the Collateral pledged by the Company and the Subsidiary Guarantor Pledgors (subject to any permitted liens) shared on a *pari passu* basis among (i) the holders of the 2011 Notes, (ii) the holders of the 2013 Notes, (iii) the lenders under the 2012 Syndicated Loan Facilities, (iv) the holders of the 2014 Notes, (v) the lenders under the 2013 Syndicated Loan Facilities, (vi) the lenders under the 2014 Syndicated Loan Facilities, (vii) the holders of the Notes and (viii) any other creditors with respect to future Permitted Pari Passu Secured Indebtedness; and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Subsidiary Guarantees

Each of the Subsidiary Guarantors will, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than the Existing Non-Guarantor Subsidiaries. See “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral—Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees.”

The Company will cause each of its future Restricted Subsidiaries (other than those organized under the laws of the PRC or the Exempted Subsidiaries) to guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor. Notwithstanding the foregoing, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary, *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors (other than Exempted Subsidiaries) do not account for more than 25% of the Total Assets of the Company.

A Subsidiary Guarantee may be released or replaced in certain circumstances. See “Description of the Notes—The Subsidiary Guarantees and JV Subsidiary Guarantees—Release of the Subsidiary Guarantees and JV Subsidiary Guarantees.” In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may (i) release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC, (ii) discharge the pledge of the Capital Stock granted by such Subsidiary Guarantor and its Restricted Subsidiaries organized outside the PRC who have provided Subsidiary Guarantees, and (iii) discharge the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such Subsidiary Guarantor, *provided* that after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors (including the Subsidiary Guarantors whose Subsidiary Guarantees were released) do not account for more than 25% of the Total Assets of the Company.

Ranking of Subsidiary Guarantees

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* in right of payment with the guarantees provided for the 2011 Notes, the 2012 Syndicated Loan Facilities, the 2013 Notes, the 2013 Syndicated Loan Facilities, the 2014 Notes, the 2014 Syndicated Loan Facilities and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law). See “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral.”

JV Subsidiary Guarantees

Summer Sky Investments Limited (the “Prior Notes JV Subsidiary Guarantor”), which provides a JV subsidiary guarantee under the 2011 Notes and the 2013 Notes but does not provide guarantee for the 2014 Notes, will not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee with respect to the Notes.

Except as provided under “Subsidiary Guarantees,” a JV Subsidiary Guarantee is required to be delivered by a Subsidiary Guarantor if the Company wishes to release such Subsidiary Guarantor from its Subsidiary Guarantee following a sale by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale is for no less than 20% of the issued Capital Stock of the relevant Subsidiary Guarantor. The JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

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

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

Security to be Granted

The Company has agreed, for the benefit of, *inter alia*, the holders of the Notes, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each initial Subsidiary Guarantor (collectively, the “Collateral”) in order to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor Pledgor under its Subsidiary Guarantee, except as otherwise provided below.

The Collateral securing the Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Collateral will be shared on a *pari passu* basis by the holders of the Notes and the holders of other secured indebtedness including the holders of the 2011 Notes, the lenders under the 2012 Syndicated Loan Facilities, the holders of the 2013 Notes, the lenders under the 2013 Syndicated Loan Facilities, the holders of the 2014 Notes, the lenders under the 2014 Syndicated Loan Facilities and any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness. See “Description of the Notes—Security.”

	The Collateral will not consist of the pledge of shares by the Company in Shimao Property Holdings (BVI) Limited, Shimao Property Holdings (BVI) Limited in Peak Castle Assets Limited or Peak Castle Assets Limited in Modern Way Holdings Limited.
Intercreditor Agreement	The Company, the Subsidiary Guarantor Pledgors, the Shared Security Agent, the trustee for the 2011 Notes, the facility agent for the 2012 Syndicated Loan Facilities, the trustee for the 2013 Notes, the trustee for 2014 Notes, the facility agent for the 2013 Syndicated Loan Facilities and the facility agent for the 2014 Syndicated Loan Facilities have entered into or acceded to an intercreditor agreement dated January 14, 2010, as amended or supplemented from time to time, to which the trustee for the Notes will accede. This agreement provides that the security interests held in the Collateral will be shared on a <i>pari passu</i> basis among (i) the holders of the 2011 Notes, (ii) the lenders under the 2012 Syndicated Loan Facilities, (iii) the holders of the 2013 Notes, (iv) the lenders under the 2013 Syndicated Loan Facilities, (v) the holders of the 2014 Notes, (vi) the lenders under the 2014 Syndicated Loan Facilities, (vii) the holders of the Notes and (viii) any other creditors with respect to future Permitted Pari Passu Secured Indebtedness.
Use of Proceeds	We intend to use the net proceeds from this offering to refinance our existing indebtedness (including redemption of our 2011 Notes in part or in whole), finance our existing and new property development projects (including land premium and construction costs) and for other general corporate purposes to enhance our liquidity position.
Optional Redemption of the Notes	At any time and from time to time on or after February 10, 2019, the Company may at its option redeem the Notes, in whole or in part, at the redemption prices set forth in “Description of the Notes—Optional Redemption” plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to February 10, 2018, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 108.375% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time prior to February 10, 2019, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in “Description of the Notes—Optional Redemption.”
Repurchase of Notes Upon a Change of Control Triggering Event	Upon the occurrence of a Change of Control Triggering Event, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount <i>plus</i> accrued and unpaid interest, if any, to the repurchase date. See “Description of the Notes—Repurchase of Notes Upon a Change of Control Triggering Event.”

Redemption for Taxation Reason

As more fully described herein, the Company may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption, if the Company or a Subsidiary Guarantor or JV Subsidiary Guarantor (if any) would become obliged to pay certain additional amounts as a result of certain changes in specified tax laws. See “Description of the Notes—Redemption for Taxation Reasons.”

Covenants

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

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

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

Transfer Restrictions

The Notes will not be registered under the U.S. Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Transfer Restrictions.”

Form, Denomination and Registration

The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 of principal amount and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of a common depositary for Euroclear and Clearstream.

Book-Entry Only	The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants, including Euroclear and Clearstream, Luxembourg. For a description of certain factors relating to clearance and settlement, see “Description of the Notes—Book-Entry; Delivery and Form.”	
Delivery of the Notes	The Company expects to make delivery of the Notes, against payment in same-day funds on or about February 10, 2015, which the Company expects will be the fifth business day following the date of this offering memorandum referred to as “T+5.” You should note that initial trading of the Notes may be affected by the T+5 settlement. See “Plan of Distribution.”	
Trustee	Citicorp International Limited	
Principal Paying, Transfer Agent and Registrar	Citibank, N.A., London Branch	
Shared Security Agent	Citibank, N.A.	
Listing	Approval in-principle has been received for the listing and quotation of the Notes on the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 (or its Dollar Equivalent) for as long as the Notes are listed on the SGX-ST.	
Ratings	The Notes are expected to be rated BB- by Standard and Poor’s Rating Services, BB+ by Fitch Ratings and Ba3 by Moody’s Investors Service. We cannot assure investors that these ratings will not be adversely revised or withdrawn either before or after delivery of the Notes.	
Governing Law	The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.	
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “Risk Factors.”	
ISIN/Common Code	ISIN XS1157365070	Common Code 115736507

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary consolidated income statement data for the years ended December 31, 2011, 2012 and 2013 and the summary consolidated balance sheet data as of December 31, 2011 and 2012 and 2013 set forth below (except for EBITDA data) have been derived from our audited consolidated financial statements for such years and as of such dates, as audited by PricewaterhouseCoopers, our independent certified public accountants. The summary consolidated income statement data for the six months ended June 30, 2013 and 2014 and the summary consolidated balance sheet data as of June 30, 2014 set forth below (except for EBITDA data) have been derived from our unaudited condensed interim consolidated financial statements for such periods and as of such date. Results for the interim periods are not necessarily indicative of results for the full year. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions. The summary financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Summary Consolidated Income Statement and Other Financial Data

	For the year ended December 31,				For the six months ended June 30,		
	2011	2012	2013		2013	2014	
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
				Unaudited	Unaudited	Unaudited	Unaudited
	(in thousands, except percentages)						
Revenue	26,031,426	28,652,243	41,502,660	6,690,093	16,676,901	23,675,412	3,816,399
Costs of sales	(16,031,376)	(19,046,444)	(26,861,772)	(4,330,030)	(10,753,275)	(15,601,859)	(2,514,969)
Gross profit	10,000,050	9,605,799	14,640,888	2,360,063	5,923,626	8,073,553	1,301,430
Fair value gains on investment properties ..	2,527,013	2,362,880	1,031,206	166,227	855,821	1,097,144	176,856
Other income/other gains — net	794,320	1,196,104	845,063	136,221	545,475	121,606	19,602
Selling and marketing costs	(769,889)	(1,046,841)	(1,305,735)	(210,480)	(537,456)	(624,925)	(100,736)
Administrative expenses	(1,349,272)	(1,815,871)	(2,283,303)	(368,061)	(984,253)	(1,414,891)	(228,076)
Other operating expenses	(192,173)	(266,706)	(592,136)	(95,450)	(57,307)	(63,894)	(10,300)
Operating profit	11,010,049	10,035,365	12,335,983	1,988,520	5,745,906	7,188,593	1,158,776
Finance income	100,074	146,055	190,850	30,764	133,436	65,986	10,637
Finance costs	(480,420)	(168,170)	(312,211)	(50,327)	(153,059)	(178,448)	(28,765)
Finance costs — net	(380,346)	(22,115)	(121,361)	(19,563)	(19,623)	(112,462)	(18,128)
Share of results of:							
- Associated companies	97,653	(210,938)	(51,443)	(8,292)	(45,964)	(69,552)	(11,212)
- Jointly controlled entities	24,213	363,125	895,649	144,376	272,357	(13,372)	(2,156)
	121,866	152,187	844,206	136,084	226,393	(82,924)	(13,368)
Profit before income tax	10,751,569	10,165,437	13,058,828	2,105,041	5,952,676	6,993,207	1,127,280
Income tax expense	(4,302,640)	(3,580,949)	(4,833,504)	(779,145)	(2,162,646)	(2,334,850)	(376,370)
Profit for the year/period	6,448,929	6,584,488	8,225,324	1,325,896	3,790,030	4,658,357	750,910
Profit for the year/period attributable to:							
Equity holders of the Company	5,722,775	5,764,632	7,389,857	1,191,221	3,470,158	4,180,298	673,850
Non-controlling interests	726,154	819,856	835,467	134,675	319,872	478,059	77,060
	6,448,929	6,584,488	8,225,324	1,325,896	3,790,030	4,658,357	750,910
Other Financial Data (Unaudited)							
EBITDA ⁽¹⁾	9,345,160	9,201,704	13,984,654	2,254,280	5,644,258	7,668,071	1,236,068
EBITDA margin ⁽²⁾	35.9%	32.1%	33.7%	33.7%	33.8%	32.4%	32.4%

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

Summary Consolidated Balance Sheet Data

	As of December 31,				As of June 30,	
	2011	2012	2013		2014	
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
				Unaudited	Unaudited	Unaudited
			(in thousands)			
Non-current assets						
Property and equipment	8,325,789	9,702,631	10,378,052	1,672,908	10,515,033	1,694,989
Investment properties	20,566,979	26,248,098	26,941,944	4,342,953	27,136,376	4,374,295
Land use rights	2,475,068	4,717,336	5,645,416	910,023	5,507,072	887,722
Intangible assets	2,264,027	2,139,925	1,847,573	297,823	1,841,332	296,817
Associated companies	1,308,281	1,490,441	1,650,578	266,068	1,609,802	259,495
Available-for-sale financial assets	267,362	369,833	408,440	65,839	330,143	53,218
Jointly controlled entities	1,522,831	3,985,956	5,365,806	864,950	6,828,565	1,100,742
Amounts due from related parties	2,785,046	1,561,719	2,266,694	365,384	2,484,619	400,512
Deferred income tax assets	1,313,909	1,248,390	1,306,338	210,577	1,358,475	218,982
Other non-current assets	3,205,665	757,250	2,008,313	323,733	3,810,496	614,239
	44,034,957	52,221,579	57,819,154	9,320,258	61,421,913	9,901,011
Current assets						
Properties under development	37,324,085	37,608,942	62,559,873	10,084,447	71,456,523	11,518,557
Completed properties held for sale	7,382,116	7,103,351	11,604,899	1,870,672	15,252,057	2,458,582
Trade and other receivables and prepayments	4,472,085	6,638,544	11,217,421	1,808,212	13,088,650	2,109,848
Prepayment for acquisition of land use rights	7,634,561	6,676,235	9,632,388	1,552,709	13,063,074	2,105,725
Prepaid income taxes	949,184	1,165,244	2,154,779	347,343	2,282,228	367,888
Amounts due from related parties	1,451,591	1,316,027	1,206,095	194,419	1,097,041	176,839
Restricted cash	1,681,222	2,204,028	2,547,231	410,605	2,945,389	474,787
Cash and cash equivalents	12,312,740	15,893,845	17,026,018	2,744,538	18,186,652	2,931,629
	73,207,584	78,606,216	117,948,704	19,012,945	137,371,614	22,143,855
Current liabilities						
Trade and other payables	17,317,407	14,316,430	20,995,325	3,384,378	24,839,231	4,004,003
Dividend payable	—	—	—	—	2,232,793	359,919
Advanced proceeds received from customers	11,828,902	20,578,024	29,900,978	4,819,940	32,405,481	5,223,657
Income tax payable	7,159,326	7,259,690	9,327,098	1,503,498	9,329,210	1,503,838
Borrowings	14,983,419	12,380,644	11,775,322	1,898,143	12,680,261	2,044,017
Derivative financial instruments	52,115	42,572	36,898	5,948	10,716	1,727
Amounts due to related parties	30,831	2,897,713	10,336,395	1,666,193	13,585,517	2,189,941
Amount due to a non-controlling interest	—	—	—	—	—	—
Deferred income	101,815	36,615	5,057	815	5,123	826
	51,473,815	57,511,688	82,377,073	13,278,915	95,088,332	15,327,928
Net current assets	21,733,769	21,094,528	35,571,631	5,734,030	42,283,282	6,815,927
Total assets less current liabilities	65,768,726	73,316,107	93,390,785	15,054,288	103,705,195	16,716,938
Non-current liabilities						
Borrowings	27,577,834	28,613,297	37,553,681	6,053,530	42,018,031	6,773,169
Deferred income tax liabilities	3,172,815	3,775,578	3,985,242	642,408	4,239,001	683,313
	30,750,649	32,388,875	41,538,923	6,695,938	46,257,032	7,456,482
Equity						
Share capital	355,737	356,275	356,275	57,430	356,275	57,430
Share premium	9,748,530	8,311,805	6,059,274	976,735	5,968,228	962,059
Reserves	20,487,413	27,239,070	35,326,701	5,694,549	37,268,368	6,007,539
	30,591,680	35,907,150	41,742,250	6,728,714	43,592,871	7,027,028
Non-controlling interests	4,426,397	5,020,082	10,109,612	1,629,636	13,855,292	2,233,428
	35,018,077	40,927,232	51,851,862	8,358,350	57,448,163	9,260,456

RISK FACTORS

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

Risks Relating to Our Business

We are dependent on the performance of the PRC property market

Our business and prospects depend on the performance of the property market in the PRC. As of June 30, 2014, we had 112 projects at various stages of development located in cities in the Yangtze River Delta such as Shanghai, Nanjing, Kunshan, Zhangjiagang, Suzhou, Wuxi, Xuzhou, Changzhou, Taizhou, Hangzhou, Shaoxing, Jiaxing, Nantong and Ningbo, cities in the Bohai Rim such as Beijing, Tianjin, Jinan, Dalian and Qingdao, and key regional cities such as Harbin, Fuzhou, Quanzhou, Wuhan, Xianyang, Nanchang, Chengdu, Xiamen, Shenyang and Xi'an. Any property market downturn in the PRC generally or, in particular, in Yangtze River Delta, Bohai Rim or other cities and regions where we operate, could adversely affect our business, results of operations and financial condition.

Demand for private residential properties in the PRC, particularly in the Yangtze River Delta and the Bohai Rim, has grown significantly in recent years, but such growth is often coupled with volatility in market conditions and fluctuations in property prices. In addition, demand for properties has been affected and will continue to be affected by the macro-economic control measures implemented by the PRC government from time to time. In recent years, the PRC government has announced a series of measures designed to stabilize the growth of the PRC economy and to stabilize the growth of specific sectors, including the property market, to a more sustainable level. For more information on the measures, see "Regulation."

We cannot assure you that property development and investment activities will continue at past levels or that there will not be an economic downturn in the property markets in the regions and cities where we operate. Our business, financial condition and results of operations have been and will continue to be dependent on the state of the PRC property market, and our business may be affected by adverse developments in the supply and demand for properties or adverse change in property prices in the PRC. Any adverse development in the property market in the regions and cities in China where we operate or may operate in the future could have a material and adverse effect on our business, results of operations and financial condition.

Increasing competition in the PRC, particularly in the Yangtze River Delta and the Bohai Rim, 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, particularly in the Yangtze River Delta and the Bohai Rim. The intensity of the competition among property developers in the Yangtze River Delta, the Bohai Rim and other parts in the PRC for land, financing, raw materials and skilled management and labor resources may result in increased cost for land acquisition and construction, a decrease in property prices and delays in the government approval process. An oversupply of properties available for sale could also depress the prices of the properties we sell and may adversely affect our business, financial condition and results of operations.

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

We may not be able to obtain sites that are suitable for property developments

We derive a substantial portion of our revenue from sales of properties that we have developed. To have a steady stream of developed properties available for sale and sustainable business growth, we need to replenish and increase our land reserves with additional land suitable for development. Our ability to identify and acquire suitable development sites is subject to a number of factors, some of which are beyond our control.

The supply of substantially all of the land in the PRC is controlled and regulated by the PRC government. The land supply policies adopted by the PRC government directly impact our ability to acquire land use rights for development and our costs of such acquisitions. In recent years, the PRC central and local governments have implemented various measures to regulate the means by which property developers may obtain land. See “—Risks Relating to Our Industry—The PRC government may adopt further measures to cool down the overheating of the property sector.” If we fail to acquire sufficient land reserves in a timely manner and on acceptable terms, or at all, our business, prospects, results of operations and financial condition may be materially and adversely affected.

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

We have expanded into second- and third-tier cities in the PRC as well as Hong Kong and plan to increase our penetration into these cities. In addition, we may expand our business into other geographic areas where the local potential customers may not be familiar with our brand. We cannot assure you that we can execute successfully our contemplated expansion plan or that we will succeed in effectively integrating our expanded operations, or that our expanded operations will generate adequate returns on our investments or positive operating cash flows.

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

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

The fiscal and other measures adopted by the PRC government from time to time may limit our flexibility and ability to use bank loans to finance our property developments and therefore may require us to maintain a relatively high level of internally sourced cash. In November 2009, the PRC government raised the minimum down payment of land premium to 50%. In March 2010, this requirement was further tightened. The PRC government set the minimum land premium at no less than 70% of the benchmark price of the locality where the parcel of land is granted, and the bidding deposit at not less than 20% of the minimum land premium. Additionally, a land grant contract is required to be entered into within 10 working days after the land grant deal is closed, and the down payment of 50% of the land premium is to be paid within one month of signing the land grant contract, with the remaining to be paid in full within one year of the date of the land grant contract in accordance with provisions of such land grant contract, subject to limited exceptions. Such change of policy may constrain our cash otherwise available for additional land acquisition and construction. We cannot assure you that we will have adequate resources to fund land acquisitions (including any unpaid land premiums for past acquisitions), or property developments.

On September 28, 2007, the Ministry of Land and Resources issued revised “Rules regarding the Grant of State-owned Land Use Rights for Construction by Way of Tender, Auction and Listing-for-sale” (招標拍賣掛牌出讓國有建設用地使用權規定), which provides that property developers must fully pay the land premium for the entire parcel under the land grant contract before they can receive a land use rights certificate and commence development on the land. This regulation became effective on November 1, 2007. As a result, property developers are not allowed to bid for a large piece of land, make partial payment, and then apply for a land use rights certificate for the corresponding portion of land in order to commence development, which had been the practice in many Chinese cities. The implementation of such regulation requires property developers to maintain a higher level of working capital, which may have a material adverse effect on our cash flow position, financial condition and business plans.

The land use rights for some of our development sites will not be formally vested until we have received the relevant land use rights certificates

Under current PRC land grant policies, the relevant authorities will not issue the formal land use rights certificate for a piece of land until the developer has paid the land premium in full, completed the resettlement process and is in compliance with other land grant conditions. Although we have obtained the formal land use rights certificates for all our properties under development, we have yet to obtain the formal land use rights certificates for some of our project sites held for future development. As of June 30, 2014, the development sites for which we had not obtained formal land use rights certificates accounted for 14.5% of our total land bank (based on estimated GFA) and comprised 19 projects held for future development. Certain projects, such as projects developed by Zhangjiagang Shimao Real Estate Development Co., Ltd., Dalian Shimao Xintian Property Co., Ltd. and Hangzhou Shimao Ruiying Property Co., Ltd., have not obtained all the land use rights certificates as we have not paid the land premium in full. We have communicated with the relevant land authorities on deferred payment of the land premium and we have not been subject to any penalty as of the date of this offering memorandum. In addition, we have experienced a delay in obtaining the land use rights certificate for Chongqing Shimao Château De La Ville, Ningbo World Gulf Damuwan, Fuzhou Nantong Village Project, Fuzhou Guling Project and Dalian Shimao Dragon Bay primarily due to the lengthy resettlement process to be completed by the local government. As of the date of this offering memorandum, we have obtained the land use rights certificates for Chongqing Shimao Château De La Ville and Fuzhou Nantong Village Project.

The land use rights for these properties and the land that we may acquire in the future will not be formally vested until we have received the corresponding formal land use rights certificates. If we fail to acquire the land use rights for our projects in a timely manner, or at all, our business and prospects, results of operations and financial condition may be materially and adversely affected.

We may not be able to obtain adequate funding to finance our land acquisitions or property developments

The property development business is capital intensive. We have historically financed our land acquisition and property developments primarily through a combination of capital contributions from our shareholders, bank and other borrowings, internal cash flows, including proceeds from the pre-sale of our properties, and other funds we raised from the capital markets, including the initial public offering of our shares in 2006 and our offering of the 2006 Notes, the 2010 Notes, the 2011 Notes, the 2013 Notes and the 2014 Notes, among others. We cannot assure you that we will have sufficient cash flow available for land acquisitions or property developments or that we will be able to achieve sufficient pre-sales and sales to fund land acquisitions or property developments. In addition, we cannot assure you that we will be able to secure external financing on terms acceptable to us or at all. As of June 30, 2014, our borrowings included in non-current liabilities and current liabilities were RMB42,018.0 million (US\$6,773.2 million) and RMB12,680.3 million (US\$2,044.0 million), respectively. In July 2014, we drew down US\$665,000,000 and HK\$555,000,000 under the 2014 Syndicated Loan Facilities, part of which has been used to redeem the 2010 Notes. See “Description of Other Material Indebtedness—2014 Syndicated Loan Facilities.”

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

- forbid PRC commercial banks from extending loans to property developers to finance land premiums;
- restrict PRC commercial banks from extending loans for the development of luxury residential properties;
- restrict the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;
- prohibit commercial banks from taking commodity properties that have been vacant for more than three years as security for mortgage loans; and
- forbid property developers from using borrowings obtained from any local banks to fund property developments outside that local region.

In addition, the PBOC regulates the reserve requirement ratio for commercial banks in the PRC, which affects the availability and cost of financing from PRC commercial banks. The PBOC has adjusted the bank reserve requirement ratio six times in 2010, seven times in 2011, twice in 2012 and twice in 2014. The reserve requirement ratio for commercial banks currently ranges from 13% to 20.0% with effect from June 16, 2014.

We cannot assure you that the PRC government will not introduce other measures which may limit our access to capital resources. The foregoing and other governmental actions and policy initiatives may limit our flexibility and ability to use bank loans or other forms of financing to finance our property developments and therefore may require us to maintain a relatively high level of internally sourced cash. As a result, 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 or maintain formal qualification certificates or other requisite government approvals

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 of 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 provisional qualification certificate valid for one year, which can be renewed for a maximum of two additional one-year periods. 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.

In addition, property developers in the PRC, such as our individual project companies, are required to present a valid qualification certificate when they apply for a pre-sale permit. 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 annual verification by relevant governmental authorities. It is mandatory under government regulations that developers fulfill 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. 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, 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. Qualification certificates of certain of our project companies, such as Wuhan Shima New City Real Estate Development Co., Ltd., Wuhan Shima Carnival Property Co., Ltd., Xianyang Shima Real Estate Development Co., Ltd., Nantong Shima New Era Property Development Co., Ltd., Zhangjiagang Shima Real Estate Development Co., Ltd., Pingtan Straits Ruyicheng Development and Construction Co., Ltd., Pingtan Straits Ruyicheng Xindouhui Development and Construction Co., Ltd., Qingdao Shiao Investment and Development Co., Ltd., Qingdao Shima Investment and Development Co., Ltd., Jinan Shima Property Co., Ltd., Changsha Shima Investment Co., Ltd. and Shenyang Zhaolong Real Estate Development Co., Ltd. have expired and we are in the process of renewing them. We cannot assure you that the qualification certificates of any of our project companies will continue to be renewed or that formal qualification certificates will be obtained in a timely manner, or at all, as and when they expire. If our project or project management companies are unable to obtain or renew their qualification certificates, they may not be permitted to continue their businesses, which could materially and adversely affect our business, financial condition and results of operations.

Entities engaged in property management should also obtain qualification certifications before commencing their business, pursuant to the Measures on Administration of Qualification Certificates of Property Service Enterprises (物業服務企業資質管理辦法). If any of our property management companies is unable to meet the relevant requirements and therefore unable to obtain or maintain the qualification certificates, our business and financial condition could be materially and adversely affected.

In addition to the above, we cannot assure you that we will not encounter significant problems in making payment of the registered capital in a timely manner or at all, or satisfying other conditions necessary for the issuance of other licenses, certificates, permits or approvals. If we fail to obtain the necessary licenses, certificates, permits or approvals for any of our PRC subsidiaries or property projects, our business, results of operations and financial condition may be materially and adversely affected.

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

On May 23, 2007, MOFCOM and SAFE jointly promulgated the Notice on Further Strengthening and Regulating the Approval and Supervision of Foreign Direct Investment in the Real Estate Industry (關於進一步加強、規範外商直接投資房地產業審批和監管的通知) which provides that foreign-invested real estate enterprises approved to be incorporated by the competent local authority shall promptly complete required filings with MOFCOM. On June 18, 2008, MOFCOM promulgated the Notice on Better Implementation of the Filing of Foreign Investment in the Real Estate Industry (關於做好外商投資房地產業備案工作的通知), according to which, MOFCOM authorizes provincial departments in charge of commerce to verify the record-filing materials of property development projects with foreign investment. These regulations effectively prohibit our ability to fund our PRC subsidiaries by way of shareholder loans. Pursuant to the Guidelines for Administration over Foreign Debt Registration (外債登記管理操作指引) promulgated by SAFE on April 28, 2013 and effective from May 13, 2013, real estate enterprises with foreign investment approved by local MOFCOM and filed with MOFCOM after (and including) June 1, 2007 are not allowed to register foreign debt contracts with SAFE or its local branches; where the foreign-invested real estate enterprise does not fully pay the registered capital, or does not obtain the Land Use Certificate for State-owned Land, or the registered capital for project development fails to reach 35% of total amount of project investment, such enterprise shall not incur foreign debt and SAFE or its local branches shall not register foreign debt contracts for such enterprise.

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

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

The nature of our business may expose us to unpredictable and unstable operating cash flows

Our operating cash flow will affect our liquidity and our ability to service our indebtedness. We had a net cash outflow from operating activities of RMB4,061.8 million, RMB10,811.1 million (US\$1,742.7 million) and RMB5,618.3 million (US\$905.7 million) in 2011, 2013 and the first half of 2014, respectively. We had a net cash inflow from operating activities of RMB8,394.3 million in 2012. We cannot assure you that we will be able to continue to generate and maintain sufficient cash flow to service our indebtedness. If we are unable to make scheduled payments in connection with our debts and other fixed payment obligations as they become due, we may need to refinance such obligations or obtain additional financing. We cannot assure you that our refinancing efforts would be successful or timely or that we could secure additional financing on acceptable terms, or at all. If we fail to maintain sufficient cash flow to service our indebtedness or our refinancing efforts are unsuccessful, our liquidity, business, and financial condition will be materially and adversely affected.

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

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

- the economic slowdown and tightened credit have resulted in lower demand for residential and commercial properties and declining property prices; and
- the tightening of credit has negatively impacted the ability of property developers and potential property purchasers to obtain financings.

In response to the adverse change in the global economy and the real estate market in the PRC, we scaled back some of our original business expansion plans, and postponed the completion and development schedules of some of our projects. We also slowed the pace of our development schedules for certain projects held for future development and adjusted the selling prices of some of our properties downward.

More recently, global market and economic conditions have continued to be adversely affected by the ongoing credit crisis in Europe, the credit rating downgrade of the United States and Japan, and heightened market volatility in major stock markets. These and other issues resulting from the global economic slowdown and financial market turmoil have adversely impacted, and may continue to adversely impact, home owners and potential property purchasers, which may lead to a decline in the general demand for our properties 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. If the global economic slowdown and financial crisis continue or become more severe than currently anticipated, our business, prospects, financial condition and results of operations could be materially and adversely affected.

Our operating results fluctuate from period to period and the fluctuations make it difficult to predict our future performance

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, our revenue was RMB26,031.4 million, RMB28,652.2 million, RMB41,502.7 million (US\$6,690.1 million) and RMB23,675.4 million (US\$3,816.4 million), respectively, and profit for the year/period was RMB6,448.9 million, RMB6,584.5 million, RMB8,225.3 million (US\$1,325.9 million) and RMB4,658.4 million (US\$750.9 million), respectively. We have derived our revenues principally from the sale of properties, hotel operations and the leasing of investment properties.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, the sale of properties accounted for approximately 94.5%, 92.9%, 95.2% and 95.5%, respectively, of our revenue. Because we derive a significant portion of our revenue from the sale of properties, our results of operations are affected by the demand for our properties and the price at which we are able to sell them. The demand for and average selling price of our properties are in turn, to a large extent, affected by the general condition of the property market and the economy. These and other factors beyond our control (for example, availability of land for acquisition and cost of materials and construction) may lead to fluctuations in our revenue and profit from period to period, and make it difficult to predict our future financial performance.

In addition, we recognize proceeds from the sale of a property as revenue only upon the delivery of the property. In periods in which we pre-sell a large aggregate GFA, we may not generate a correspondingly high level of revenue if the properties pre-sold are not delivered within the same period. Therefore, our revenue and profit during any given period may not be indicative of the actual demand for our properties or sales achieved during that period.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, our hotel operating income and rental income from investment properties, in aggregate, were RMB1,332.6 million, RMB1,506.5 million, RMB1,534.5 million (US\$247.4 million) and RMB797.6 million (US\$128.6 million), respectively, and accounted for approximately 5.1%, 5.3%, 3.7% and 3.4%, respectively, of our revenue. We believe that period-to-period comparisons of our operating results may not be as meaningful as they would be for a company with a greater proportion of recurring revenues.

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

The real estate industry in the PRC is heavily regulated by the PRC government. PRC property developers must comply with various requirements mandated by national and local laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property development, 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. We cannot assure you 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.

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

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

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

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

We may have to bear the resettlement or similar costs associated with our development properties

We purchase land from both the PRC government and private entities. Where land is obtained from the PRC government, resettlement or similar costs are usually included in the land premium payable. Government authorities are required to enter into written agreements with the owners of properties on such land to be demolished to provide for compensation for relocation and resettlement costs. The compensation payable by government authorities cannot be lower than the market value of similar properties at the time of expropriation. If the compensation paid by government authorities increases significantly due to increases in property market prices, the land premiums payable by us may be subject to substantial increases, which could adversely affect our business, results of operations and financial condition. In addition, any delay or difficulty in the resettlement process may cause a delay in the delivery of the land to us, in whole or in part, and may require an increase in the fees payable in connection with the resettlement process.

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 agreement. Property developers, including us, generally elect to specify the deadline for the delivery of the individual property ownership certificates in the sale and purchase agreements to allow sufficient time for the application and approval processes. 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 receipt of the completion and acceptance certificate for the relevant properties and apply for the general property ownership certificate in respect of these properties. We are then required to submit within regulated periods after delivery of the properties, the relevant property sale and purchase agreements, identification documents of the purchasers, proof of payment of deed tax, together with the general property ownership certificate, for the relevant local authority's review and the issuance of the individual property ownership certificates in respect of the properties purchased by the respective purchasers. Delays by the various administrative authorities in reviewing the application and granting approval as well as other factors may affect timely delivery of the general as well as individual property ownership certificates. We cannot assure you that we will not become liable to purchasers for late delivery of the individual property ownership certificates due to our own fault or for any other reason beyond our control.

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

We arrange for various domestic banks to provide mortgages to the purchasers of our properties. In accordance with market practice, domestic banks require us to provide guarantees in respect of these mortgages. Substantially all of these guarantees are discharged upon earlier of (i) the issuance of the property ownership certificate, which generally takes place within 90 days after we deliver possession of the relevant property to the purchaser, and (ii) the settlement of mortgage loans between banks and purchasers of our properties. In line with industry practice, we do not conduct independent credit checks on our customers but

rely instead on the credit checks conducted by the mortgagee banks. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our outstanding guarantees over mortgage loans of our customers amounted to RMB7,093.0 million, RMB8,400.1 million, RMB10,054.7 million (US\$1,620.8 million) and RMB6,051.8 million (US\$975.5 million), respectively. Although we have historically experienced a low rate of default on mortgage loans guaranteed by us, we cannot assure you that such purchaser default rates will not increase in the future. If such default occurs and our relevant guarantee is called upon, our business, results of operations and financial condition could be materially and adversely affected to the extent that there is a material depreciation in the value of the relevant properties or if we are unable to sell the properties due to unfavorable market conditions or other reasons.

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

We provide post-sales property management services to the owners of certain residential projects that we have developed through a majority owned property management subsidiary in the PRC. The services include rental agency, security management, maintenance, shuttle bus services, clubhouse operation, gardening and landscaping and other customer services. Under PRC laws and regulations, the home owners in a residential community have the right to change the property management company through collective action. If owners of the projects that we have developed elect to discontinue our property management services, our branding strategy and the marketing of our future property development could be adversely and significantly affected.

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

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

- adverse development in general economic conditions;
- dependence on business, commercial and leisure travelers and tourism;
- dependence on meeting and conference business;
- the impact of acts of war or increased tensions between certain countries, increased terrorism threats, terrorist events, impediments to means of transportation (including airline strikes, road closures and border closures), extreme weather conditions, natural disasters, outbreaks of diseases and health concerns, rising fuel costs or other factors that may affect travel patterns and reduce the number of business and leisure travelers;
- adverse effects of international market conditions, which may diminish the demand for first class and luxury leisure travel or the need for business travel, as well as national, regional and local political, economic and market conditions where our hotels operate and where our customers live;
- increased competition and periodic local oversupply of guest accommodation, which may adversely affect occupancy rates and room rates;
- increases in operating costs due to inflation, labor costs (including the impact of unionization), workers' compensation and health-care related costs, utility costs (including energy costs), increased taxes and insurance costs, as well as unanticipated costs such as acts of nature and their consequences and other factors that may not be offset by increased room rates;
- seasonality in travel patterns;
- changes in interest rates and in the availability, cost and terms of debt financing; and
- changes in governmental laws and regulations (including trade restrictions), fiscal policies and zoning ordinances and the related costs of compliance.

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

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

Unlike properties developed for sale which can be pre-sold (subject to applicable PRC laws relating to pre-sales) to finance other property developments, our investment properties and hotels require significant upfront capital expenditures but generate no cash inflow until the development has been completed and the hotel operation or the lease with respect to the relevant investment properties commences. In addition, our existing investment properties and hotels, and all of our future investment properties and hotels, will require continuing capital expenditures associated with renovations and other capital improvements, some of which are mandated by health, safety or other regulations or by the hotel management partners. The cost of construction and capital improvements could have a material adverse effect on our business, financial condition and results of operations.

The fixed costs associated with owning hotels and investment properties, including rental property operating and maintenance expenses, hotel operating and maintenance expenses, taxes, other fees and payments, may be significant. There may not be sufficient and consistent market demand for hotels and rental properties in our target markets. We may be unable to reduce the fixed costs in a timely manner in response to a decline in demand for our hotel services or investment properties for rental, and any failure to adjust our fixed costs may adversely affect our business, financial condition and results of operations. Moreover, our hotels and investment properties may be subject to increases in operating and other expenses due to adverse changes in contractual terms and increases in tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses, which could materially adversely affect our business, financial condition and results of operations.

We may not be able to generate adequate returns on our investment properties

The investment returns on our investment properties depend, to a large extent, on the amount of capital appreciation generated, income earned from the rental of the relevant properties, changes in market rates for comparable rentals, the inability to collect rent due to bankruptcy or insolvency of tenants, the costs resulting from periodic maintenance, repair and re-letting, as well as the general operating expenses incurred. Maximizing yields from investment properties also depends to a large extent on active ongoing management and maintenance of the properties. Our ability to eventually dispose of investment properties will be affected by market conditions and levels of liquidity, which may be limited or subject to significant fluctuation in the case of certain types of commercial properties. As many of these factors are beyond our control, we cannot assure you that we will generate adequate returns on our investment properties.

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

We reassess the fair value of our investment properties at every reported balance sheet date. In accordance with HKFRS, gains or losses (as applicable) arising from changes in the fair value of our investment properties should be accounted for in our income statements in the period in which they arise. Our valuations are based on current prices in an active market for similar properties or estimated by adopting income capitalization approach based on existing and current market rents for similar properties, using capitalization rates that reflect current market assessments of the uncertainty in the market. Based on such valuation, we recognized the aggregate fair market value of our investment properties on our consolidated balance sheets, and recognized changes in fair values of investment properties and the relevant deferred tax in our consolidated income statements. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we recognized fair value gains on our investment properties of RMB2,527.0 million, RMB2,362.9 million, RMB1,031.2 million (US\$166.2 million) and RMB1,097.1 million (US\$176.8 million), respectively.

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

Our results of operations may be affected by the performance and reputation of the hotel management partners that manage our hotels

Some of our hotels are managed by third-party hotel management partners pursuant to management agreements and other related agreements. Therefore, our results of operations may be affected by the performance of these hotel management partners, as well as any adverse publicity or other adverse developments that may affect these companies or their brands generally.

Under the terms of these management agreements, the third-party hotel management partners control the daily operations of our hotels. Although we monitor our hotel management partners' performance, we do not have the direct authority to require any hotel to be operated in a particular manner or to govern any particular aspect of the daily operations of any hotel (for instance, setting room rates or managing hotel operating staff). Thus, even if we believe our hotels are being operated inefficiently or in a manner that does not result in optimal or satisfactory occupancy rates, gross operating profit margins or other performance indicators, we may not be able to require the management partners to change the way they manage our hotels.

All revenue generated by our hotels, including credit card receivables, is paid into an operating account held by us, from which operating and other expenses for the relevant hotels (including certain taxes), management fees and deposits into any reserve funds required by the applicable management agreement are drawn. In addition, in the event that we wish to replace any of our management partners, we may be unable to do so under the terms of our management agreements or we may need to pay substantial termination fees and may experience disruptions at the affected hotels. The effectiveness and performance of the hotel management partners in managing our hotels will, therefore, significantly affect the revenue, expenses and value of our hotels.

Our hotel management partners and our anchor tenants may have interests that are not aligned with our objectives for our hotels and investment properties

Our hotel management partners and anchor tenants that rent and operate the retail units owned by us have non-exclusive arrangements with us and may own, operate or franchise other properties, including the properties that may compete with the properties owned by us. Therefore, the hotel management partners and our anchor retail tenants may have interests that differ from with our interests with respect to short-term or long-term goals and objectives. To the extent the interests of our hotel management partners and anchor retail tenants conflict with our interests, the operation of our hotel and retail properties can be disadvantaged and harmed.

Our financing costs are affected by changes in interest rates

Our financing costs and as a result, our business, financial condition and results of operations, are affected by changes in interest rates. A substantial portion of our borrowings are linked to benchmark lending rates published by the PBOC. The PBOC benchmark one-year lending rates in China (which directly affects the property mortgage rates offered by commercial banks in the PRC) as of December 31, 2011, 2012 and 2013 and June 30, 2014 were 6.56%, 6.00%, 6.00% and 6.00%, respectively, and 5.60% as of December 31, 2014. The PBOC may raise lending rates in the future, in which case our business, financial condition and results of operations will be adversely affected as a result. We are also exposed to fluctuations in the Hong Kong Interbank Offered Rate ("HIBOR") and the London Interbank Offered Rate ("LIBOR"), to which the

interest rate for some of our borrowings, including the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities and the 2014 Syndicated Loan Facilities, are linked. For details on such indebtedness, see “Description of Other Material Indebtedness.” Higher interest rates may increase our finance costs, and our business, financial condition and results of operations could be adversely affected. As of June 30, 2014, we had RMB54,698.3 million (US\$8,817.2 million) of outstanding borrowings (including the 2010 Notes, the 2011 Notes, the 2012 Syndicated Loan Facilities, the 2013 Notes, the 2013 Syndicated Loan Facilities and the 2014 Notes), and the effective interest rate on our outstanding borrowings was approximately 7.4%. Our interest expenses on the total borrowings for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 were RMB3,039.9 million, RMB3,224.6 million, RMB3,605.5 million (US\$581.2 million) and RMB2,079.6 million (US\$335.2 million), respectively.

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

Because property investments in general are relatively illiquid, our ability to promptly sell one or more of our investment properties in response to changing economic, financial and investment conditions is limited. The property market is affected by various factors, such as general economic conditions, availability of financing, interest rates, supply and demand, many of which are beyond our control. We cannot predict whether we will be able to sell any of our investment properties for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a purchaser and to complete the sale of a property. In addition, if we sell an investment property during the term of that property’s management agreement or tenancy agreement, we may have to pay termination fees to our hotel management partners or our anchor retail tenants.

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

Our Chairman, Mr. Hui Wing Mau, is able to exercise substantial influence over our corporate policies and direct the outcome of corporate actions

As of October 31, 2014, approximately 64.99% of our outstanding shares were beneficially owned by Mr. Hui Wing Mau. Subject to compliance with applicable laws, by maintaining such ownership, Mr. Hui Wing Mau is able to exercise substantial influence over our corporate policies, appoint our directors and officers and vote on corporate actions requiring shareholders’ approval. In addition, Mr. Hui Wing Mau owns a number of private companies based in the PRC and Hong Kong (collectively, the “Private Group”). Under the present contractual non-competition undertaking arrangement, subject to certain exceptions, the Private Group is not permitted to undertake any business that competes with us in the PRC, except for the existing projects undertaken by the Private Group as of October 27, 2007. See “Related Party Transactions—Non-competition Undertaking.” Furthermore, being our Chairman, Mr. Hui Wing Mau is able to exercise substantial control over our business. In particular, the strategic goals and interests of Mr. Hui Wing Mau may not be aligned with our strategy and interests of those of the holders of the Notes, and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base.

A deterioration in our brand image could adversely affect our business

We regard the “Shimao” brand name and the related trademarks and devices we use as important assets to our business. Any negative incident or negative publicity concerning us or our property developments could adversely affect our reputation and business. Brand value is based largely on subjective consumer perceptions and can be damaged even by isolated incidents that degrade consumer trust. Consumer demand for our products and our brand value could diminish significantly if we fail to preserve the quality of our

products, or fail to deliver a consistently positive consumer experience in each of our complexes, or if we are perceived to act in an unethical or socially irresponsible manner. In addition, any unauthorized use or infringement of our brand name may impair the value we have built in our brand name, damage our reputation and materially and adversely affect our business and results of operations.

Our success depends on the continued service of our Chairman, Mr. Hui Wing Mau, and continued efforts of other management and key personnel

We depend on the continued service of our Chairman, Mr. Hui Wing Mau. He has over 24 years of experience in the property development, property investment and hotel operation and in-depth knowledge of the PRC real estate industry, strategic planning and business management. If we lose the services of Mr. Hui Wing Mau, our business could be adversely affected.

In the PRC real estate industry, competition for senior management and key personnel is intensive while the pool of qualified candidates is very limited, and we cannot assure you that any member of senior management or other key personnel is willing or able to continue in his or her present position or that we will be able to find and hire a suitable replacement, or if he or she is recruited by a competitor or departs to start a competing business. Moreover, along with our growth and expansion into other regional markets in the PRC, we will need to employ, train and retain additional suitable skilled and qualified management and employees from a wider geographical area. If we cannot attract and retain suitable personnel, our business and future growth may be materially and adversely affected.

Disputes with joint venture partners may adversely affect our business

We have, and expect to have in the future, interests in PRC joint venture entities in connection with our property development plans. We do not have control of the board of directors of certain joint venture companies, including, among others, Fast Right Investments Limited, Kingtron Enterprises Limited, Top Grand International Enterprise Limited, Hangzhou Shimao Shiyong Property Development Co., Ltd., Haishu Property Development (Hangzhou) Co., Ltd., Straits Construction Investment (Holdings) Limited, Tianjin Jinnan New City Property Development Co., Ltd., and Guangzhou Lihe Property Development Co., Ltd. and therefore we do not have the right to control the management of the relevant joint venture companies. A deterioration in our relationship with the other joint venture partners could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, in accordance with PRC law, certain matters relating to a sino-foreign joint venture require the consent of all parties to the joint venture. PRC joint ventures may involve risks associated with the possibility that our joint venture partners may:

- have economic or business interests or goals that are inconsistent with ours;
- take actions contrary to our instructions or requests or contrary to our policies or objectives;
- be unable or unwilling to fulfill their obligations under the relevant joint venture agreements; or
- have financial difficulties.

Furthermore, any actual or perceived deterioration in the reputation of our joint venture partners could have an adverse impact on our business operations, profitability and prospects.

In addition, a disagreement with any of our joint venture partners or project development partners in connection with the scope or performance of our respective obligations under the project or joint venture or cooperation arrangement could affect our ability to develop or operate a property. Our joint venture partners or project development partners may be unable or unwilling to perform their obligations under the relevant agreements, including their obligation to make required capital contributions and shareholder loans, whether as a result of financial difficulties or otherwise. A serious dispute with our joint venture partners or project development partners or the early termination of our joint venture or cooperation arrangements could adversely affect our business, financial condition and results of operations and would divert resources and management's attention.

Should a situation arise in which we cannot complete a project being jointly developed with our joint venture partners or property development partners, due to one of the above reasons or for any other reason, the rights and obligations of each party with respect to the uncompleted project will be determined by the relevant joint venture or cooperation agreements. If such agreements are silent or inconclusive with regard to such rights and obligations, the resolution of any dispute may require arbitration or, failing that, litigation, which could have an adverse effect on our business, results of operations and financial condition. See “—We have been and may continue to be involved from time to time in disputes, administrative, legal and other proceedings arising out of our operations and may face significant liabilities or suffer damage to our reputation as a result.” In addition, even if a jointly developed project is successfully completed, the project may not be well received by the market and we may not realize all the benefits we anticipated.

We cannot assure you that we will not encounter any of the foregoing problems with respect to our joint venture partners or project development partners. Our capital contributions to the joint development projects may not be offset by revenues or other benefits from such projects. Furthermore, we cannot assure you that properties in our joint development projects will be well received by the market. If our joint venture entities experience any delay or difficulty in the development of the projects due to any of the above factors or if the projects are not as well received by the market as anticipated, there could be a material adverse effect on our business, financial condition, results of operations and prospects.

We may be adversely affected by the performance of independent contractors

In line with industry practice, we engage independent contractors to provide various property development services, including construction, piling and foundation, engineering, interior decoration, mechanical and electrical installation and utilities installation. We select independent contractors through open tenders. We typically invite contractors to tender bids based on their reputation for quality, track record, price and references, and once a contract is awarded, we supervise the construction progress. However, we cannot assure you that the services rendered by any of these independent contractors or subcontractors will be completed in a timely manner or be of satisfactory quality. If the performance of any independent contractor is not satisfactory, we may need to replace that contractor or take other remedial actions, which could increase the cost and lengthen the time required to complete the work and the whole project. In addition, we are expanding our business into other regional markets in China, and there may be a shortage of contractors that meet our quality requirements in such markets. Moreover, contractors may undertake projects for other developers, engage in risky or unsound practices or encounter financial or other difficulties, which may affect their ability to complete their work for us on time or within budget. Any of the above factors could have a material and adverse effect on our reputation, business, results of operations and financial condition.

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

A significant component of our cost of sales is construction costs, which are susceptible to the price volatility of construction materials such as steel and cement. The purchase cost for construction materials are generally accounted for as part of the contractor fees pursuant to our arrangements with the relevant contractors. 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 existing construction contracts to top up payment to, or receive refunds from, the contractors, depending on the price movement. In addition, as we typically pre-sell our properties prior to their completion, we may not be able to pass the increased costs on to our customers if construction costs increase subsequent to the pre-sale. As such, our profit margin is sensitive to changes in the market prices for construction materials and our profit margins will be adversely affected if we are not able to pass all of the increased costs onto our customers.

There are significant uncertainties under the EIT Law relating to the withholding tax liabilities of our PRC subsidiaries

We are a holding company that is financially dependent on distributions from our subsidiaries and our business operations are principally conducted through our PRC subsidiaries. Prior to December 31, 2007, dividend payments to foreign investors made by foreign-invested enterprises, such as dividends paid to us by our PRC subsidiaries, were exempt from PRC withholding tax. The Enterprise Income Tax Law (“EIT Law”)

and the implementation regulations to the EIT Law issued by the PRC state council, which became effective on January 1, 2008, provide that any dividend payment to foreign investors will be subject to a withholding tax at a rate of 10%. Pursuant to the Arrangement Between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006, a company incorporated in Hong Kong may be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in that particular PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% interest in that subsidiary, although as described below there is uncertainty under a State Administration of Taxation circular regarding whether certain intermediate Hong Kong holding companies will be eligible for benefits under this arrangement. Many of our PRC subsidiaries are currently wholly owned by Hong Kong subsidiaries. However, according to the Circular of State Administration of Taxation on Printing and Issuing the Administrative Measures (Trial) for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties (國家稅務總局關於印發〈非居民享受稅收協定待遇管理辦法(試行)〉的通知), which became effective on October 1, 2009, the 5% withholding tax rate does not automatically apply and approvals from competent local tax authorities are required before an enterprise can enjoy any benefits under the relevant taxation treaties. Moreover, according to a tax circular issued by the State Administration of Taxation in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. There is no assurance that the PRC tax authorities will grant approvals on the 5% withholding tax rate on dividends received by our subsidiaries in Hong Kong from our PRC subsidiaries.

There can be no assurance that the PRC government will not 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 and/or if such changes are applied retroactively, such changes could materially and adversely affect our results of operations and financial condition.

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 that are in the property development business are subject to LAT which is collected by the local tax authorities. All income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value as defined by the relevant tax laws, with certain exemptions available for the sale of ordinary residential properties if the appreciation values do not exceed 20% of the total deductible items as defined in the relevant tax laws. Sales of commercial properties are not eligible for such exemption. We estimate and make provisions for the full amount of applicable LAT in accordance with the requirements set forth in the relevant PRC tax laws and regulations, but only pay a portion of such provisions each year as required by the local tax authorities. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, LAT charged to our income tax expense was RMB1,170.8 million, RMB925.9 million, RMB2,107.2 million (US\$339.7 million) and RMB474.8 million (US\$76.5 million), respectively. For the same periods, we made payments for provisional LAT in the amount of RMB819.9 million, RMB1,429.2 million, RMB1,623.6 million (US\$261.7 million) and RMB1,089.7 million (US\$175.7 million), respectively. Our LAT provision balance as of December 31, 2011, 2012 and 2013 and June 30, 2014 totaled RMB4,055.6 million, RMB3,682.8 million, RMB4,583.6 million (US\$738.9 million) and RMB3,996.4 million (US\$644.2 million), respectively. Our LAT provisions are based on our estimate of the portion of our apartment units and residential parts of our combined-use buildings that are eligible for the exemption available to ordinary residential properties. We cannot assure you that the tax authorities will agree with our estimation or the basis on which we calculate our LAT obligations. In the event that the tax authorities assess us with additional LAT and we are unable to successfully challenge such assessments, our net profits after tax may be adversely affected. We cannot assure you that the LAT obligations we are to assess and provide for in respect of the properties that we develop will be sufficient to cover the LAT obligations which the local tax authorities ultimately impose on us.

Effective February 1, 2007, the State Administration of Taxation issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (關於房地產開發企業土地增值稅清算管理有關問題的通知), which requires that:

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

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

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

Local provincial tax authorities can formulate their own implementation rules according to the notice and local situations and there are uncertainties as to how they will enforce this notice. On May 12, 2009, the State Administration of Taxation issued the Provisions on Administration of the Settlement of Land Appreciation Tax (土地增值稅清算管理規程), which became effective on June 1, 2009 and stipulates in detail the procedures for settlement of LAT and methods of calculating LAT. Furthermore, on May 25, 2010, the State Administration of Taxation published the Circular on Strengthening the Collection and Administration of Land Appreciation Tax (關於加強土地增值稅徵管工作的通知) (the “SAT Circular”). According to the SAT Circular, all local governments were required to make adjustments to the then prevailing provisional LAT rate. In addition to safeguarding housing, the provisional LAT rate of provinces in the eastern region shall not be lower than 2%, while the provinces in the middle and northeastern regions shall not be lower than 1.5% and the provinces in the western region shall not be lower than 1%; and the local governments may determine the provisional LAT rate applicable to different types of real estate.

In the event that relevant tax authorities change their requirements as to the amount or timing of payment of provisional LAT, our cashflow may be materially and adversely affected. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations—Selected Income Statement Items—Income Tax Expenses.”

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 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 realized by the local government on the land sale. However, we do not have the exclusive right to acquire the land use rights. We also do not control the timing of the sale of the land use rights in respect of the land that we have cleared, nor do we set 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. We cannot assure you that we will win bids in a timely manner or at all; nor can we assure you that the relevant land authorities will achieve an optimal price for the sale of such land use rights. We cannot assure you that we will be reimbursed for the expenses that we incur in connection with such land clearance, nor can we assure you that we will receive any profit from such land use right sales. Furthermore, the PRC State Council on January 3, 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. This new requirement may limit our ability to participate in such land clearance work in the future. We cannot assure you that the PRC government will not issue any additional laws or regulations revoking the land clearance agreements that we have entered into with the local governments.

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

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

As of the date of this offering memorandum, we have not commenced the construction work for certain of our projects as required by the relevant land grant contracts. However, we do not expect these projects will be subject to idle land fees or forfeiture as the delays in construction work with respect to certain parcels of project land were due to the failure to complete the requisite demolition works by the local governments or other governmental reasons. As the date of this offering memorandum, we have not been required to pay any idle land fees or penalties in respect of idle land, and none of our land had been forfeited by the government as a result of being idle. However, we cannot assure you that there will be no significant delays in the commencement of construction or the development of our properties in the future, or that our developments will not be subject to idle land penalties or be taken back by the government as a result of such delays. The imposition of substantial idle land penalties could have a material and adverse effect on our business, results of operations and financial condition. If any of our land is taken back by the government, we would not only lose the opportunity to develop the property, but we would also lose our prior investments in the development, including land premiums paid and costs incurred in connection with such land.

The terms on which mortgages are available to purchasers of our properties, if at all, may affect our sales

Most of our purchasers rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing, thus reducing the attractiveness of mortgages as a source of financing for property purchases and adversely affecting the affordability of residential properties. In addition, the PRC government and commercial banks may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. Furthermore, mortgagee banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan would exceed 50% of the individual borrower's monthly income.

Each of the CBRC and PBOC in recent years has issued regulations on, among others, the minimum interest rate, down payment and minimum interest for mortgage loans. In the event that mortgage loans for property purchases becomes more difficult to obtain or that the costs of such financing increases, many of our prospective customers who rely on such financing may not be able to purchase our properties, which in turn will materially and adversely affect our business, financial condition and results of operations.

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

There is no assurance that certain current ancillary facilities will continue to provide services to the owners or users of our property developments

The ancillary facilities within our residential communities enhance the value of our properties by improving the overall quality and value of the surrounding areas, thus offering a better living environment to the owners and users of our properties. However, we do not operate or manage some of the ancillary facilities, such as schools and hospitals. We cannot assure you that these facilities will continue to operate and provide services in our residential communities. In the event that these facilities cease to operate in our residential communities, our properties may become less attractive and competitive and this may adversely affect the value of our properties.

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 the nature of the adjoining properties. Environmental laws and conditions, may cause us to incur substantial compliance and other costs and can prohibit, delay, or severely restrict project development activity in environmentally-sensitive regions or areas.

As required by PRC laws and regulations, each project we develop is required to undergo environmental assessments and an environmental impact assessment document is required to be submitted to the relevant government authorities for approval before commencement of construction. The local authorities may request us to submit the environmental impact documents, issue orders to suspend construction and impose a penalty amounting up to RMB200,000 for each of our projects for which approval of the environmental impact assessment document has not been granted prior to the commencement of construction. For certain of our projects, we did not submit the environmental impact assessment documents although we have obtained the relevant government approvals to commence the development of these projects. We have completed the construction of the relevant properties. However, we cannot assure you that the local authorities will not impose a penalty upon us with respect to these projects due to the lack of such environmental impact documents or that an environmental investigation with respect to these projects in the future would not reveal material environmental liabilities.

In addition, PRC law requires environmental facilities to be included in a property development to pass the inspection by the environmental authorities in order to obtain completion approval before commencing operations. Some of our residential and hotel property projects have environmental facilities that are subject to this requirement. If we fail to comply with such requirement, the local environmental authorities may order us to suspend the construction or use of such facilities, which may disrupt our operations and adversely affect

our business. The authorities may also impose on us a fine of up to RMB100,000 per breach in respect of such projects. We cannot assure you that we can obtain such approvals in a timely manner, or at all. In the event that such completion approvals cannot be obtained or if fines are imposed on us, our business, results of operations and financial condition may be materially and adversely affected.

We may suffer certain losses not covered by insurance

We do not carry comprehensive insurance against potential losses or damages with respect to our properties under development other than those buildings over which our lending banks have security interests and for which we are required to maintain insurance coverage under the loan agreements. We believe that such liabilities should be borne by construction companies. In addition, we do not carry insurance for any liability arising from tortious acts committed or alleged to have been committed on work sites. We cannot assure you that we will not be sued or held liable for damages due to such tortious acts. Moreover, there are certain losses for which insurance is not available on commercially practicable terms in China, such as losses suffered due to earthquake, war, civil unrest and certain other events of force majeure. If we suffer from any losses, damages and liabilities in the course of our operations and property development, we may not have sufficient funds to cover any such losses, damages or liabilities or to replace any property development that has been destroyed. In addition, any payment we make to cover any losses, damages or liabilities could have a material adverse effect on our business, results of operations and financial condition.

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

Under Regulations on the Administration of Quality of Construction Works (建設工程質量管理條例), all property development companies in the PRC must provide certain quality warranties for the properties they construct or sell. We are required to provide these warranties to our customers. Generally, we receive quality warranties from our third-party contractors with respect to our development projects. If a significant number of claims are brought against us under our warranties and if we are unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, or if the money retained by us to cover our payment obligations under the quality warranties is not sufficient, we could incur significant expenses to resolve such claims or face delays in correcting the related defects, which could in turn harm our reputation and have a material and adverse effect on our business, financial condition and results of operations.

We have been and may continue to be involved from time to time in disputes, administrative, legal and other proceedings arising out of our operations and may face significant liabilities or suffer damage to our reputation as a result

We have been and may continue to be involved in disputes with various parties involved in the construction, development and the sale of our properties, including contractors, suppliers, construction workers, joint venture partners and property purchasers. These disputes may lead to protests, legal or other proceedings and may result in damage to our reputation, incurrence of substantial costs and the diversion of resources and management's attention. As many of our projects are comprised of multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the relevant project is perceived to be inconsistent with our representations and warranties made to such earlier purchasers. These disputes and legal and other proceedings may materially and adversely affect our reputation and our business, results of operations and financial condition. See "Business—Legal Proceedings."

In addition, we may have compliance issues with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in liabilities and cause delays to our property developments. If we, our executive officers or other agents fail to comply with any applicable laws or regulations, including the PRC or other applicable anti-corruption laws or regulations, our reputation and our business, results of operations and financial condition may be materially and adversely affected.

Our investments in the PRC are subject to the PRC government's control over foreign investment in the property sector

The PRC government has in the past imposed restrictions on foreign investment in the property sector to curtail the overheating of the property sector by, among other things, increasing the capital and other requirements for establishing foreign-invested real estate enterprises, tightening foreign exchange control and imposing restrictions on purchases of properties in China by foreign persons. On May 23, 2007, the MOFCOM and the SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in Real Estate Sector in the PRC (關於進一步加強、規範外商直接投資房地產業審批和監管的通知), which, among other things, provides that:

- foreign investment in the property sector in the PRC relating to high-end properties should be strictly controlled;
- prior to obtaining approval for the establishment of foreign-invested real estate enterprises, either (i) both the land use rights certificates and housing title certificates should be obtained, or (ii) contracts for obtaining land use rights or housing titles should be entered into;
- foreign-invested real estate enterprises approved by local authorities shall immediately register with the MOFCOM through a filing made by the local authorities; and
- foreign exchange administration authorities and banks authorized to conduct foreign exchange business should not affect foreign exchange settlements of capital account items for those foreign-invested real estate enterprises which have not completed their filings with the MOFCOM or fail to pass the annual inspection.

In June 2008, the MOFCOM issued the Notice Regarding Completing the Registration of Foreign Investment in the Real Estate Sector (關於做好外商投資房地產業備案工作的通知), often known as “Notice No.23.” According to Notice No.23, the MOFCOM entrusts provincial MOFCOM departments to verify materials on records of foreign-invested real estate enterprises. Notice No.23 requires that the establishment (including the increase of registered capital) of a foreign-invested real estate enterprise shall comply with the project company principle of engaging in one approved real estate project only.

In addition, in December 2010, the MOFCOM promulgated the Notice on Strengthening Administration of the Approval and Registration of Foreign Investment into Real Estate Industry (關於加強外商投資房地產業審批備案管理的通知), which, among other things, provides that where a real estate enterprise is established within the PRC with foreign capital, it is prohibited to purchase and/or sell real estate properties, completed or under construction, within the PRC for arbitrage purposes. The local MOFCOM authorities shall not approve investment companies to engage in real estate development and management.

According to the Guide for Foreign Debt Registration Management (外債登記管理操作指引) promulgated in April 2013, for foreign-invested real estate enterprises established on or before June 1, 2007, SAFE could process such enterprises' foreign debt registration in an amount not exceeding the difference between the total investment in such enterprise and its registered capital; for those established after June 1, 2007, SAFE refuses any registration for entering into foreign debts; for those who fail to pay up their registered capital or obtain land use rights certificates, or if such companies fund less than 35% of the total investment amount of a development project, such enterprises are not permitted to borrow foreign debt and SAFE shall reject any registration for entering into foreign debt.

On June 24, 2014 MOFCOM and SAFE jointly promulgated the Circular on Improving the Record-filing for Foreign Investment in Real Estate (關於改進外商投資房地產業備案工作的通知), which simplifies the procedures for registering foreign investment in real estate, MOFCOM registration has been changed from paper-based to electronic and selective examination will be conducted during and after the registration.

Restrictions imposed by the PRC government on foreign investment in the property sector may affect our ability to make further investments in our PRC subsidiaries and as a result may limit our business growth and have an adverse effect on our business, financial condition and results of operations.

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

Facts and statistics in this offering memorandum relating to China's economy and the real estate industry are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers or our or their respective advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

We benefit from government grants which may be withdrawn

In the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, certain of our subsidiaries, including Taizhou Shimao New City Real Estate Development Co., Ltd., have received incentive grants from relevant government authorities in respect of the business operated by our Group in various areas. These government grants are given to encourage the furtherance of our business. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we received a total government grants of RMB261.9 million, RMB344.3 million, RMB318.3 million (US\$51.3 million) and RMB191.5 million (US\$30.9 million), respectively. Governmental grants are one-off, non-recurrent payments and vary according to local governmental policies. The amounts granted were determined and paid at the sole discretion of respective government authorities. The PRC State Council and the Ministry of Finance issued circulars on November 2014 and December 2014, respectively, to clean up and standardize preferential policies provided by PRC local governments. The circulars provide that, without the approval of the PRC State Council, no PRC local government and authority may provide fiscal preferential policies for enterprises, and the implementation of all preferential policies which violate laws and regulations shall be ceased as of December 1, 2014. We cannot assure you that the amount of subsidies granted to us in the past will be paid in any future period. In the event that we are no longer eligible for such grants for any reason, including if we fail to comply with the conditions imposed on such grants, our business, financial condition and results of operations could be materially and adversely affected.

Risks Relating to Our Industry

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, including Shanghai and Beijing, in the early 1990s culminated in an over-supply 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 cities such as Shanghai and Beijing therein have experienced rapid and significant growth. In recent years however, risk of property over-supply is increasing in parts of China, where property investment, trading and speculation have become overly active. In the event of actual or perceived over-supply, together with the effect of the PRC government policies to curtail the overheating of the property market, property prices may fall significantly and our revenue and results of operations will be adversely affected. We cannot assure you that the problems of over-supply and falling property prices that occurred in the mid-1990s will not recur in the PRC property market and the recurrence of such problems could adversely affect our business and financial condition. The PRC property market is also susceptible to the volatility of the global economic conditions as explained in “—Risks Relating to Our Business—The global economic slowdown and financial crisis have negatively impacted, and may continue to negatively impact, our business.”

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

The PRC government may adopt further measures to cool down the overheating of the property sector

Our business is subject to extensive governmental regulation. As with other PRC property developers, we must comply with various requirements mandated by PRC laws and regulations, including the policies and procedures established by local authorities designed to implement such laws and regulations. In particular, the PRC government exerts considerable direct and indirect influence on the PRC property sector by imposing industry policies and other economic measures, such as control over the supply of land for property development, foreign exchange, property financing, taxation and foreign investment. Through these policies and measures, the PRC government may restrict or reduce land available for property development, raise benchmark interest rates of commercial banks, place additional limitations on the ability of commercial banks to make loans to property developers and property purchasers, impose additional taxes and levies on property sales and restrict foreign investment in the PRC property sector.

In the second half of 2008 and 2009, in order to mitigate the impact of the global economic slowdown, the PRC government has adopted measures to encourage domestic consumption in the residential property market and support property development. These policies may not necessarily have a positive effect on our operations and our future business development. Starting from late 2009, the PRC government has revised or terminated such favorable policies according to changes in market conditions and adopted certain new policies to cool down the property market, including, without limitation:

- abolishing certain preferential treatments relating to business taxes payable upon transfers of residential properties by property owners and imposing more stringent requirements on the payment of land premium by property developers;
- imposing property purchase restrictions on non-local citizens, decreasing the maximum loan to value ratio of mortgage loans offered to borrowers;
- increasing the minimum down payment to at least 60% of the total purchase price for second-house purchases with a minimum lending interest rate of at least 110% of the benchmark rate;
- restricting purchasers, in certain targeted cities, from acquiring second (or further) residential properties and restricting non-residents that cannot provide any proof of local tax or social security payments for more than a specified time period from purchasing any residential properties;
- launching new property tax schemes in certain cities such as Chongqing and Shanghai on a trial basis, levying property tax on part of individual residential properties in these two cities;
- levying business tax on the full amount of the transfer price if an individual owner transfers a residential property within five years of purchase;
- urging provincial governments to implement home purchase restrictions to control property prices, listing certain criteria for the implementation of the restrictions, and, in the second half of 2011, extending such home purchase restrictions to certain second- and third-tier cities in addition to the 40-plus first- and second-tier cities which have already adopted home purchase restriction measures;
- strictly enforcing the idle land related law and regulations; and
- restricting the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties.

See “—Risks Relating to Our Business—We are dependent on the performance of the PRC property market.”

These measures may limit our access to capital resources, reduce market demand for our products and increase our operating costs in complying with these measures. We cannot assure you that the PRC government will not re-instate property-purchase or other limitations that have been removed or adopt additional and more stringent measures, which could further slowdown property development in China. If we fail to adapt our operations to new policies, regulations and measures that may come into effect from time to time with respect to the real property industry, or such policy changes disrupt our business or cause us to incur additional costs, our business, financial condition, results of operations and prospects may be materially and adversely affected.

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

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

Limited availability of accurate financial and market information and the general low level of transparency in China contribute to overall uncertainty. Purchasers and investors may be discouraged from acquiring new properties due to the lack of a liquid secondary market for residential properties. In addition, the limited amounts and types of mortgage financing available to individuals, together with the lack of long-term security of legal title and enforceability of property rights, may also inhibit demand for residential property.

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

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

Risks Relating to the PRC

Changes in the PRC's political, economic and social conditions, laws, regulations and policies may have an adverse effect on us

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

The economy of the PRC differs from the economies of most developed countries in many respects, including but not limited to the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth by allocating of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Certain measures taken by the PRC government to guide the allocation of resources may benefit the overall economy of China but may, however, also have

a negative effect on us. For example, our business, financial condition, results of operations and prospects may be adversely affected by government control over capital investments, changes in tax regulations that are applicable to us, change in interest rates and statutory reserve rates for banks or government control in bank lending activities.

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

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

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

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

The PRC national economy and economies in different regions of the PRC may be adversely affected by natural disasters, acts of God, and occurrence of epidemics

Our business is subject to general economic and social conditions in the PRC, in particular, in regions where our property development projects are located. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including certain cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan province in May 2008 and subsequently, resulting in tremendous loss of lives and injury and destruction of assets in the region. In April 2013, another earthquake and aftershocks struck Sichuan province again and the epicenter was approximately 100 kilometers from Chengdu. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in China, such as the H5N1 or H7N9 avian flu, Ebola or the human swine flu, especially in the cities where we have operations, may result in material disruptions to our property development and our sales, which in turn may adversely affect our business, financial condition and results of operations.

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

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

Risks Relating to the Notes

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

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

Creditors, including trade creditors of our PRC subsidiaries and other Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on the Non-Guarantor Subsidiaries' assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our Non-Guarantor Subsidiaries (including obligations of our Non-Guarantor Subsidiaries under guarantees issued in connection with our business), and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of June 30, 2014, our PRC subsidiaries had indebtedness in the amount RMB31,822.7 million (US\$5,129.7 million) and capital commitment and contingent liabilities arising from guarantees of RMB11,606.3 million (US\$1,870.9 million). The Notes and the Indenture do not restrict the ability of our subsidiaries to issue certain categories of guarantee in the ordinary course of business. In addition, our secured creditors or those of any Subsidiary Guarantor or JV Subsidiary Guarantor would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor securing the related obligations over claims of holders of the Notes.

Under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse guarantee (a "JV Subsidiary Guarantee") following the sale or issuance to a third party of a 20% to 49.9% equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared to a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes. As of the Original Issue Date, Summer Sky Investments Limited, which is a JV subsidiary guarantor under the 2011 Notes and the 2013 Notes but does not provide any guarantee for the 2014 Notes, will not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee with respect to the Notes. Furthermore, there is no obligation for such Prior Notes JV Subsidiary Guarantors to guarantee the Notes in the future. As a result, the amount recoverable by the holders of the 2011 Notes and the 2013 Notes with respect to the limited-recourse guarantee given by Summer Sky Investments Limited will not be available to holders of the Notes.

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

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our total borrowings (both current and non-current), including the outstanding amounts under the 2006 Notes, the 2010 Notes, the 2011 Notes and the 2013 Notes, as of December 31, 2011, 2012 and 2013 were RMB42,561.3 million, RMB40,993.9 million and RMB49,329.0 million (US\$7,951.7 million), respectively. As of June 30, 2014, our total borrowings included in non-current liabilities and current liabilities were RMB42,018.0 million (US\$6,773.2 million) and RMB12,680.3 million (US\$2,044.0 million), respectively. In addition, in July 2014, we drew down US\$665,000,000 and HK\$555,000,000 (US\$71.6 million) under the 2014 Syndicated Loan Facilities, part of which was used to redeem the 2010 Notes. See “Description of Other Material Indebtedness—2014 Syndicated Loan Facilities.”

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

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

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Under the indentures governing the Notes, the 2011 Notes, the 2013 Notes and the 2014 Notes, our ability to incur additional debt is subject to limitations on indebtedness and preferred stock covenants. Under such covenants, we may incur (i) certain Permitted Indebtedness or (ii) additional indebtedness if we can, among other things, satisfy the Fixed Charge Coverage Ratio. The Fixed Charge Coverage Ratio is derived by dividing Consolidated EBITDA by Consolidated Fixed Charges. Because our definition of Consolidated Net Income (which is a significant component of Consolidated EBITDA) for the Notes, the 2013 Notes and the 2014 Notes includes our unrealized gains on valuation adjustments on our investment properties, our Consolidated EBITDA and therefore our ability to incur additional debt under such covenants, once our 2011 Notes are fully redeemed or their terms are similarly amended, could be substantially larger when compared to other similarly situated PRC senior notes issuers whose covenants do not typically include such unrealized gains in the definition of consolidated net income. In addition, because our definition of Consolidated Interest Expense for the Notes excludes the interest expense on indebtedness of third parties that we guarantee (except to the extent that such interest expense is actually paid by us), once our 2011 Notes, 2013 Notes and 2014 Notes are fully redeemed or their terms are similarly amended, our Consolidated Interest Expense and our ability to incur additional debt could be even larger when compared to other similarly situated PRC senior notes issuers whose covenants would typically include such interest expense in the definition of consolidated interest expense. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify. If our onshore subsidiaries incur additional debt, the ratings assigned to the Notes by any rating agency may be adversely affected which could adversely affect the market price of the Notes. See “—The ratings assigned to the Notes may be lowered or withdrawn in the future.”

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations

as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, the terms of the indentures governing the Notes, the 2011 Notes, the 2013 Notes and the 2014 Notes prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratios requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Certain of our financing arrangements also impose operating and financial restrictions on our business. See “Description of Other Material Indebtedness.” Such restrictions in the Notes, the 2011 Notes, the 2013 Notes, the 2014 Notes and our other financing arrangements 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 required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

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

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

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

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

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

The Notes are denominated in U.S. dollars, while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was widened to 1.0% on April 16, 2012 and revised to 2.0% on March 17, 2014. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 30% from July 21, 2005 to June 30, 2014. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. As of the date of this offering memorandum, we have managed certain of our interest rate risk by using fixed-to-floating interest rate swaps and have converted borrowings of US\$300,000,000 from fixed rate to floating rate through interest rate swap. Following the offering of the Notes, we may enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. The Initial Purchasers and their affiliates may enter into such hedging agreements permitted under the Indenture governing the Notes, and these agreements may be secured by pledges of our cash and other assets as permitted under the Indenture. If we were unable to provide such collateral, it could constitute a default under such agreements.

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

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

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

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

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

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

We conduct substantially all of our business operations through PRC-incorporated subsidiaries in China. The Subsidiary Guarantors, as equity holders in our PRC subsidiaries, are necessarily subject to the bankruptcy and insolvency laws of China in a bankruptcy or insolvency proceeding involving any of such PRC subsidiaries. Any JV Subsidiary Guarantors which become equity holders of our PRC subsidiaries would also be subject to such laws. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of the United States and other jurisdictions with which the holders of the Notes are familiar. You should analyze the risks and uncertainties carefully before you invest in our Notes.

We may be unable to obtain and remit foreign exchange

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

If we are unable to comply with the restrictions and covenants in our debt agreements, including the credit agreements governing the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities and the 2014 Syndicated Loan Facilities and the indentures governing the 2011 Notes, the 2013 Notes, the 2014 Notes and the Notes, there could be a default under the terms of these agreements, which could cause repayment of our debt to be accelerated

If we are unable to comply with the restrictions and covenants in the Indenture governing the Notes, or our current or future debt obligations and other agreements (including the indentures governing the 2011 Notes, the 2013 Notes and the 2014 Notes and the credit agreements governing the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities and the 2014 Syndicated Loan Facilities), there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the indentures governing the Notes, the 2011 Notes, the 2013 Notes and the 2014 Notes and the credit agreements governing the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities and the 2014 Syndicated Loan Facilities, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt, including the Notes, the 2011 Notes, the 2013 Notes and the 2014 Notes, or result in a default under our other debt agreements, including the indentures governing the Notes, the 2011 Notes, the 2013 Notes and the 2014 Notes and the credit agreements governing the 2012 Syndicated Loan Facilities, the 2013

Syndicated Loan Facilities and the 2014 Syndicated Loan Facilities. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Notes, the 2011 Notes, the 2013 Notes, the 2014 Notes, the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities and the 2014 Syndicated Loan Facilities and other debt agreements, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk

The indentures governing the Notes, the 2011 Notes, the 2013 Notes and the 2014 Notes, the credit agreements governing the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities and the 2014 Syndicated Loan Facilities and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

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

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

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

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

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

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

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

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

The Notes are expected to be rated BB- by Standard and Poor’s Ratings Services, BB+ by Fitch Ratings and Ba3 by Moody’s Investors Service. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. In addition, we have been assigned a long-term corporate credit rating of BB with a stable outlook by Standard and Poor’s Rating Services, a corporate family rating of Ba2 with a stable outlook by Moody’s Investors Service and a long-term foreign currency issuer default rating of BB+ with a stable outlook by Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that the ratings on the Notes or our corporate credit rating will remain for any given period of time or that a rating will not be lowered, put on negative outlook or CreditWatch negative or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant, including as a result of the incurrence of further debt. We have no obligation to inform holders of the Notes of any such revision, downgrade, negative outlook, CreditWatch negative or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

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

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

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

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

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

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

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, the financial information in this offering memorandum has been prepared in accordance with HKFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions, or other GAAPs, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between HKFRS and U.S. GAAP or between HKFRS and other GAAPs. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between HKFRS and U.S. GAAP or between HKFRS and other GAAPs and how those differences might affect the financial information contained in this offering memorandum.

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

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

Under the EIT Law we may be classified as a “resident enterprise” of the PRC, which could result in unfavorable tax consequences to us and our non-PRC holders of the Notes

Under the EIT Law, an enterprise established outside of China with “de facto management organization” located within China will be considered a “resident enterprise” in the PRC 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. In April 2009, the State Administration of Taxation specified certain criteria for the determination of the “de facto management bodies” for foreign enterprises that are controlled by PRC enterprises. However, no definition of “management body” has been provided for enterprises established offshore by individuals or foreign enterprises such as our Company. Therefore, it is uncertain whether we will be deemed as a PRC “resident enterprise” for the purposes of the EIT Law. If the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable 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 from sources outside the PRC, such as income from any investment outside the PRC of any portion of the offering proceeds, would be subject to PRC enterprise income tax at a rate of 25%, whereas no direct tax is imposed on enterprises under the laws of the Cayman Islands.

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

Under the EIT Law, if we are deemed as a “resident enterprise” in the PRC, PRC withholding tax at the rate of 10% (or lower treaty rate, if any) might be applicable to interest paid by us to investors that are “non-resident enterprises” if such “non-resident enterprise” investors do not have an establishment or place of business in China or if, despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Any gain realized on the transfer of the Notes by “non-resident enterprise” investors would be subject to a 10% PRC tax if we were treated as a PRC “resident enterprise” and such gain is regarded as income derived from sources within China. In the case of “non-resident individual” investors, the PRC income tax on interest and gains may be imposed at a rate of 20% (or lower treaty rate, if any). If we were a PRC “resident enterprise” and were required under the EIT Law to withhold PRC income tax on interest payable to our Note holders, we would be required to, subject to certain exceptions, pay such additional amounts as would result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding

been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. In addition, if you are required to pay PRC income tax on the transfer of our Notes, the value of your investment in our Notes may be materially and adversely affected. It is unclear whether, if we are considered a PRC “resident enterprise,” holders of our Notes might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

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

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

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

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global notes will trade in book-entry form only, and the Notes in definitive registered form, or definitive registered notes, will be issued in exchange for book entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes will be made to the paying agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to the common depository for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and Clearstream, and if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

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

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

We conduct substantially all of our business operations through our PRC subsidiaries, but none of our current PRC subsidiaries and their direct PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of PRC or their future PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at any time in the future. Moreover, the Notes will not be guaranteed by certain other Non-Guarantor Subsidiaries and under the terms of the Indenture,

Subsidiary Guarantors may be able to release their Subsidiary Guarantees subject to certain conditions and become Non-Guarantor Subsidiaries. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries and certain other Non-Guarantor Subsidiaries. See “Description of the Notes—The Subsidiary Guarantees and JV Subsidiary Guarantees.” Moreover, the charge over the shares of the offshore subsidiaries of the Company (the “Collateral”) will not include the capital stock of our existing or future Non-Guarantor Subsidiaries, including our PRC subsidiaries.

The initial Subsidiary Guarantors that will guarantee the Notes do not have significant operations. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors or JV Subsidiary Guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so. See “—Risks Relating to the Notes—We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.”

Under the terms of the Notes, a Subsidiary Guarantor may be able to release its Subsidiary Guarantee if it sells or issues more than 20% of the Capital Stock of such Subsidiary Guarantor to a third party, as long as the consolidated assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 25% of our total assets.

In addition, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse JV Subsidiary Guarantee following the sale or issuance to a third party of a non-controlling interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions including a cap on the non-guaranteed portion of the assets of JV Subsidiary Guarantors). Summer Sky Investments Limited, which is a JV subsidiary guarantor under the 2011 Notes and the 2013 Notes but does not provide guarantee with respect to the 2014 Notes, will not provide guarantee with respect to the Notes. Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company.

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

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

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

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

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

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors under the Subsidiary Guarantees or JV Subsidiary Guarantees (as the case may be) will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor or JV Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor or JV Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws. We cannot assure you that such limitation will be effective in preserving the enforceability of any of the Subsidiary Guarantees or JV Subsidiary Guarantees.

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

The pledge of certain Collateral may in some circumstances be voidable

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

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

The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes, the 2011 Notes, the 2013 Notes, the 2014 Notes, the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities, the 2014 Syndicated Loan Facilities and other pari passu secured indebtedness

The Collateral will initially consist only of the capital stock of the initial Subsidiary Guarantors (subject to limited exceptions). The Collateral will not consist of the pledge of shares by the Company in Shimao Property Holdings (BVI) Limited, Shimao Property Holdings (BVI) Limited in Peak Castle Assets Limited or Peak Castle Assets Limited in Modern Way Holdings Limited. In addition, the shares we hold in Summer Sky Investments Limited, which will be a Non-Guarantor Subsidiary under the Notes, will not be pledged to secure the Notes, although such shares have been pledged to secure the 2011 Notes, the 2013 Notes and

the 2012 Syndicated Loan Facilities. The security interest in respect of certain Collateral may be released upon the disposition of such Collateral and any proceeds from such disposition may be applied, prior to repaying any amounts due under the Notes, to repay other debt or to make investments in properties and assets that will not be pledged as additional Collateral.

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

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

The Collateral will be shared on a *pari passu* basis by the holders of the Notes, the 2011 Notes, the 2013 Notes and the 2014 Notes, the lenders under the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities and the 2014 Syndicated Loan Facilities and any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness. The value of the Collateral securing the Notes, the 2011 Notes, the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities and the 2014 Syndicated Loan Facilities, the 2013 Notes and the 2014 Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company's and each of the Subsidiary Guarantor Pledgors, obligations under the Notes, the 2011 Notes, the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities and the 2014 Syndicated Loan Facilities, the 2013 Notes and the 2014 Notes and the respective Subsidiary Guarantees, and such Collateral and Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes, additional 2011 Notes, additional 2013 Notes and additional 2014 Notes and the disposition of assets comprising the Collateral, subject to the terms of the Indenture.

The pledge of certain Collateral may be released under certain circumstances

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

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

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately US\$790.9 million, which we plan to use to refinance our existing indebtedness (including redemption of our 2011 Notes in part or in whole), finance our existing and new property development projects (including land premium and construction costs) and for other general corporate purposes to enhance our liquidity position.

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

EXCHANGE RATE INFORMATION

China

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. On May 18, 2007, PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. The floating band was widened to 1.0% on April 16, 2012 and further revised to 2.0% on March 17, 2014. From July 21, 2005 to June 30, 2014, the value of the Renminbi appreciated by approximately 30% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the business day.

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

Period	Exchange Rate			
	Period end	Average ⁽¹⁾	High	Low
(RMB per US\$1.00)				
2010	6.6000	6.6796	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2303	6.3085	6.3879	6.2221
2013	6.0537	6.1478	6.2438	6.0537
2014	6.2046	6.1619	6.2591	6.0402
July	6.1737	6.1984	6.2115	6.1712
August	6.1430	6.1541	6.1793	6.1395
September	6.1380	6.1382	6.1495	6.1266
October	6.1124	6.1251	6.1385	6.1107
November	6.1429	6.1249	6.1429	6.1117
December	6.2046	6.1886	6.2256	6.1490
2015				
January (through January 23)	6.2279	6.2082	6.2279	6.1870

Source: Federal Reserve H.10 Statistical Release

Note:

- (1) Determined by averaging the rates on the last business day of each month during the relevant year, except for the monthly average rate, which is determined by averaging the daily rates during the month.

Hong Kong

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

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

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

Period	Exchange Rate			
	Period end	Average ⁽¹⁾	High	Low
		(HK\$ per US\$1.00)		
2010	7.7810	7.7687	7.8040	7.7501
2011	7.7663	7.7841	7.8087	7.7634
2012	7.7507	7.7569	7.7699	7.7439
2013	7.7539	7.7565	7.7654	7.7503
2014	7.7531	7.7544	7.7669	7.7495
July.....	7.7497	7.7502	7.7517	7.7495
August.....	7.7501	7.7504	7.7514	7.7496
September.....	7.7648	7.7526	7.7650	7.7500
October.....	7.7551	7.7572	7.7645	7.7541
November.....	7.7548	7.7543	7.7572	7.7519
December	7.7531	7.7540	7.7616	7.7509
2015				
January (through January 23).....	7.7511	7.7534	7.7563	7.7508

Source: Federal Reserve H.10 Statistical Release

Note:

- (1) Determined by averaging the rates on the last business day of each month during the relevant year, except for the monthly average rate, which is determined by averaging the daily rates during the month.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization and indebtedness as of June 30, 2014 on an actual basis and on an adjusted basis after giving effect to the issuance of the Notes in this offering after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering. The following table should be read in conjunction with the selected consolidated financial information and the unaudited condensed interim consolidated financial statements and related notes included in this offering memorandum.

	As of June 30, 2014			
	Actual		As adjusted	
	(RMB)	(US\$)	(RMB)	(US\$)
	(in thousands)			
Cash and cash equivalents (excluding restricted cash)⁽¹⁾	<u>18,186,652</u>	<u>2,931,629</u>	<u>23,093,079</u>	<u>3,722,529</u>
Current debt:⁽²⁾⁽³⁾⁽⁴⁾				
Bank borrowings—secured	2,349,000	378,651	2,349,000	378,651
Bank borrowings—unsecured	1,220,272	196,704	1,220,272	196,704
Borrowings from other financial institutions—secured	200,000	32,239	200,000	32,239
Current portion of long-term borrowings	<u>8,910,989</u>	<u>1,436,422</u>	<u>8,910,989</u>	<u>1,436,422</u>
Total current debt	<u>12,680,261</u>	<u>2,044,016</u>	<u>12,680,261</u>	<u>2,044,016</u>
Non-current debt:⁽³⁾⁽⁴⁾⁽⁵⁾				
Bank borrowings—secured ⁽⁶⁾	31,845,811	5,133,440	31,845,811	5,133,440
Bank borrowings—unsecured ⁽⁶⁾	1,012,473	163,207	1,012,473	163,207
Borrowings from other financial institutions—secured ⁽⁶⁾	3,300,000	531,949	3,300,000	531,949
Senior notes—secured ⁽⁷⁾	13,770,736	2,219,798	13,770,736	2,219,798
Medium-term notes—unsecured ⁽⁸⁾	1,000,000	161,197	1,000,000	161,197
Notes to be issued ⁽⁹⁾	—	—	4,906,427	790,900
Less: Amounts due within one year	<u>(8,910,989)</u>	<u>(1,436,422)</u>	<u>(8,910,989)</u>	<u>(1,436,422)</u>
Total non-current debt	<u>42,018,031</u>	<u>6,773,169</u>	<u>46,924,458</u>	<u>7,564,069</u>
Share capital	6,324,503	1,019,489	6,324,503	1,019,489
Reserves	<u>37,268,368</u>	<u>6,007,539</u>	<u>37,268,368</u>	<u>6,007,539</u>
Total equity attributable to our equity holders	<u>43,592,871</u>	<u>7,027,028</u>	<u>43,592,871</u>	<u>7,027,028</u>
Total capitalization⁽¹⁰⁾	<u>85,610,902</u>	<u>13,800,197</u>	<u>90,517,329</u>	<u>14,591,097</u>

Notes:

- (1) *As of June 30, 2014, cash and cash equivalents excluded restricted cash of RMB2,945.4 million (US\$474.8 million). Restricted cash consists principally of guarantee deposits for the benefit of mortgage loan facilities granted by banks to the purchasers of properties and bank deposits pledged as collateral for the borrowings.*
- (2) *Our current debt includes the current portion of long-term borrowings.*
- (3) *As of June 30, 2014, RMB31,822.7 million (US\$5,129.7 million) of our current and non-current debts had been incurred by our PRC subsidiaries.*
- (4) *Our debt does not include any accrual for capital commitments or contingent liabilities. As of June 30, 2014, our consolidated capital commitments were RMB38,760.0 million (US\$6,248.0 million) and our contingent liabilities, all of which were in the form of guarantees that we had provided to our customers in relation to their purchase of our properties, amounted to approximately RMB6,051.8 million (US\$975.5 million), and guarantees that we have provided for the borrowings, amounted to RMB5,554.4 million (US\$895.4 million). See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations—Liquidity and Capital Resources—Contractual Commitments” and “—Contingent liabilities.”*
- (5) *Non-current debt excludes current portion of long-term borrowings.*
- (6) *Subsequent to June 30, 2014, we have from time to time entered into additional loan agreements to finance our property developments or for general corporate purposes in the ordinary course of business. See “Description of Other Material Indebtedness.” Furthermore, we redeemed the 2010 Notes in full on August 3, 2014 and repaid the 2013 SCB Loan in full on December 30, 2014. These changes in our borrowings and any repayments after June 30, 2014 have not been reflected in this capitalization table.*
- (7) *On August 3, 2010, we issued the 2010 Notes with an aggregate principal amount of US\$500,000,000, which were reclassified to current liabilities as of June 30, 2014 and were early redeemed in full on August 3, 2014. On March 8, 2011, we issued the 2011 Notes with an aggregate principal amount of US\$350,000,000. On January 14, 2013, we issued the 2013 Notes with an aggregate principal amount of US\$800,000,000. On January 22, 2014, we issued the 2014 Notes with an aggregate principal amount of US\$600,000,000. These senior notes are senior obligations guaranteed by certain offshore subsidiaries and secured by a pledge of the shares of certain offshore subsidiaries. We may at our option redeem these senior notes, in whole or in part, by certain dates in accordance with the terms of these notes.*
- (8) *On April 15, 2014, Shanghai Shimao issued medium-term notes with an aggregate principal amount of RMB1,000,000,000 at a fixed interest rate of 8.37% per annum due on April 15, 2017.*
- (9) *In accordance with HKFRS, the Notes should be recorded at their fair value upon initial recognition, which may be substantially different from the aggregate principal amount of the Notes. For illustrative purposes only, the Notes have been recorded at their aggregate principal amount, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, in the “As adjusted” column of the table above.*
- (10) *Total capitalization equals total non-current debt plus total equity attributable to our equity holders.*

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalization since June 30, 2014. See “Description of Other Material Indebtedness.”

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables present our selected financial and other data. The selected consolidated income statement data for the years ended December 31, 2011, 2012 and 2013 and the selected consolidated balance sheet data as of December 31, 2011, 2012 and 2013 set forth below (except for EBITDA data) have been derived from our audited consolidated financial statements for such years and as of such dates, as audited by PricewaterhouseCoopers, our independent certified public accountants. The selected consolidated income statement data for the six months ended June 30, 2013 and 2014 and the selected consolidated balance sheet data as of June 30, 2014 set forth below (except for EBITDA data) have been derived from our unaudited condensed interim consolidated financial statements for such periods and as of such date. Results for the interim periods are not necessarily indicative of results for the full year. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions. The selected financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Selected Consolidated Income Statement and Other Financial Data

	For the year ended December 31,				For the six months ended June 30,		
	2011	2012	2013		2013	2014	
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
			Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	(in thousands, except percentages)						
Revenue	26,031,426	28,652,243	41,502,660	6,690,093	16,676,901	23,675,412	3,816,399
Costs of sales	(16,031,376)	(19,046,444)	(26,861,772)	(4,330,030)	(10,753,275)	(15,601,859)	(2,514,969)
Gross profit	10,000,050	9,605,799	14,640,888	2,360,063	5,923,626	8,073,553	1,301,430
Fair value gains on investment properties	2,527,013	2,362,880	1,031,206	166,227	855,821	1,097,144	176,856
Other income/other gains — net.....	794,320	1,196,104	845,063	136,221	545,475	121,606	19,602
Selling and marketing costs	(769,889)	(1,046,841)	(1,305,735)	(210,480)	(537,456)	(624,925)	(100,736)
Administrative expenses	(1,349,272)	(1,815,871)	(2,283,303)	(368,061)	(984,253)	(1,414,891)	(228,076)
Other operating expenses	(192,173)	(266,706)	(592,136)	(95,450)	(57,307)	(63,894)	(10,300)
Operating profit	11,010,049	10,035,365	12,335,983	1,988,520	5,745,906	7,188,593	1,158,776
Finance income	100,074	146,055	190,850	30,764	133,436	65,986	10,637
Finance costs	(480,420)	(168,170)	(312,211)	(50,327)	(153,059)	(178,448)	(28,765)
Finance costs — net	(380,346)	(22,115)	(121,361)	(19,563)	(19,623)	(112,462)	(18,128)
Share of results of:							
- Associated companies	97,653	(210,938)	(51,443)	(8,292)	(45,964)	(69,552)	(11,212)
- Jointly controlled entities	24,213	363,125	895,649	144,376	272,357	(13,372)	(2,156)
	121,866	152,187	844,206	136,084	226,393	(82,924)	(13,368)
Profit before income tax	10,751,569	10,165,437	13,058,828	2,105,041	5,952,676	6,993,207	1,127,280
Income tax expense	(4,302,640)	(3,580,949)	(4,833,504)	(779,145)	(2,162,646)	(2,334,850)	(376,370)
Profit for the year/period	6,448,929	6,584,488	8,225,324	1,325,896	3,790,030	4,658,357	750,910
Profit for the year/period attributable to:							
Equity holders of the Company	5,722,775	5,764,632	7,389,857	1,191,221	3,470,158	4,180,298	673,850
Non-controlling interests	726,154	819,856	835,467	134,675	319,872	478,059	77,060
	6,448,929	6,584,488	8,225,324	1,325,896	3,790,030	4,658,357	750,910
Other Financial Data (Unaudited)							
EBITDA ⁽¹⁾	9,345,160	9,201,704	13,984,654	2,254,280	5,644,258	7,668,071	1,236,068
EBITDA margin ⁽²⁾	35.9%	32.1%	33.7%	33.7%	33.8%	32.4%	32.4%

(1) EBITDA for any period consists of operating profit before fair value gains or losses on the investment properties and certain other special gains or expenses plus depreciation and amortization expenses. EBITDA is not a standard measure under HKFRS.

EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures" for a reconciliation of our operating profit for the year under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized. See "Description of the Notes—Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

- (2) *EBITDA margin is calculated by dividing EBITDA by revenue.*

Selected Consolidated Balance Sheet Data

	As of December 31,				As of June 30,	
	2011	2012	2013		2014	
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
			Unaudited		Unaudited	Unaudited
			(in thousands)			
Non-current assets						
Property and equipment	8,325,789	9,702,631	10,378,052	1,672,908	10,515,033	1,694,989
Investment properties	20,566,979	26,248,098	26,941,944	4,342,953	27,136,376	4,374,295
Land use rights	2,475,068	4,717,336	5,645,416	910,023	5,507,072	887,722
Intangible assets	2,264,027	2,139,925	1,847,573	297,823	1,841,332	296,817
Associated companies	1,308,281	1,490,441	1,650,578	266,068	1,609,802	259,495
Available-for-sale financial assets	267,362	369,833	408,440	65,839	330,143	53,218
Jointly controlled entities	1,522,831	3,985,956	5,365,806	864,950	6,828,565	1,100,742
Amounts due from related parties	2,785,046	1,561,719	2,266,694	365,384	2,484,619	400,512
Deferred income tax assets	1,313,909	1,248,390	1,306,338	210,577	1,358,475	218,982
Other non-current assets	3,205,665	757,250	2,008,313	323,733	3,810,496	614,239
	44,034,957	52,221,579	57,819,154	9,320,258	61,421,913	9,901,011
Current assets						
Properties under development	37,324,085	37,608,942	62,559,873	10,084,447	71,456,523	11,518,557
Completed properties held for sale	7,382,116	7,103,351	11,604,899	1,870,672	15,252,057	2,458,582
Trade and other receivables and prepayments	4,472,085	6,638,544	11,217,421	1,808,212	13,088,650	2,109,848
Prepayment for acquisition of land use rights	7,634,561	6,676,235	9,632,388	1,552,709	13,063,074	2,105,725
Prepaid income taxes	949,184	1,165,244	2,154,779	347,343	2,282,228	367,888
Amounts due from related companies	1,451,591	1,316,027	1,206,095	194,419	1,097,041	176,839
Restricted cash	1,681,222	2,204,028	2,547,231	410,605	2,945,389	474,787
Cash and cash equivalents	12,312,740	15,893,845	17,026,018	2,744,538	18,186,652	2,931,629
	73,207,584	78,606,216	117,948,704	19,012,945	137,371,614	22,143,855
Current liabilities						
Trade and other payables	17,317,407	14,316,430	20,995,325	3,384,378	24,839,231	4,004,003
Dividend payable	—	—	—	—	2,232,793	359,919
Advanced proceeds received from customers	11,828,902	20,578,024	29,900,978	4,819,940	32,405,481	5,223,657
Income tax payable	7,159,326	7,259,690	9,327,098	1,503,498	9,329,210	1,503,838
Borrowings	14,983,419	12,380,644	11,775,322	1,898,143	12,680,261	2,044,017
Derivative financial instruments	52,115	42,572	36,898	5,948	10,716	1,727
Amounts due to related parties	30,831	2,897,713	10,336,395	1,666,193	13,585,517	2,189,941
Amount due to a non-controlling interest	—	—	—	—	—	—
Deferred income	101,815	36,615	5,057	815	5,123	826
	51,473,815	57,511,688	82,377,073	13,278,915	95,088,332	15,327,928
Net current assets	21,733,769	21,094,528	35,571,631	5,734,030	42,283,282	6,815,927
Total assets less current liabilities	65,768,726	73,316,107	93,390,785	15,054,288	103,705,195	16,716,938
Non-current liabilities						
Borrowings	27,577,834	28,613,297	37,553,681	6,053,530	42,018,031	6,773,169
Deferred income tax liabilities	13,172,815	3,775,578	3,985,242	642,408	4,239,001	683,313
	30,750,649	32,388,875	41,538,923	6,695,938	46,257,032	7,456,482
Equity						
Share capital	355,737	356,275	356,275	57,430	356,275	57,430
Share premium	9,748,530	8,311,805	6,059,274	976,735	5,968,228	962,059
Reserves	20,487,413	27,239,070	35,326,701	5,694,549	37,268,368	6,007,539
	30,591,680	35,907,150	41,742,250	6,728,714	43,592,871	7,027,028
Non-controlling interests	4,426,397	5,020,082	10,109,612	1,629,636	13,855,292	2,233,428
	35,018,077	40,927,232	51,851,862	8,358,350	57,448,163	9,260,456

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

The following discussion should be read in conjunction with the section entitled “Selected Consolidated Financial and Other Data” and our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. All significant intra-group transactions, balances and unrealized gains on intra-group transactions have been eliminated. Our consolidated financial statements were prepared in accordance with HKFRS, which differ in certain material respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions. In this section of the offering memorandum, references to “2011”, “2012” and “2013” refer to our financial years ended December 31, 2011, 2012 and 2013 respectively.

Overview

We are a large-scale developer and owner of high-quality real estate projects in China. We specialize in developing mid- to high-end residential, retail and office properties for sale and prime and well-located hotel, retail and office properties for long-term investment. We have a track record of successfully bringing to market real estate projects in Shanghai, Beijing, Hangzhou, Suzhou, Nanjing, Fuzhou and other fast growing cities in China. We believe that this track record, together with the strong recognition of our “Shimao” brand name, positions us well as we continue to develop and market our real estate projects in cities throughout China. In 2014, we expanded into the Hong Kong real estate market through land acquisition. We aim to continue to grow as a leading property developer and investor with a strong presence in China's key cities and economic regions as well as Hong Kong by continuing to enhance our “Shimao” brand name, create and develop innovative and market-leading properties, pursue property diversification and increase our proportion of investment properties and hotels to achieve a balanced revenue profile and expand our business operations and land bank in a disciplined manner.

Our property portfolio comprises high-quality residential, retail and office properties for sale as well as high-end hotels, retail and office properties held for long-term investment, which include, among others, Le Royal Méridien Shanghai and its retail podium, Shanghai Shimao International Plaza, Hyatt on the Bund Shanghai, Le Méridien Sheshan Shanghai, Beijing Shimao Tower, Shaoxing Shimao Holiday Inn and Hilton Nanjing Riverside. Accordingly, our revenue for a particular period is dependent on:

- the number of completed properties we sell and the prices at which we make such sales;
- the occupancy rate and the average daily rates of our hotel rooms; and
- the rental income from our retail and office properties.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, our revenue was RMB26,031.4 million, RMB28,652.2 million, RMB41,502.7 million (US\$6,690.1 million) and RMB23,675.4 million (US\$3,816.4 million), respectively, while our profit for the year/period attributable to equity holders was RMB5,722.8 million, RMB5,764.6 million, RMB7,389.9 million (US\$1,191.2 million) and RMB4,180.3 million (US\$673.9 million), respectively.

Factors Affecting Our Results of Operations

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

Economic growth of the PRC and the property market in the PRC

We believe that demand for our properties is driven in large part by the overall economic development, rising wages and the standard of living in the PRC as well as Hong Kong and Macau where some of the purchasers of our properties reside. According to National Bureau of Statistic of China, China's GDP has increased at a CAGR of approximately 15.2% from 2002 to 2013. The slowdown of the global economy from 2008 to early 2009, including that of China, resulted in a decline in real estate market sentiment, which adversely affected property demand and average selling prices and rental prices in many areas of China. In

2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these European nations to continue to service their sovereign debt obligations. On August 6, 2011, S&P downgraded the rating for long-term United States debt to “AA+” from “AAA” for the first time in 70 years. On December 1, 2014, Moody’s downgraded the debt rating of Japan to “A1” from “Aa3.” The downgrade of United States debt by S&P and Japan debt by Moody’s, coupled with the economic turmoil in Europe and other parts of the world, may continue to adversely affect the global economy and financial markets. It is difficult to determine the impact of any global economic slowdown and financial crisis on the economic growth of the PRC and the property market in the PRC. Changes in market conditions historically have had a significant impact on our results of operations and we believe our financial performance will continue to be affected by such market volatility in the future.

Regulatory environment

PRC government policies and measures on property development and related industries have a direct impact on our business and results of operations. From time to time, the PRC government adjusts its macroeconomic control policies to encourage or restrict development in the private property sector through measures relating to, among other things, land grants, pre-sales of properties, bank financing and taxation. Prior to the second half of 2008, the PRC government took various measures to control money supply, credit availability and fixed assets investment with a view to preventing China’s economy from overheating and to achieve more balanced and sustainable economic growth. Since the second half of 2008, as a result of the economic downturn, the PRC government adopted measures to encourage consumption in the residential property market and provided support to property developers. However, starting in the fourth quarter of 2009, the PRC government has adjusted some policies to curtail the overheating of the real estate market. These policies include abolishing certain preferential treatment in respect of business tax payable upon transfer of residential properties, increasing the down payment for mortgage loans, imposing more stringent requirements on the payment of land premiums, limiting the number of residential properties one household can buy and commencing a trial run in levying property tax in Shanghai and Chongqing. PRC regulatory measures in the property industry will continue to impact our business and results of operations. See “—Ability to acquire land use rights” and “—PRC regulations on financing” below and “Risk Factors—Risks Relating to Our Industry—The PRC government may adopt further measures to cool down the overheating of the property sector.”

Ability to acquire land use rights

The PRC government controls all new land supply in the PRC and regulates land sales in the secondary market. As a result, the policies of the PRC government towards land supply affect our ability and costs of acquiring land use rights. Most of the land used in our projects or property developments during 2011, 2012 and 2013 and the six month period ended June 30, 2014, whether completed, under development or held for future development, was acquired after the promulgation in 2002 of the PRC Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-for-Sale by the Ministry of Land and Resources (the “Land Acquisition Rules”).

The Land Acquisition Rules require that land use rights for the purposes of commercial use, tourism, entertainment and commodity residential property development in the PRC may only be granted by the government through competitive processes, including public or private tender, auction or listing-for-sale (each, a “Bidding Process”). See “Business—Bidding/Tendering for Land” for a description of the land acquisition procedures. As a result of these new regulations, when we acquire land through a Bidding Process, our cost of land use rights will comprise primarily the purchase price, payable in one lump sum payment or in installments to the government or other transferors as determined by the Bidding Process. Pursuant to the Land Acquisition Rules, the relevant government authority is responsible for establishing a floor price for the Bidding Process on the basis of land value appraisals and government industrial policies. When we acquire land use rights from non-government grantees in secondary markets transactions, the purchase price is determined by direct negotiation with such grantees.

As a result of these regulations and increased competition, our costs of acquiring new land use rights have increased and are expected to continue to increase. See “Business—Bidding/Tendering for Land.”

Price volatility of construction materials

Our results of operations are affected by price volatility of construction materials such as steel and cement. While many of the construction materials we use for our property development are procured by our construction contractors, the contractor fees are generally adjustable on a quarterly basis in light of fluctuations in market prices for construction materials. We are exposed to price volatility of construction materials to the extent that we are not able to pass the increased costs on to our customers by increasing our selling prices. See “Risk Factors—Risks Relating to Our Business—Our profit margin is sensitive to increases in the cost of construction materials.” Further, we typically pre-sell our properties prior to their completion and we will not be able to pass the increased costs on to our customers if construction costs increase subsequent to the pre-sale.

PRC regulations on financing

PRC interest rate policies and regulations on financing may affect our ability to finance our property development, as well as the cost of doing so. In addition, PRC interest rate policies and regulations related to mortgage financing by purchasers may affect the demand for our products.

We finance our property development primarily through internal funds, borrowings, proceeds from sales and pre-sales of properties and other funds raised from the capital markets from time to time. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our outstanding borrowings were RMB42,561.3 million, RMB40,993.9 million, RMB49,329.0 million (US\$7,951.7 million) and RMB54,698.3 million (US\$8,817.2 million), respectively. In addition, we drew down US\$665 million and HK\$555 million (US\$71.6 million) under the 2014 Syndicated Loan Facilities in July 2014 and fully redeemed the 2010 Notes. Any increase of benchmark lending rates published by the PBOC may result in an increase in our interest costs, as most of our bank borrowings bear floating interest rates linked to the PBOC-published benchmark rates. We are also highly susceptible to any regulations or measures adopted by the PRC government that may restrict bank lending to business enterprises, particularly, to property developers. See “Risk Factors—Risks Relating to Our Business—We may not be able to obtain adequate funding to finance our land acquisitions or property developments.”

Moreover, a substantial portion of our customers depends 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 sales revenue. See “Risk Factors—Risks Relating to Our Business—The terms on which mortgages are available to purchasers of our properties, if at all, may affect our sales.”

Changes in product mix and geographical focus

The prices and gross profit margins of our products vary by the types of properties we develop and sell. Our gross profit margin is affected by the proportion of sales revenue attributable to our higher gross margin products compared to sales revenue attributable to lower gross margin products. Historically, our low-density units, higher-end apartment units and retail shops have commanded higher average selling prices per sq.m. and gross margins than our mid-range apartment units. In addition, properties located at different cities or regions could command different selling prices and thus result in different gross margins. Our properties located at first-tier cities typically command higher average selling prices per sq.m. and gross margins than our properties located at second- or third-tier cities. As we continue to penetrate into second- and third-tier cities to explore growth potential in such cities, our gross margins in the near- to mid-term may decrease. Our product mix varies from period to period due to a number of reasons, including government-regulated plot ratios, project locations, land size and cost, market conditions and our development planning. We adjust our product mix from time to time and time our project launches according to our development plans.

Timing of property development

The number of property developments that a developer can undertake during any particular period is limited due to substantial capital requirements for land acquisitions and construction costs as well as limited land supply. In addition, significant time is required for property developments and it may take many months or possibly years before pre-sales of certain property developments occur. Moreover, while the pre-sale of a property generates positive cash flow for us in the period in which it is made, we must place a portion of such proceeds in restricted bank accounts and may only use such cash for specified purposes, and no sales revenue is recognized in respect of such property until the relevant property is delivered to the purchaser. In addition, as market demand is not stable, sales revenue in a particular period can also depend on our ability to gauge the expected demand in the market at the expected launch time for completion of a particular project. As a result, our results of operations have fluctuated in the past and are likely to continue to fluctuate in the future.

Joint venture arrangements and jointly controlled entities

Historically, we have developed our property projects principally through our wholly owned subsidiaries. However, in recent years, we began to develop a number of projects through joint venture arrangements with independent third parties, including other property developers. See “Business—Our Property Development Projects—Joint Venture Projects” for descriptions of our current joint venture developments. We believe the support and contribution of such strategic partners have not only provided us with access to additional capital resources for the development of our projects but also enabled us to pursue business opportunities that may not otherwise be available to us at attractive valuations or at all. As such, we may set up additional joint ventures with other independent third parties to pursue business opportunities we believe are attractive but are not otherwise available to us. These types of joint venture arrangements have had and are likely to continue to have an impact on our business, financial condition and results of operations.

Although we have not yet done so, going forward, we may acquire and develop land through joint ventures in which we contribute the right to acquire land as well as our development expertise and the joint venture partner contributes funding for the land acquisition and development.

Our joint venture arrangements may result in cash outflows and expose us to the potential credit risk of the joint venture partners. We may also suffer reputational damage or financial loss and be involved in operational disputes as a result of the actions of our joint venture partners. See “Risk Factors—Risks Relating to Our Business—Disputes with joint venture partners may adversely affect our business.”

In addition, some of our former subsidiaries recently became entities we jointly control with third parties, which affected our financial results. In April 2014, an independent third party made capital injection in the amount of RMB350.0 million into Nantong Shimao New Era Property Development Co., Ltd (“Nantong Shimao”) and our equity interest in Nantong Shimao was diluted from 100% to 50%. Pursuant to the revised articles of association, we and such third party will jointly control the operation of Nantong Shimao. The disposal resulted in a gain of RMB5.8 million. In addition, since the disposal was through direct capital injection into Nantong Shimao by such third party and the capital injected by the third party as well as the other cash held in the accounts of Nantong Shimao was no longer consolidated into our financial statements after the disposal, we had a cash outflow of RMB199.0 million as a result of the disposal.

In January 2014, we disposed of our 47.67% and 53.85% equity interests in Changshu Shimao New Era Property Co., Ltd. and Suzhou Shimao New Way Property Co., Ltd., respectively, two then wholly owned subsidiaries, to independent third parties for consideration of RMB280.0 million and RMB280.0 million. In March and April 2014, such third parties made further capital injections into the two entities amounting to RMB250.0 million and RMB80.0 million, respectively. As a result, the equity interests held by the third parties in these entities increased to 62.35% and 60.0%, respectively. According to the revised articles of association, we and the third parties will jointly control the operation of these entities. The disposals resulted in gains of RMB2.4 million and RMB11.1 million, respectively, and net cash inflow of RMB277.0 million and RMB208.4 million, respectively.

Change in Fair Value of our Investment Properties

Under HKFRS, we are required to reassess the fair value of our investment properties (including completed investment properties and investment properties under development) as of the date of the consolidated statement of financial position, and gains or losses arising from changes in the fair value of our investment properties are included in our consolidated statement of comprehensive income in the period in which they arise. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the fair value of our investment properties was RMB20,567.0 million, RMB26,248.1 million, RMB26,941.9 million (US\$4,342.9 million) and RMB27,136.4 million (US\$4,374.3 million), respectively. In 2011, 2012 and 2013 and the six month period ended June 30, 2014, we experienced a fair value gain on investment properties of RMB2,527.0 million, RMB2,362.9 million, RMB1,031.2 million (US\$166.2 million) and RMB1,097.1 million (US\$176.8 million), respectively. The fair value of each of our investment properties is likely to continue to fluctuate from time to time in the future, and volatility of our results of operations may increase as a result of fair value gains or losses. Any decrease in the fair value of our investment properties would adversely affect our profitability. In addition, fair value gains or losses do not give rise to any change to our cash position unless the relevant investment property is sold. Therefore, we may experience constraints on our liquidity even though our profitability increases.

Critical Accounting Policies

The preparation of financial statements in conformity with HKFRS requires us to adopt accounting policies and make estimates and assumptions that affect amounts reported in our financial statements. In applying these accounting policies, we make subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the real estate industry, while others are specific to our businesses and operations. The following sections discuss the accounting policies applied in preparing our financial statements that we believe are most dependent on the application of these judgments and estimates and certain other significant accounting policies.

Recognition of revenue from sale of properties

We recognize revenue from sales of properties based on the completion method, that is, revenue is recognized when the risks and rewards of the properties are transferred to the purchasers, which is when construction of the relevant properties has been completed, the relevant properties have been delivered to the purchasers pursuant to the sale agreements and the collectability of related receivables is reasonably assured. Consistent with industry practice, we typically enter into sales agreements with customers while the properties are still under development, after satisfying the conditions for pre-sales according to PRC laws and regulations. Generally there is a time difference, typically ranging from approximately several months to two years, between the time we commence pre-selling of our properties under development and the completion of the development. We do not recognize any revenue from the pre-sales of our properties until the development of such properties is completed and the properties are delivered to the purchasers, even though we receive payments at various stages prior to delivery. Before the delivery of a pre-sold property, payments received from our customers are recorded as “advanced proceeds received from customers,” under current liabilities on our balance sheet and reflected in the cash flow statements as changes in working capital. As our revenue from the sales of properties are recognized upon delivery of properties, the timing of the delivery of properties may not only affect the amount and growth rate of our revenue but also cause the amount of “advanced proceeds received from customers” and therefore changes in working capital to fluctuate from period to period. Our revenue is presented before deduction of business tax.

Provision for PRC LAT

Under PRC tax laws and regulations, our PRC subsidiaries are subject to LAT, which is collectible by the local tax authorities and is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, calculated as the proceeds of sales of properties less deductible expenditures including cost of land use rights, borrowing costs, business tax and all property development expenditures. We estimate and

make provisions for the full amount of LAT and recognize this in income tax, net of the related accruals already made upon acquisitions of subsidiaries. See “Regulation—Taxation in China—Land Appreciation Tax” and “Risk Factors—Risks Relating to Our Business—The relevant PRC tax authorities may challenge the basis on which we calculate our LAT obligations.”

Properties under development, cost of sales and completed properties held for sale

We recognize the cost of sales of our properties for a given period to the extent that revenue from such properties has been recognized in such period. Prior to their delivery, properties under development are included in our balance sheet at the lower of cost and net realizable value.

Cost of sales for each property sold primarily includes the construction cost of each property, cost of land use rights, capitalized borrowing costs, professional fees and other related costs. We sometimes need to estimate the costs for the project based on the information available at the time of completion of the relevant sales contracts before finalizing the costs with contractors. If there is any subsequent change to the estimated cost, for example, due to fluctuations in construction costs or changes in development plans, we will increase or decrease cost of properties sold and the unit costs of the relevant properties, and erode or improve the margins realizable during the period in which such change occurs.

In respect of the cost of properties under development, we record the amount on our balance sheet, with reference to the construction progress reports of our construction contractors and the construction supervisory companies. Properties under development which have either been pre-sold or which are intended for sale are classified as current assets, unless they are not expected to be completed in the normal operating cycle.

Completed properties remaining unsold at the end of each financial period are stated at the lower of cost and net realizable value.

Net realizable value for our properties under development is determined by reference to management estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs to completion. Net realizable value for our completed properties held for sale is determined by reference to management estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses. We are required to revise these estimates if there is a change in market condition or demand. If actual market conditions are less favorable than those projected by our management, additional adjustments to the value of properties under development and completed properties held for sale may be required.

Acquisition accounting

We account for acquisitions of subsidiaries, jointly controlled entities or associated companies using acquisition accounting (except for those transactions which meet the requirements for merger accounting).

Under acquisition accounting, the identified assets, liabilities and contingent liabilities in an entity are recorded at their fair value at the acquisition date. The excess of the fair value of cost of acquisition over the fair value of the identified net assets is treated as goodwill and is recognized as an intangible asset. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. We treat the excess of the fair value of our share of the identified net assets acquired over the fair value of cost of acquisition as negative goodwill. We recognize negative goodwill directly in the income statement upon acquisition.

During the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we gradually increased our equity interest in some of our subsidiaries by acquiring the remaining interests from the minority shareholders.

When we acquire subsidiaries that are property development companies, we adjust the carrying value of the underlying properties to reflect the fair value of the assets at the time of our acquisition. The fair value adjustments constitute our costs for development and, with respect to our properties for sale, will be reflected as cost of sales when the relevant property is sold.

The following table sets forth, for the periods indicated, the carrying values of the fair value adjustments applicable to the properties under development and completed properties held for sale that we acquired in connection with our acquisitions of subsidiaries and adjustments to reflect cost of sales.

	As of December 31,				As of June 30,	
	2011	2012	2013		2014	
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
	(in thousands)					
Carrying values of properties under development and completed properties held for sale						
Beginning balance (as of January 1)	33,775,336	44,706,201	44,712,293	7,207,475	74,164,772	11,955,118
Addition	28,502,578	19,574,466	49,197,271	7,930,439	24,167,969	3,895,797
Less: transfer to investment properties...	(3,477,519)	(242,937)	(193,196)	(31,143)	(1,012,120)	(163,150)
Less: transfer to cost of sales	(14,094,194)	(16,551,859)	(19,551,596)	(3,151,653)	(10,612,041)	(1,710,626)
Less: deconsolidation of two entities.....	—	(2,773,578)	—	—	—	—
Net balance	<u>44,706,201</u>	<u>44,712,293</u>	<u>74,164,772</u>	<u>11,955,118</u>	<u>86,708,580</u>	<u>13,977,139</u>

When we acquire subsidiaries, we also assess the fair value of the liabilities and contingent liabilities (if any) assumed at the date of acquisition. Therefore, when we record the underlying identifiable net assets at fair value, we recognize the deferred income tax liabilities for the property development projects along with the respective LAT liabilities for properties that are developed for sale. The deferred income tax liabilities recognized upon acquisition will be reversed in the income statements upon the sale of the properties. Any LAT liabilities arising from the acquisition will be reassessed upon the sales of these properties, and any excess or shortfall will be adjusted to cost of sales in the income statement.

Investment properties

We treat property held for rental income and for capital appreciation as investment properties. We record the investment properties at fair value, which is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific assets. Where active market prices are not available, we use alternative valuation methods, such as recent prices at less active markets or discounted cash flow projections based on estimated future cash flows, to assess fair value. These valuations are reviewed annually by external valuers and any changes in fair value are recognized in the income statements.

Income taxes and deferred taxation

We are subject to income taxes in different jurisdictions. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

In addition, we have not recognized any deferred tax liability for certain unremitted earnings of our PRC subsidiaries. We believe we are able to control the timing as to when the earnings will be distributed to our overseas holding companies and we do not anticipate that such distribution to occur in the foreseeable future.

Impairment of goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of our share of the net identifiable assets of the acquired subsidiaries, associated companies or jointly controlled entities at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets. Goodwill on the acquisition of associated companies or jointly controlled entities is included in investments in associated companies or jointly controlled entities, respectively.

We test goodwill at least annually for impairment and carry goodwill at cost less accumulated impairment losses. In testing goodwill, we allocate goodwill to our three cash-generating units (the “CGUs”) identified according to business segmentation: (i) property development and investment—Shanghai Shimao; (ii) property development and investment—Others; and (iii) hotel operation. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The recoverable amounts of CGUs are determined based on their fair value (less cost to sell). The fair value of the CGU of “property development and investment—Shanghai Shimao” is determined according to the quoted price of Shanghai Shimao’s equity shares on the Shanghai Stock Exchange. The fair value of the other CGUs is determined according to the value of the underlying properties; such fair value decreases along with the sales of the underlying properties, and the attributable goodwill is impaired accordingly. We include goodwill impairment in “other operating expenses” in the consolidated income statements. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity disposed of.

Selected Income Statement Items

Revenue

For the year ended December 31, 2013 and the six months ended June 30, 2014, we generated 95.2% and 95.5%, respectively, of our revenue from the sale of properties and the remaining 4.8% and 4.5%, respectively, from our hotel operations, leasing of commercial properties and other operations. Although we are increasing our business activities in our hotel operations and leasing of commercial properties with a view to increasing the proportion of our recurring income from those segments, at present and in the short term, we will continue to primarily derive a significant portion of our revenue from the sale of properties.

The following table sets out a breakdown of the revenue by segment for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
				Unaudited	Unaudited	Unaudited	Unaudited
				(in thousands)			
Sale of properties	24,589,476	26,607,120	39,503,409	6,367,820	15,689,453	22,604,611	3,643,789
Hotel operating income	892,012	999,134	978,603	157,748	460,173	537,545	86,650
Rental income from investment properties	440,559	507,415	555,888	89,607	235,776	260,007	41,912
Others ⁽¹⁾	109,379	538,574	464,760	74,918	291,499	273,249	44,047
Total	<u>26,031,426</u>	<u>28,652,243</u>	<u>41,502,660</u>	<u>6,690,093</u>	<u>16,676,901</u>	<u>23,675,412</u>	<u>3,816,398</u>

Note:

(1) Others include revenue generated from construction services and operation of department stores and cinemas.

Because we derive substantially all our revenue from the sale of properties, our results of operations for a given period are dependent upon the GFA of properties we have available for sale during that period, the market demand for those properties and the price we are able to obtain for such properties. Conditions of the property markets in which we operate change from period to period and are affected significantly by the general economic, political and regulatory developments in the PRC. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we recognized revenue of RMB24,589.5 million, RMB26,607.1 million, RMB39,503.4 million (US\$6,367.8 million) and RMB22,604.6 million (US\$3,643.8 million), respectively, from the sale of properties.

The following table sets out a breakdown of the GFA delivered and the average recognized selling price per sq.m. of the properties delivered (calculated by dividing the revenue from the properties delivered by the GFA delivered) for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2011		2012		2013		2013		2014	
	Average recognized selling price		Average recognized selling price		Average recognized selling price		Average recognized selling price		Average recognized selling price	
	GFA per sq.m.	GFA per sq.m.	GFA per sq.m.	GFA per sq.m.	GFA per sq.m.	GFA per sq.m.	GFA per sq.m.	GFA per sq.m.	GFA per sq.m.	GFA per sq.m.
	(sq.m.)	(RMB)	(sq.m.)	(RMB)	(sq.m.)	(RMB)	(sq.m.)	(RMB)	(sq.m.)	(RMB)
Wuhan Shimao Splendid River.	132,906	9,277	40,362	10,708	151,953	10,885	95,596	8,756	75,256	11,614
Shaoxing Shimao Dear Town ...	78,617	13,267	56,691	12,543	91,299	13,286	3,374	26,378	152,761	10,814
Harbin Shimao Riviera New										
City	47,268	11,213	79,565	6,511	179,956	6,024	41,951	8,939	23,375	5,476
Changshu Shimao The Center ...	132,783	8,638	—	—	125,894	8,213	—	—	—	—
Kunshan Shimao Butterfly										
Bay	180,724	7,990	79,593	6,485	159,712	6,161	157,146	6,160	—	—
Shanghai Shimao Riviera										
Garden	6,348	79,080	18,928	72,092	645	85,271	689	82,729	—	—
Kunshan Shimao East No.1										
New City	135,895	7,484	168,935	6,877	1,467	8,862	1,129	7,972	171,730	7,273
Hangzhou Shimao Riviera										
Garden	179,817	12,068	186,136	8,166	40,977	9,444	31,032	9,539	2,351	7,231
Shanghai Shimao Emme										
County	33,278	8,745	44,645	7,516	13,625	10,055	2,401	15,410	447	8,949
Wuhu Shimao Riviera Garden ...	3,002	14,324	35,148	10,055	3,029	15,187	—	—	3,029	3,301
Fuzhou Shimao Skyscrapers	19,731	20,627	61,835	27,142	—	—	—	—	—	—
Shenyang Shimao Wulihe	35,091	8,891	70,716	10,048	33,718	10,024	3,795	11,858	40,492	11,657
Suzhou Shimao Canal Scene ...	86,572	11,147	129,473	9,088	56,771	12,718	56,444	10,984	18,473	6,638
Jiaxing Shimao Century Park ...	11,242	7,650	10,675	6,781	138,251	5,895	6,584	9,721	17,256	6,143
Changzhou Shimao										
Champagne Lake	72,472	7,603	107,481	6,563	159,912	8,542	4,208	6,416	85,239	7,133
Nanjing Shimao Bund New										
City	16,052	15,761	78,443	15,635	123,276	15,161	7,818	19,698	45,637	20,408
Yantai Shimao No.1 The										
Harbour	30,441	11,596	37,432	9,030	4,194	9,061	3,775	8,742	—	—
Xuzhou Shimao Dongdu	132,115	5,457	93,649	6,032	22,777	12,513	—	—	330	12,121
Taizhou Shimao Riverside										
Garden	63,188	5,634	41,548	5,801	3,636	5,501	2,524	5,547	38,404	5,156
Ningbo Shimao World Gulf ...	243,483	11,220	99,796	8,738	97,331	8,795	4,430	11,964	2,928	9,221
Beijing Shimao Gongsan Plaza	60,905	43,067	—	—	—	—	—	—	—	—

	For the year ended December 31,						For the six months ended June 30,			
	2011		2012		2013		2013		2014	
	Average recognized selling price		Average recognized selling price		Average recognized selling price		Average recognized selling price		Average recognized selling price	
	GFA	per sq.m.	GFA	per sq.m.	GFA	per sq.m.	GFA	per sq.m.	GFA	per sq.m.
	(sq.m.)	(RMB)	(sq.m.)	(RMB)	(sq.m.)	(RMB)	(sq.m.)	(RMB)	(sq.m.)	(RMB)
Mudanjiang Shimao Holiday										
Landscape	1,350	3,704	92,084	4,595	61,970	4,680	7,211	3,883	—	—
Hangzhou Shimao Riviera										
COSMO	94,512	9,734	48,929	10,089	2,496	11,619	3,795	8,432	2,351	7,231
Beijing Shimao Alhambra										
Palace	31,418	48,221	4,961	43,384	5,583	18,628	5,397	17,047	—	—
Xiamen Shimao Lakeside										
Garden	56,312	24,524	74,460	20,907	62,276	22,545	3,193	34,450	37,245	24,513
Ningbo Shimao Sea Dawn	107,936	8,236	27,409	7,551	97,331	8,795	38,738	10,790	3,382	9,426
Tianjin Shimao Ecology City ...	60,704	10,889	71,248	10,082	124,599	9,230	8,468	9,211	44,418	8,443
Dalian Shimao Glory City	11,219	13,014	1,756	11,815	4,983	12,041	439	11,390	18,426	9,226
Xianyang Shimao The Centre...	20,884	14,030	5,839	16,972	19,027	20,129	18,454	20,321	25,394	6,261
Chengdu Shimao The Park	—	—	106,502	6,461	7,549	34,442	9,707	7,417	9,500	5,474
Dalian Shimao Dragon Bay	—	—	48,636	11,378	72,663	12,785	11,730	10,486	55,507	9,116
Fujian Jinjiang Shimao Dragon										
Bay	—	—	99,958	17,181	399,579	13,654	122,868	20,331	124,348	8,203
Wuhan Shimao Dragon Bay	—	—	—	—	25,383	7,328	—	—	14,210	5,630
Kunshan Shimao International										
City	—	—	108,432	9,657	7,675	11,987	6,915	12,726	3,000	7,358
Fuzhou Minhou Shimao										
Dragon Bay	—	—	123,745	11,364	348,720	11,152	239,832	10,395	152,323	9,184
Qingdao Shimao Century Land	—	—	—	—	186,841	9,045	107,396	8,660	54,553	10,100
Wuxi Shimao The Capital	—	—	—	—	116,620	8,875	69,019	9,186	—	—
Shaoxing Sky Centre	—	—	—	—	45,323	12,356	25,145	13,044	—	—
Ningbo World Gulf Damuwan .	—	—	—	—	4,732	12,257	14,103	14,961	—	—
Shenyang Shimao Notting Hill	—	—	5,211	10,256	—	—	193	10,363	8,927	11,090
Changshu Shimao The Center										
(Commercial)	—	—	216,748	9,374	125,894	8,213	115,200	8,264	—	—
Xuzhou Shimao Dongdu										
(Commercial)	—	—	49,969	5,829	89,308	7,491	16,568	13,158	330	12,121
Shaoxing Shimao Dear Town										
(Commercial)	—	—	2,877	12,407	91,299	13,286	315	9,524	152,761	10,814
Qingdao Jiaonan Project	—	—	—	—	—	—	47,436	14,441	—	—
Suzhou Shimao Canal Scene										
(Commercial)	—	—	—	—	56,771	12,718	49,086	11,816	18,473	6,638
Wuhan Shimao Carnival	—	—	42,807	7,286	58,923	8,350	5,597	7,861	49,690	9,217
Shanghai Shimao Nano Magic										
City	—	—	—	—	—	—	69,101	14,660	—	—

Cost of sales

Our cost of sales consists primarily of construction and resettlement costs, capitalized borrowing cost, cost of land use rights, business taxes and direct operating costs for hotels and commercial properties.

The following table sets out a breakdown of our cost of sales for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,	
	2011	2012	2013	2013	2014	2014
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
	(in thousands)					
Costs relating to sale of properties (land costs, construction costs (including all direct development costs), capitalized interest, business taxes and other levies on sales of properties).....	15,570,731	18,573,810	26,275,928	4,235,594	15,372,994	2,478,076
Direct expenses for hotel operations (including depreciation and business taxes)	396,604	496,190	507,905	81,873	187,925	30,293
Direct operating costs for investment properties (including business taxes).....	36,703	38,534	42,686	6,880	19,173	3,091
Others ⁽¹⁾	27,338	37,910	35,253	5,683	21,767	3,509
Total	<u>16,031,376</u>	<u>19,046,444</u>	<u>26,861,772</u>	<u>4,330,030</u>	<u>15,601,859</u>	<u>2,514,969</u>

Note:

(1) Others include costs relating to department stores, commercial stores and other operations.

Gross profit

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

Fair value gains on investment properties

Fair value gains on an investment property represents the excess of the current estimated value over the carrying value of the investment property. Upward or downward fair value adjustments are unrealized capital gains or losses on an investment property as of the relevant balance sheet date. The amount of fair value gain or loss attributable to an investment property depends on the prevailing property market and such gains or losses are non-cash gains or losses which do not generate any cash inflow or outflow as long as we hold the relevant investment property.

Other income/other gains - net

Our other income/other gains - net consist primarily of government grants, negative goodwill, net exchange gain, and gain on disposal of property, plant and equipment.

Selling and marketing costs

Our selling expenses consist primarily of commissions for brokers and bonuses for sales staff, showroom costs, model costs, and promotion costs.

Administrative expenses

Our administrative expenses consist primarily of salary and welfare costs for our staff, rental of our offices and staff residences, printing and stationery, traveling and entertainment costs, banking charges (other than transaction costs), property taxes, consulting fees, auditors' remuneration and legal and professional fees.

Finance costs

Our finance costs consist primarily of interest costs net of capitalized interest. We capitalize a portion of our costs of borrowings to property under development, investment properties and property and equipment to the extent that such costs are directly attributable to construction. Finance costs fluctuate from period to period due primarily to fluctuations in our level of outstanding indebtedness and the interest rates on our borrowings. Since the development period for a property development does not necessarily coincide with the repayment period of the relevant loan, not all of the interest costs related to a property development can be capitalized. As a result, the period to period fluctuation of our finance costs is also attributable to the amount and timing of capitalization.

Income tax expenses

Income tax expenses consist of PRC enterprise income tax accrued by our operating subsidiaries, PRC withholding income tax and LAT. Because we operate as an overseas company for Cayman Islands regulatory purposes, we are not subject to Cayman Islands income tax.

PRC enterprise income tax and PRC withholding income tax

Most of our PRC subsidiaries were subject to PRC enterprise income tax of 33% prior to January 1, 2008. Effective from January 1, 2008, this has been reduced to 25% pursuant to the EIT Law which adopts a uniform income tax rate of 25% on the taxable income of both domestic enterprises and foreign-invested enterprises. Under the EIT Law, the preferential corporate income tax rate applicable to certain of our group companies established and operated before the promulgation of the EIT Law has gradually increased to 25%.

Since January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies are subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to a double tax treaty between Hong Kong and the PRC, subject to certain conditions, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% (or more) interest in the PRC enterprise, such withholding tax rate may be lowered to 5%.

Gains on disposal of an investment in the PRC by overseas holding companies may be subject to withholding tax of 10%.

Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 of Cayman Islands and, accordingly, is exempted from Cayman Islands income tax. Our entities in the BVI were incorporated under the BVI Business Companies Act and do not pay income tax in the BVI.

Hong Kong profits tax

We have not made any provision for Hong Kong profits tax as we had no assessable profit in Hong Kong during the three years ended December 31, 2013 and the six-month period ended June 30, 2014.

LAT

Under PRC laws and regulations, our PRC subsidiaries engaged in property development business are subject to LAT determined by the local tax authorities in the cities in which each project is located. All income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value as defined in the relevant tax laws, with certain exemptions available for the sale of ordinary residential properties if the appreciation values do not exceed 20% of the total deductible items as defined in the relevant tax laws. Sales of commercial properties are not eligible for such exemption. Whether a property qualifies for the ordinary residential property exemption is determined by the local government, taking into consideration the property's plot ratio, aggregate GFA and sales price. Sales of low-density units and retail shops generally

realize higher appreciation values, and are subject to higher LAT rates, compared to less expensive properties. We estimate and make provisions for the full amount of applicable LAT in accordance with the requirements set forth in the relevant PRC tax laws and regulations, but only pay a portion of such provisions each year as required by the local tax authorities. We cannot assure you that our LAT provisions are sufficient to cover our LAT obligations or that the tax authorities will agree with the basis on which we calculate our LAT obligations. See “Risk Factors—Risks Relating to Our Business—The relevant PRC tax authorities may challenge the basis on which we calculate our LAT obligations” and “—Critical Accounting Policies—Provision for PRC LAT” below.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, LAT charged to our income tax expenses was RMB1,170.8 million, RMB925.9 million, RMB2,107.2 million (US\$339.7 million) and RMB474.8 million (US\$76.5 million), respectively, and we made payments for provisional LAT in the amount of RMB819.9 million, RMB1,429.2 million, RMB1,623.6 million (US\$261.7 million) and RMB1,089.7 million (US\$175.7 million), respectively. Our LAT provision balance as of December 31, 2011, 2012 and 2013 and as of June 30, 2014 totaled RMB4,055.6 million, RMB3,682.8 million, RMB4,583.6 million (US\$738.9 million) and RMB3,996.4 million (US\$644.2 million), respectively.

Non-controlling interests

Non-controlling interests represent our profit or loss after taxation that is attributable to minority shareholders of our non-wholly owned subsidiaries.

Results of Operations

The following tables set forth selected data from our consolidated income statements for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014:

	For the year ended December 31,				For the six months ended June 30,		
	2011	2012	2013		2013	2014	
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
				Unaudited	Unaudited	Unaudited	Unaudited
				(in thousands)			
Revenue	26,031,426	28,652,243	41,502,660	6,690,093	16,676,901	23,675,412	3,816,399
Costs of sales	(16,031,376)	(19,046,444)	(26,861,772)	(4,330,030)	(10,753,275)	(15,601,859)	(2,514,969)
Gross profit	10,000,050	9,605,799	14,640,888	2,360,063	5,923,626	8,073,553	1,301,430
Fair value gains on investment properties	2,527,013	2,362,880	1,031,206	166,227	855,821	1,097,144	176,856
Other income/other gains — net	794,320	1,196,104	845,063	136,221	545,475	121,606	19,602
Selling and marketing costs	(769,889)	(1,046,841)	(1,305,735)	(210,480)	(537,456)	(624,925)	(100,736)
Administrative expenses	(1,349,272)	(1,815,871)	(2,283,303)	(368,061)	(984,253)	(1,414,891)	(228,076)
Other operating expenses	(192,173)	(266,706)	(592,136)	(95,450)	(57,307)	(63,894)	(10,300)
Operating profit	11,010,049	10,035,365	12,335,983	1,988,520	5,745,906	7,188,593	1,158,776
Finance income	100,074	146,055	190,850	30,764	133,436	65,986	10,637
Finance costs	(480,420)	(168,170)	(312,211)	(50,327)	(153,059)	(178,448)	(28,765)

	For the year ended December 31,				For the six months ended June 30,		
	2011	2012	2013		2013	2014	
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
			Unaudited		Unaudited	Unaudited	Unaudited
			(in thousands)				
Finance costs—net	(380,346)	(22,115)	(121,361)	(19,563)	(19,623)	(112,462)	(18,129)
Share of results of:							
- Associated companies	97,653	(210,938)	(51,443)	(8,292)	(45,964)	(69,552)	(11,212)
- Jointly controlled entities	24,213	363,125	895,649	144,376	272,357	(13,372)	(2,156)
	<u>121,866</u>	<u>152,187</u>	<u>844,206</u>	<u>136,084</u>	<u>226,393</u>	<u>(82,924)</u>	<u>(13,368)</u>
Profit before income tax	10,751,569	10,165,437	13,058,828	2,105,041	5,952,676	6,993,207	1,127,280
Income tax expense	(4,302,640)	(3,580,949)	(4,833,504)	(779,145)	(2,162,646)	(2,334,850)	(376,370)
Profit for the year/period	<u>6,448,929</u>	<u>6,584,488</u>	<u>8,225,324</u>	<u>1,325,896</u>	<u>3,790,030</u>	<u>4,658,357</u>	<u>750,910</u>
Profit for the year/period attributable to:							
Equity holders of the Company	5,722,775	5,764,632	7,389,857	1,191,221	3,470,158	4,180,298	673,850
Non-controlling interests	<u>726,154</u>	<u>819,856</u>	<u>835,467</u>	<u>134,675</u>	<u>319,872</u>	<u>478,059</u>	<u>77,060</u>
	<u>6,448,929</u>	<u>6,584,488</u>	<u>8,225,324</u>	<u>1,325,896</u>	<u>3,790,030</u>	<u>4,658,357</u>	<u>750,910</u>

Six months ended June 30, 2014 compared with six months ended June 30, 2013

Revenue. Revenue increased by 42.0% to RMB23,675.4 million (US\$3,816.4 million) for the six months ended June 30, 2014 from RMB16,676.9 million for the corresponding period in 2013, primarily due to the increased revenue from the sale of properties.

- **Sale of properties.** Sales revenue generated from our property development increased by 44.1% to RMB22,604.6 million (US\$3,643.8 million) for the six months ended June 30, 2014 from RMB15,689.5 million for the corresponding period in 2013, primarily due to a 37.4% increase in total GFA delivered to 1,962,527 sq.m. for the six months ended June 30, 2014 from 1,418,802 sq.m. for the corresponding period in 2013 and a 4.2% increase in the average recognized selling price to RMB11,518 per sq.m. in the first half of 2014 from RMB11,059 per sq.m. in the first half of 2013. In the first half of 2014, we recognized revenue from sales of 47 projects, as compared to 41 projects for the corresponding period in 2013.

The following table sets forth the GFA sold and the sales revenue generated by each project for the six months ended June 30, 2013 and 2014, respectively:

	For the six months ended June 30,			
	2013		2014	
	GFA (sq.m.)	Revenue (RMB in millions)	GFA (sq.m.)	Revenue (RMB in millions)
Projects held by us not under Shanghai Shimao				
Wuhan Shimao Splendid River.....	95,596	837	75,256	874
Xianyang Shimao The Centre.....	18,454	375	25,394	159
Harbin Shimao Riviera New City.....	41,951	375	23,375	128
Kunshan Shimao Butterfly Bay	157,146	968	—	—
Shanghai Shimao Riviera Garden	689	57	—	—
Kunshan Shimao East No.1	1,129	9	—	1,249
Hangzhou Shimao Riviera Garden	31,032	296	2,351	17
Shanghai Shimao Emme County	2,401	37	447	4
Shenyang Shimao Wulihe	3,795	45	40,497	472
Suzhou Shimao Canal Scene	56,444	620	117,937	1,352
Jiaxing Shimao Century Park	6,584	64	17,256	106
Changzhou Shimao Champagne Lakeside Garden	4,208	27	85,239	608
Yantai Shimao No.1 The Harbour	3,775	33	—	—
Xuzhou Shimao Dongdu	—	—	5,119	47
Taizhou Shimao Riverside Garden	2,524	14	38,404	198
Ningbo Shimao World Gulf	4,430	53	2,928	27
Mudanjiang Shimao Holiday Landscape	7,211	28	—	—
Beijing Shimao Alhambra Palace	5,397	92	—	—
Xiamen Shimao Lakeside Garden	3,193	110	37,245	913
Ningbo Shimao Sea Dawn.....	38,738	418	3,382	32
Tianjin Shimao Ecology City	8,468	78	44,418	375
Shaoxing Shimao Dear Town	3,374	89	152,761	1,652
Dalian Shimao Glory City	439	5	18,426	170
Chengdu Shimao City.....	9,707	72	9,500	52
Dalian Shimao Dragon Bay.....	11,730	123	55,507	506
Fujian Jinjiang Shimao Dragon Bay.....	122,868	2,498	124,348	1,020
Wuhan Shimao Dragon Bay	—	—	14,210	80
Fuzhou Minhou Shimao Dragon Bay	239,832	2,493	152,323	1,399
Qingdao Shimao Century Land	107,396	930	54,553	551
Wuxi Shimao The Capital	69,019	634	—	—
Shaoxing Sky Centre	25,145	328	—	—
Ningbo World Gulf Damuwan	14,103	211	—	—
Shenyang Shimao Notting Hill.....	193	2	8,927	99
Subtotal (a)	1,096,971	11,921	1,615,298	17,006

	For the six months ended June 30,			
	2013		2014	
	GFA (sq.m.)	Revenue (RMB in millions)	GFA (sq.m.)	Revenue (RMB in millions)
Projects held by Shanghai Shimao				
Hangzhou Shimao Riviera COSMO	3,795	32	—	—
Nanjing Shimao Bund New City	7,818	154	45,637	377
Xuzhou Shimao Dongdu (Commercial).....	16,568	218	330	4
Shaoxing Shimao Dear Town (Commercial)	315	3	—	—
Kunshan Shimao International City.....	6,915	88	3,000	32
Changshu Shimao The Center (Commercial)	115,200	952	—	—
Qingdao Jiaonan Project	47,436	685	95,578	1,196
Suzhou Shimao Canal Scene (Commercial)	49,086	580	18,473	303
Wuhan Shimao Carnival	5,597	44	49,690	458
Shanghai Shimao Nano Magic City	69,101	1,013	6,002	169
Subtotal (b)	321,831	3,769	347,229	5,599
Total (a) + (b)	<u>1,418,802</u>	<u>15,690</u>	<u>1,962,527</u>	<u>22,605</u>

- *Hotel operating income.* Hotel operating income increased by 16.8% to RMB537.5 million (US\$86.7 million) for the six months ended June 30, 2014 from RMB460.2 million for the corresponding period in 2013, mainly attributable to three newly opened hotels, namely, Double Tree by Hilton Wuhu, Crowne Plaza Shaoxing and InterContinental Fuzhou.
- *Rental income from investment properties.* Rental income from investment properties increased by 10.3% to RMB260.0 million (US\$41.9 million) for the six months ended June 30, 2014 from RMB235.8 million for the corresponding period in 2013, primarily attributable to the continuous growth of rental income from existing shopping malls.
- *Others.* Other income amounted to approximately RMB273.2 million (US\$44.0 million) for the six months ended June 30, 2014 which was mainly derived from the operation of department stores and cinemas.

Cost of sales. Cost of sales increased by 45.1% to RMB15,601.9 million (US\$2,515.0 million) for the six months ended June 30, 2014 from RMB10,753.3 million for the corresponding period in 2013, primarily due to an increase in the cost of properties delivered in line with the increase in GFA delivered.

Gross profit. As a result of the foregoing, gross profit increased by 36.3% to RMB8,073.6 million (US\$1,301.4 million) for the six months ended June 30, 2014 from RMB5,923.6 million for the corresponding period in 2013. Our gross profit margin decreased slightly to 34.1% for the six months ended June 30, 2014 from 35.5% for the corresponding period in 2013.

Fair value gains on investment properties. We recognized fair value gains on investment properties of RMB1,097.1 million (US\$176.9 million) for the six months ended June 30, 2014 as compared to fair value gains of RMB855.8 million for the corresponding period in 2013.

Other income/other gains—net. Our other net income/gains decreased to RMB121.6 million (US\$19.6 million) for the six months ended June 30, 2014 from RMB545.5 million for the corresponding period in 2013, primarily due to the depreciation of the Renminbi against the U.S. dollar in the first half of 2014.

Selling and marketing costs. Our selling and marketing costs increased by 16.3% to RMB624.9 million (US\$100.7 million) for the six-month period ended June 30, 2014 from RMB537.5 million for the corresponding period in 2013, which was in line with the increase in number of projects put into presale compared with the same period of 2013.

Administrative expenses. Our administrative expenses increased by 43.7% to RMB1,414.9 million (US\$228.1 million) for the six months ended June 30, 2014 from RMB984.3 million for the corresponding period in 2013, mainly due to the increase in our labor costs and corporate and office expenses in line with the business expansion. In addition, hotel expenses also increased as a result of the commencement of operations of one new hotel in the second half of 2013 and two new hotels in the first half of 2014.

Other operating expenses. Our other operating expenses increased by 11.5% to RMB63.9 million (US\$10.3 million) for the six months ended June 30, 2014 from RMB57.3 million for the corresponding period in 2013 as the donation expenditure increased by RMB31 million for the six month ended June 30, 2014.

Operating profit. As a result of the foregoing, our operating profit increased by 25.1% to RMB7,188.6 million (US\$1,158.8 million) for the six months ended June 30, 2014 from RMB5,745.9 million for the corresponding period in 2013.

Finance costs—net. Our net finance costs increased to RMB112.5 million (US\$18.1 million) for the six months ended June 30, 2014 from RMB19.6 million for the corresponding period in 2013, primarily due to the increase in interest expenses incurred for the increased borrowings during the period.

Share of results of associated companies. We had a share of losses of associated companies amounting to RMB69.6 million (US\$11.2 million) for the six months ended June 30, 2014, which was mainly due to losses from Guangzhou Asian Games City Project, Straits Construction and Guangzhou Finance City. By comparison, we had a share of losses of associated companies amounting to RMB46.0 million for the corresponding period in 2013, which was mainly due to our share of losses from Guangzhou Asian Games City.

Share of results of jointly controlled entities. We had a share of losses of jointly controlled entities in the amount of RMB13.4 million (US\$2.2 million) for the six months ended June 30, 2014, which was due to the decrease in recognition sales by the joint ventures in Hangzhou. We had a share of profits of jointly controlled entities in the amount of RMB272.4 million for the corresponding period in 2013.

Profit before income tax. As a result of the foregoing, our profit before income tax increased by 17.5% to RMB6,993.2 million (US\$1,127.3 million) for the six months ended June 30, 2014 from RMB5,952.7 million for the corresponding period in 2013.

Income tax expense. Our income tax expense increased slightly to RMB2,334.9 million (US\$376.4 million) for the six months ended June 30, 2014 from RMB2,162.6 million for the corresponding period in 2013, primarily due to an increase in PRC enterprise income tax paid. The effective tax rate for the six months ended June 30, 2014 was 33.4%, compared to 36.3% for the corresponding period in 2013.

Profit for the period. As a result of the foregoing, our profit for the period increased by 22.9% to RMB4,658.4 million (US\$750.9 million) for the six months ended June 30, 2014 from RMB3,790.0 million for the corresponding period in 2012. Profit for the period as a percentage of revenue decreased to 19.7% for the six months ended June 30, 2014 from 22.7% for the corresponding period in 2013 as a result of the foregoing.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company for the six months ended June 30, 2014 was RMB4,180.3 million (US\$673.9 million) compared with RMB3,470.2 million for the corresponding period in 2013, while profit attributable to equity holders of the Company as a percentage of revenue decreased to 17.7% for the six months ended June 30, 2014 from 20.8% for the corresponding period in 2013.

Profit attributable to non-controlling interests. Profit attributable to non-controlling interests increased by 20.5% to RMB4,180.3 million (US\$673.9 million) for the six months ended June 30, 2014 from RMB3,470.2 million for the corresponding period in 2013.

2013 compared with 2012

Revenue. Revenue increased by 44.8% to RMB41,502.7 million (US\$6,690.1 million) in 2013 from RMB28,652.2 million in 2012, primarily due to the increased revenue from the sale of properties.

- **Sale of properties.** Sales revenue generated from our property development increased by 48.5% to RMB39,503.4 million (US\$6,367.8 million) in 2013 from RMB26,607.1 million in 2012, primarily due to a 36.9% increase in total GFA delivered to 3,553,669 sq.m. in 2013 from 2,595,608 sq.m. in 2012 and a 8.4% increase in the average recognized selling price per sq.m. of properties delivered to RMB11,116 per sq.m. in 2013 from RMB10,251 per sq.m. in 2012. We recognized revenue from sales of properties in 53 projects in 2013, compared with 37 projects in 2012. The increase in the average recognized selling price was primarily attributable to our product innovation and quality enhancement of certain projects such as Wuhan Shimao Splendid River, Shaoxing Shimao Dear Town, Changzhou Shimao Champagne Lake and Xiamen Shimao Lakeside Garden.

The following table sets forth the GFA sold and the sales revenue generated by each project in 2012 and 2013, respectively:

	2012		2013	
	GFA (sq.m.)	Revenue (RMB in millions)	GFA (sq.m.)	Revenue (RMB in millions)
Projects held by us not under Shanghai Shimao				
Shimao Property				
Wuhan Shimao Splendid River	40,362	432	151,953	1,654
Shaoxing Shimao Dear Town	56,691	711	91,299	1,213
Harbin Shimao Riviera New City	79,565	518	179,956	1,084
Kunshan Shimao Butterfly Bay	79,593	516	159,712	984
Shanghai Shimao Riviera Garden	18,928	1,363	645	55
Kunshan Shimao East No.1	168,935	1,162	1,467	13
Hangzhou Shimao Riviera Garden	186,136	1,520	40,977	387
Shanghai Shimao Emme County	44,645	336	13,625	137
Wuhu Shimao Riviera Garden	35,148	354	—	—
Fuzhou Shimao Skyscrapers	61,835	1,678	—	—
Suzhou Shimao Canal Scene	129,473	1,177	56,758	637
Jiaxing Shimao Century Park	10,675	72	138,251	815
Changzhou Shimao Champagne Lake	107,481	705	159,912	11,366
Yantai Shimao No.1 The Harbour	37,432	338	4,194	38
Xuzhou Shimao Dongdu	93,649	565	89,308	669
Taizhou Shimao Riverside Garden	41,548	241	3,636	20
Ningbo Shimao World Gulf	99,796	872	4,732	58
Shenyang Shimao Wulihe	70,716	711	33,718	338
Mudanjiang Shimao Holiday Landscape	92,084	423	61,970	290
Beijing Shimao Alhambra Palace	4,961	215	5,583	104
Xiamen Shimao Lakeside Garden	74,460	1,557	62,276	1,404
Ningbo Shimao Sea Dawn	27,409	207	97,331	856
Shenyang Shimao Notting Hill	5,211	53	—	—

	2012		2013	
	GFA (sq.m.)	Revenue (RMB in millions)	GFA (sq.m.)	Revenue (RMB in millions)
Tianjin Shimao Ecology City	71,248	718	124,599	1,150
Chengdu Shimao City	106,502	688	13,832	98
Dalian Shimao Glory City	1,756	21	4,983	60
Xianyang Shimao The Centre	5,839	99	19,027	383
Dalian Shimao Dragon Bay	48,636	553	72,663	929
Fuzhou Minhou Shimao Dragon Bay	123,745	1,406	348,720	3,889
Fujian Jinjiang Shimao Dragon Bay	99,958	1,728	399,579	5,450
Wuhan Shimao Dragon Bay	22,986	230	25,383	186
Subtotal (a)	2,047,403	21,169	2,876,281	30,108
Shanghai Shimao				
Changshu Shimao The Center (Commercial)	216,748	2,032	125,984	1,034
Hangzhou Shimao Riviera COSMO	48,929	494	2,496	29
Nanjing Shimao Bund New City	78,443	1,226	123,276	1,869
Xuzhou Shimao Dongdu (Commercial)	49,969	291	22,777	285
Shaoxing Shimao Dear Town (Commercial)	2,877	36	425	8
Kunshan Shimao International City	108,432	1,047	7,675	92
Wuhan Shimao Carnival	42,807	312	58,923	492
Subtotal (b)	548,205	5,438	677,418	9,395
Total (a)+(b)	2,595,608	26,607	3,553,699	39,503

- *Hotel operating income.* Hotel operating income decreased by 2.1% to RMB978.6 million (US\$157.7 million) in 2013 from RMB999.1 million in 2012, primarily due to the impact of government's anti-corruption campaign and the outbreak of bird flu in 2013.
- *Rental income from investment properties.* Rental income from investment properties increased by 9.6% to RMB555.9 million (US\$89.6 million) in 2013 from RMB507.4 million in 2012, primarily attributable to the growth in average rent.
- *Others.* Other revenue decreased to RMB464.8 million (US\$74.9 million) in 2013 from RMB538.6 million in 2012. Other revenue in 2013 was mainly derived from our construction services and operations of department stores and cinemas.

Cost of sales. Cost of sales increased by 41.0% to RMB26,861.8 million (US\$4,330.0 million) in 2013 from RMB19,046.4 million in 2012, primarily due to an increase in the cost of properties delivered in line with the increase in GFA delivered.

Gross profit. As a result of the foregoing, our gross profit increased by 52.4% to RMB14,640.9 million (US\$2,360.1 million) in 2013 from RMB9,605.8 million in 2012. Our gross profit margin increased to 35.3% in 2013 from 33.5% in 2012, primarily due to the increase in the average recognized selling price in 2013.

Fair value gains on investment properties. Fair value gains on investment properties decreased by 56.4% to RMB1,031.2 million (US\$168.0 million) in 2013 from RMB2,362.9 million in 2012, primarily attributable to a smaller increase in value of certain investment properties in 2013.

Other income/other gains—net. Our other net income/gains decreased by 29.3% to RMB845.1 million (US\$136.2 million) in 2013 from RMB1,196.1 million in 2012, mainly included gains on net foreign exchange gains and government grants.

Selling and marketing costs. Our selling and marketing costs increased by 24.7% to RMB1,305.7 million (US\$210.5 million) in 2013 from RMB1,046.8 million in 2012, which was in line with the significant growth in contracted sales.

Administrative expenses. Our administrative expenses increased by 25.7% to RMB2,283.3 million (US\$368.1 million) in 2013 from RMB1,815.9 million in 2012, mainly due to the increase in our labor cost and corporate and office expenses in line with the business expansion, and the increase in hotel expenses since one of our hotels commenced operations in the second half of 2013.

Other operating expenses. Our other operating expenses increased by 122.0% to RMB592.1 million (US\$95.4 million) in 2013 from RMB266.7 million in 2012, primarily due to the impairment of goodwill, such as Wuhan Shimao Splendid River which amounted to approximately RMB147 million in 2013.

Operating profit. As a result of the foregoing, our operating profit increased by 22.9% to RMB12,336.0 million (US\$1,988.5 million) in 2013 from RMB10,035.4 million in 2012.

Finance costs—net. Our net finance costs increased by 449.3% to RMB121.4 million (US\$19.6 million) in 2013 from RMB22.1 million in 2012, mainly due to an increase in interest expenses resulting from increased borrowings in 2013.

Share of results of associated companies. We had a share of losses of associated companies of RMB51.4 million (US\$8.3 million) in 2013, mainly due to losses from Guangzhou Asian Games City. By comparison, we had a share of losses of associated companies of RMB210.9 million in 2012, mainly due to losses from Guangzhou Asian Games City.

Share of results of jointly controlled entities. We had a share of profits of jointly controlled entities in the amount of RMB895.6 million (US\$144.4 million) in 2013, compared with a share of profits of jointly controlled entities in the amount of RMB363.1 million in 2012, primarily due to the completion and recognition of sales revenue of the properties of the two joint ventures in Hangzhou.

Profit before income tax. As a result of the foregoing, profit before income tax increased by 28.5% to RMB13,058.8 million (US\$2,105.0 million) in 2013 from RMB10,165.4 million in 2012.

Income tax expense. Our income tax expense increased by 35.0% to RMB4,833.5 million (US\$779.1 million) in 2013 from RMB3,580.9 million in 2012, primarily due to an increase in PRC enterprise income tax paid and an increase in LAT expense paid in line with our expansion of land bank. The effective tax rate in 2013 was 37.0%, compared to 35.2% in 2012.

Profit for the year. As a result of the foregoing, profit for the year increased by 24.9% to RMB8,225.3 million (US\$1,325.9 million) in 2013 from RMB6,584.5 million in 2012 and profit for the year as a percentage of revenue slightly decreased to 19.8% in 2013 from 23.0% in 2012.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company in 2013 was RMB7,389.9 million (US\$1,191.2 million) compared with RMB5,764.6 million in 2012, while profit attributable to equity holders of the Company as a percentage of revenue decreased to 17.8% in 2013 from 20.1% in 2012.

Profit attributable to non-controlling interests. Profit attributable to non-controlling interests increased by 1.9% to RMB835.5 million (US\$134.7 million) in 2013 from RMB819.9 million in 2012.

2012 compared with 2011

Revenue. Revenue increased by 10.1% to RMB28,652.2 million (US\$4,668.5 million) in 2012 from RMB26,031.4 million in 2011, primarily due to the increased revenue from the sale of properties.

- **Sale of properties.** Sales revenue generated from our property development increased by 8.2% to RMB26,607.1 million (US\$4,335.2 million) in 2012 from RMB24,589.5 million in 2011, primarily due to a 24.4% increase in total GFA delivered to 2,595,608 sq.m. in 2012 from 2,086,265 sq.m. in 2011 and a 13.0% decrease in the average recognized selling price per sq.m. of properties delivered to RMB10,251 per sq.m. in 2012 from RMB11,786 per sq.m. in 2011. We recognized revenue from sales of properties in 37 projects in 2012, compared with 28 projects in 2011. The average recognized selling price per sq.m. of our properties delivered decreased mainly due to discounts offered to certain of our projects and the increase in proportion of sales generated from projects in second- and third-tier cities since 2012.

The following table sets forth the GFA sold and the sales revenue generated by each project in 2011 and 2012, respectively:

	2011		2012	
	GFA (sq.m.)	Revenue (RMB in millions)	GFA (sq.m.)	Revenue (RMB in millions)
Projects held by us not under Shanghai Shimao				
Shimao Property				
Wuhan Shimao Splendid River	132,906	1,233	40,362	432
Shaoxing Shimao Dear Town	67,344	865	56,691	711
Harbin Shimao Riviera New City	47,268	530	79,565	518
Changshu Shimao The Center	5,277	44	—	—
Kunshan Shimao Butterfly Bay	180,724	1,444	79,593	516
Shanghai Shimao Riviera Garden	6,348	502	18,928	1,363
Kunshan Shimao East No.1	135,895	1,017	168,935	1,162
Hangzhou Shimao Riviera Garden	179,817	2,170	186,136	1,520
Shanghai Shimao Emme County	33,278	291	44,645	336
Wuhu Shimao Riviera Garden	3,002	43	35,148	354
Fuzhou Shimao Skyscrapers	19,731	407	61,835	1,678
Suzhou Shimao Canal Scene	86,572	965	129,473	1,177
Jiaxing Shimao Century Park	11,242	86	10,675	72
Changzhou Shimao Champagne Lake	72,472	551	107,481	705
Yantai Shimao No.1 The Harbour	30,441	353	37,432	338
Xuzhou Shimao Dongdu	87,750	542	93,649	565
Taizhou Shimao Riverside Garden	63,188	356	41,548	241
Ningbo Shimao World Gulf	243,483	2,732	99,796	872
Shenyang Shimao Wulihe	35,091	312	70,716	711
Mudanjiang Shimao Holiday Landscape	1,350	5	92,084	423
Beijing Shimao Alhambra Palace	31,418	1,515	4,961	215
Xiamen Shimao Lakeside Garden	56,312	1,381	74,460	1,557
Ningbo Shimao Sea Dawn	107,936	889	27,409	207
Shenyang Shimao Notting Hill	—	—	5,211	53

	2011		2012	
	GFA (sq.m.)	Revenue (RMB in millions)	GFA (sq.m.)	Revenue (RMB in millions)
Tianjin Shimao Ecology City	60,704	661	71,248	718
Chengdu Shimao City	—	—	106,502	688
Dalian Shimao Glory City	11,219	146	1,756	21
Xianyang Shimao The Centre	20,884	293	5,839	99
Dalian Shimao Dragon Bay	—	—	48,636	553
Fuzhou Minhou Shimao Dragon Bay	—	—	123,745	1,406
Fujian Jinjiang Shimao Dragon Bay	—	—	99,958	1,728
Wuhan Shimao Dragon Bay	—	—	22,986	230
Subtotal (a)	1,731,652	19,333	2,047,403	21,169
Shanghai Shimao				
Beijing Shimao Gongsan Plaza	60,905	2,623	—	—
Changshu Shimao The Center (Commercial)	127,506	1,103	216,748	2,032
Hangzhou Shimao Riviera COSMO	94,512	920	48,929	494
Nanjing Shimao Bund New City	16,052	253	78,443	1,226
Xuzhou Shimao Dongdu (Commercial)	44,365	179	49,969	291
Shaoxing Shimao Dear Town (Commercial)	11,273	178	2,877	36
Kunshan Shimao International City	—	—	108,432	1,047
Wuhan Shimao Carnival	—	—	42,807	312
Subtotal (b)	354,613	5,256	548,205	5,438
Total (a)+(b)	2,086,265	24,589	2,595,608	26,607

- *Hotel operating income.* Hotel operating income increased by 12.0% to RMB999.1 million (US\$162.8 million) in 2012 from RMB892.0 million in 2011, primarily due to the commencement of operations of our two new hotels in the second half of 2011.
- *Rental income from investment properties.* Rental income from investment properties increased by 15.2% to RMB507.4 million (US\$82.7 million) in 2012 from RMB440.6 million in 2011, primarily attributable to the growth in average rent.
- *Others.* Other revenue increased significantly to RMB538.6 million (US\$87.8 million) in 2012 from RMB109.4 million in 2011. Other revenue in 2012 was mainly derived from our construction services and operations of department stores and cinemas.

Cost of sales. Cost of sales increased by 18.8% to RMB19,046.4 million (US\$3,103.3 million) in 2012 from RMB16,031.4 million in 2011, primarily due to an increase in the cost of properties delivered in line with the increase in GFA delivered.

Gross profit. As a result of the foregoing, our gross profit decreased slightly by 3.9% to RMB9,605.8 million (US\$1,565.1 million) in 2012 from RMB10,000.1 million in 2011. Our gross profit margin decreased to 33.5% in 2012 from 38.4% in 2011, primarily due to the decrease in the average recognized selling price in 2012.

Fair value gains on investment properties. Fair value gains on investment properties decreased by 6.5% to RMB2,362.9 million (US\$385.0 million) in 2012 from RMB2,527.0 million in 2011, primarily attributable to the increase in value of certain investment properties.

Other income/other gains—net. Our other net income/gains increased by 50.6% to RMB1,196.1 million (US\$194.9 million) in 2012 from RMB794.3 million in 2011, mainly included gains on deemed disposal of subsidiaries and government grants.

Selling and marketing costs. Our selling and marketing costs increased by 35.9% to RMB1,046.8 million (US\$170.6 million) in 2012 from RMB769.9 million in 2011, which was in line with the significant growth in contracted sales.

Administrative expenses. Our administrative expenses increased by 34.6% to RMB1,815.9 million (US\$295.9 million) in 2012 from RMB1,349.3 million in 2011, mainly due to the increase in our labor cost and corporate and office expenses in line with the business expansion, and the increase in hotel expenses since two of our hotels commenced operations in the second half of 2011.

Other operating expenses. Our other operating expenses increased by 38.8% to RMB266.7 million (US\$43.5 million) in 2012 from RMB192.2 million in 2011, primarily due to the impairment of goodwill of Shanghai Shimao Riviera Garden which amounted to approximately RMB100 million in 2012 when we recognize our sales.

Operating profit. As a result of the foregoing, our operating profit decreased by 8.8% to RMB10,035.4 million (US\$1,635.1 million) in 2012 from RMB11,010.0 million in 2011.

Finance costs—net. Our net finance costs decreased by 94.2% to RMB22.1 million (US\$3.6 million) in 2012 from RMB380.3 million in 2011, mainly due to the increase in loan interests capitalization ratio to 94.8% in 2012 from 84.2% in 2011.

Share of results of associated companies. We had a share of losses of associated companies of RMB210.9 million (US\$34.4 million) in 2012, mainly due to losses from Guangzhou Asian Games City. By comparison, we had a share of profits of associated companies of RMB97.7 million in 2011, mainly derived from Guangzhou Asian Games City.

Share of results of jointly controlled entities. We had a share of profits of jointly controlled entities in the amount of RMB363.1 million (US\$59.2 million) in 2012, compared with a share of profits of jointly controlled entities in the amount of RMB24.2 million in 2011, primarily due to the completion and recognition of sales revenue of the properties of the two joint ventures in Hangzhou.

Profit before income tax. As a result of the foregoing, profit before income tax decreased by 5.5% to RMB10,165.4 million (US\$1,656.3 million) in 2012 from RMB10,751.6 million in 2011.

Income tax expense. Our income tax expense decreased by 16.8% to RMB3,580.9 million (US\$583.5 million) in 2012 from RMB4,302.6 million in 2011, primarily due to a decrease in PRC enterprise income tax paid. The effective tax rate in 2012 was 35.2%, compared to 40.0% in 2011.

Profit for the year. As a result of the foregoing, profit for the year increased by 2.1% to RMB6,584.5 million (US\$1,072.8 million) in 2012 from RMB6,448.9 million in 2011 and profit for the year as a percentage of revenue slightly decreased to 23.0% in 2012 from 24.8% in 2011.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company in 2012 was RMB5,764.6 million (US\$939.3 million) compared with RMB5,722.8 million in 2011, while profit attributable to equity holders of the Company as a percentage of revenue decreased to 20.1% in 2012 from 22.0% in 2011.

Profit attributable to non-controlling interests. Profit attributable to non-controlling interests increased by 12.9% to RMB819.9 million (US\$133.6 million) in 2012 from RMB726.2 million in 2011.

Liquidity and Capital Resources

Cash flows

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

	For the year ended December 31,				For the six months ended June 30,	
	2011	2012	2013	2013	2014	2014
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
				Unaudited	Unaudited	Unaudited
				(in thousands)		
Net cash (used in)/generated from operating activities	(4,061,813)	8,394,313	(10,811,080)	(1,742,711)	(5,618,348)	(905,659)
Net cash used in investing activities	(3,072,105)	(3,281,190)	(6,129,767)	(988,098)	(1,884,280)	(303,740)
Net cash generated from/(used in) financing activities	7,496,187	(1,530,002)	18,185,744	2,931,482	8,654,931	1,395,147
Net increase in cash and cash equivalents	225,584	3,583,121	1,244,897	200,673	1,152,303	185,748
Cash and cash equivalents at the end of the year/period	12,312,740	15,893,845	17,026,018	2,744,538	18,186,652	2,931,629

Cash flow from operating activities

We derive our cash inflow from operations principally from the pre-sale and sale of properties. Our cash outflow from operations is principally for investments in property under development and land acquisitions. We are subject to certain restrictions on how we use pre-sale proceeds as described in “Regulation.”

Six months ended June 30, 2014. Our net cash used in operating activities of RMB5,618.3 million (US\$905.7 million) for the six months ended June 30, 2014 was attributable to PRC income tax paid of RMB2,239.0 million (US\$360.9 million) and interest paid of RMB1,881.2 million (US\$303.2 million), partially offset by net cash generated from operations of RMB1,564.1 million (US\$252.1 million) and interest received of RMB66.0 million (US\$10.6 million). Cash generated from operations prior to changes in working capital was RMB6,441.4 million (US\$1,038.3 million). Changes in working capital contributed to a net cash outflow of RMB8,005.5 million (US\$1,290.5 million), primarily comprising (i) an increase in properties under development and completed properties held for sale of RMB16,531.9 million (US\$2,664.9 million) and (ii) an increase in trade and other receivables and prepayments of RMB2,317.9 million (US\$373.6 million), partially offset by (a) an increase in trade and other payables of RMB4,757.8 million (US\$766.9 million) and (b) an increase in advance proceeds received from customers of RMB2,749.1 million (US\$443.1 million).

2013. Our net cash used in operating activities of RMB10,811.1 million (US\$1,742.7 million) in 2013 was attributable to net cash used in operations of RMB3,901.8 million (US\$629.0 million), PRC income tax paid of RMB3,613.6 million (US\$582.5 million) and interest paid of RMB3,486.6 million (US\$562.0 million), partially offset by interest received of RMB190.9 million (US\$30.8 million). Cash used in operations prior to changes in working capital was RMB11,695.0 million (US\$1,885.2 million). Changes in working capital contributed to a net cash outflow of RMB15,596.8 million (US\$2,514.2 million), primarily comprising (i) an increase in properties under development and completed properties held for sale of RMB25,978.8 million (US\$4,187.7 million) and (ii) an increase in trade and other receivables and prepayments of RMB4,938.3 million (US\$796.0 million), partially offset by (a) an increase in advanced proceeds received from customers of RMB9,843.0 million (US\$1,586.7 million), (b) an increase in trade and other payables of RMB3,556.9 million (US\$573.4 million) and (c) an increase in amounts due to related companies of RMB2,105.6 million (US\$339.4 million).

2012. Our net cash generated from operating activities of RMB8,394.3 million in 2012 was attributable to net cash generated from operations of RMB14,513.2 million and interest received of RMB146.1 million, partially offset by interest paid of RMB3,169.5 million and PRC income tax paid of RMB3,095.5 million. Cash generated from operations prior to changes in working capital was RMB7,358.7 million. Changes in working capital contributed to a net cash inflow of RMB7,154.5 million, primarily comprising (i) an increase in advanced proceeds received from customers of RMB9,458.8 million and (ii) an increase in amount due to related companies of RMB2,866.9 million, partially offset by (a) a decrease in trade and other payables of RMB3,419.4 million and (b) an increase in trade and other receivables and prepayments of RMB2,135.9 million.

2011. Our net cash used in operating activities of RMB4,061.8 million in 2011 was attributable to interest paid of RMB2,916.0 million and PRC income tax paid of RMB2,443.3 million, partially offset by net cash generated from operations of RMB1,197.4 million and interest received of RMB100.1 million. Cash generated from operations prior to changes in working capital was RMB8,425.0 million. Changes in working capital contributed to a net cash outflow of RMB7,227.5 million, primarily comprising (i) an increase in properties under development, completed properties held for sale and prepayment for acquisition of land use rights of RMB6,795.9 million and (ii) a decrease in trade and other payables of RMB1,276.0 million, partially offset by (a) a decrease in trade and other receivables and prepayments of RMB713.2 million and (b) a decrease in amount due from related companies of RMB359.0 million.

Cash flow from investing activities

Our investing activities mainly comprise investments in property and equipment, investment property, land use rights acquisitions for construction and acquisitions of interests in subsidiaries and associated companies.

Six months ended June 30, 2014. Our net cash used in investing activities of RMB1,884.3 million (US\$303.7 million) for the six months ended June 30, 2014 was attributable to (i) additions of property, equipment and investment properties of RMB1,384.6 million (US\$223.2 million), (ii) capital injections in jointly controlled entities of RMB572.2 million (US\$92.2 million), (iii) advances to jointly controlled entities of RMB217.9 million (US\$35.1 million) and (iv) additions of land use rights and other non-current assets of RMB161.6 million (US\$26.1 million), partially offset by disposal of subsidiaries of RMB450.8 million (US\$72.7 million).

2013. Our net cash used in investing activities of RMB6,129.8 million (US\$988.1 million) in 2013 was principally attributable to (i) additions of property, equipment and investment properties of RMB3,749.8 million (US\$604.5 million); (ii) prepayment for acquisition of equity interests of RMB1,296.4 million (US\$209.0 million); (iii) additions of land use rights and other non-current assets of RMB1,034.0 million (US\$166.7 million); and (iv) advances to jointly controlled entities of RMB705.0 million (US\$113.6 million), partially offset by (a) disposals of subsidiaries with loss of control of RMB637.8 million (US\$102.8 million); and (b) disposal of a jointly controlled entity of RMB359.8 million (US\$58.0 million).

2012. Our net cash used in investing activities of RMB3,281.2 million in 2012 was principally attributable to (i) increase in property, equipment and investment properties of RMB3,627.9 million; (ii) increase in land use rights and other non-current assets of RMB4,274.9 million; (iii) capital injections to associated companies of RMB393.1 million; and (iv) prepayment for deemed disposal of subsidiaries of RMB158.9 million, partially offset by (a) settlement from jointly controlled entities of RMB1,223.2 million and (b) disposal of a subsidiary of RMB320.0 million.

2011. Our net cash used in investing activities of RMB3,072.1 million in 2011 was principally attributable to (i) additions of property, equipment and investment properties of RMB2,442.5 million; (ii) capital injection to associated companies of RMB803.0 million; (iii) prepayment for acquisition of additional interests in a subsidiary of RMB330.0 million; and (iv) additions of land use rights and other non-current assets of RMB148.1 million, partially offset by (a) capital contribution from non-controlling interests of subsidiaries of RMB441.2 million and (b) disposal of a subsidiary of RMB226.4 million, relating to our disposal of 50% interest in Qingdao New City.

Cash flow from financing activities

Our financing activities consist primarily of bank borrowings, advances from related companies and distributions of dividends.

Six months ended June 30, 2014. We had net cash generated from financing activities of approximately RMB8,654.9 million (US\$1,395.1 million) for the six months ended June 30, 2014, primarily attributable to (a) proceeds from borrowings of RMB20,570.4 million (US\$3,315.9 million), and (b) capital contribution from non-controlling interests of subsidiaries of RMB3,877.3 million (US\$625.0 million), partially offset by repayments of borrowings of RMB14,735.6 million (US\$2,375.3 million).

2013. We had net cash generated from financing activities of approximately RMB18,185.7 million (US\$2,931.5 million) in 2013, primarily attributable to proceeds from (i) borrowings of RMB39,191.1 million (US\$6,317.5 million); (ii) amounts due to non-controlling interests of subsidiary of RMB6,133.1 million (US\$988.6 million); and (iii) capital contribution from non-controlling interests of subsidiaries of RMB4,305.6 million (US\$694.0 million), partially offset by (a) repayments of borrowings of RMB29,756.3 million (US\$4,796.6 million); and (b) dividends paid to our equity holders of RMB1,515.9 million (US\$244.4 million).

2012. We had net cash used in financing activities of approximately RMB1,530.0 million in 2012, primarily attributable to repayments of borrowings of RMB28,702.2 million, partially offset by proceeds from borrowings of RMB28,259.9 million.

2011. We had net cash generated from financing activities of approximately RMB7,496.2 million in 2011, primarily attributable to proceeds from borrowings of RMB21,100.0 million, partially offset by repayments of borrowings of RMB11,981.8 million.

Capital Resources

Property developments require substantial capital investment for land acquisition and construction and may take months or years before positive cash flow can be generated. We principally fund our property developments from internal funds, borrowings from banks, proceeds from sales and pre-sales of our properties, capital contributions from shareholders and other funds raised from the capital markets. Our financing methods may vary from project to project and are subject to limitations imposed by PRC regulations and monetary policies.

Cash and Bank Balances

Our cash and bank balances (including restricted cash balances) amounted to RMB13,994.0 million, RMB18,097.9 million, RMB19,573.2 million (US\$3,155.1 million) and RMB21,132.0 million (US\$3,406.4 million) as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively. Our cash and bank balances (including restricted cash balances) increased by RMB1,558.8 million, or 8.0%, to RMB21,132.0 million (US\$3,406.4 million) as of June 30, 2014 from RMB19,573.2 million as of December 31, 2013, primarily due to the net cash generated from financing activities. Our cash and bank balances (including restricted cash balances) increased by RMB1,475.3 million, or 8.2%, to RMB19,573.2 million as of December 31, 2013 from RMB18,098.9 million as of December 31, 2012, primarily due to increased cash inflow from financing activities. Our cash and bank balances (including restricted cash balances) increased by RMB4,103.9 million, or 29.3%, to RMB18,097.9 million as of December 31, 2012 from RMB13,994.0 million as of December 31, 2011, primarily due to net cash generated from operating activities.

Borrowings

Our borrowings as of December 31, 2011, 2012 and 2013 and June 30, 2014 were as follows:

	As of December 31,				As of June 30,	
	2011	2012	2013	2013	2014	2014
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
				Unaudited	Unaudited	Unaudited
				(in thousands)		
Borrowings included in non-current liabilities						
Long-term bank borrowings and borrowings from other financial institutions—secured by assets ⁽¹⁾	21,314,349	22,261,602	23,285,230	3,753,503	27,242,037	4,391,327
Long-term bank borrowings and borrowings from other financial institutions—secured by shares of subsidiary guarantors ⁽²⁾	2,575,912	3,419,577	7,412,356	1,194,848	7,158,774	1,153,971
Long-term bank borrowings and borrowings from other financial institutions—secured by shares of a listed subsidiary ⁽³⁾	3,605,000	1,631,969	680,000	109,614	745,000	120,092
Long-term bank borrowings and borrowings from other financial institutions—unsecured	950,000	426,840	772,443	124,515	2,012,473	324,404
Senior notes—secured	7,380,822	7,391,143	9,901,163	1,596,035	13,770,736	2,219,798
	<u>35,826,083</u>	<u>35,131,131</u>	<u>42,051,192</u>	<u>6,778,514</u>	<u>50,929,020</u>	<u>8,209,591</u>
Less: Amounts due within one year	(8,248,249)	(6,517,834)	(4,497,511)	(724,984)	(8,910,989)	(1,436,422)
	<u>27,577,834</u>	<u>28,613,297</u>	<u>37,553,681</u>	<u>6,053,530</u>	<u>42,018,031</u>	<u>6,773,169</u>
Borrowings included in current liabilities						
Short-term bank borrowings and borrowings from other financial institutions—secured by assets ⁽¹⁾	5,069,627	4,162,930	4,047,250	652,403	1,659,000	267,425
Short-term bank borrowings and borrowings from other financial institutions—unsecured	1,165,000	273,000	2,740,561	441,770	1,220,272	196,704
Short-term bank borrowings and borrowings from other financial institutions—secured by shares of a listed subsidiary ⁽²⁾	500,543	1,426,880	490,000	78,986	890,000	143,465
Current portion of long-term bank borrowings and borrowings from other financial institutions	8,248,249	6,517,834	4,497,511	724,984	8,910,989	1,436,422
	<u>14,983,419</u>	<u>12,380,644</u>	<u>11,775,322</u>	<u>1,898,143</u>	<u>12,680,261</u>	<u>2,044,017</u>
Total	<u>42,561,253</u>	<u>40,993,941</u>	<u>49,329,003</u>	<u>7,951,673</u>	<u>54,698,292</u>	<u>8,817,186</u>

Notes:

- (1) As of June 30, 2014, our total secured bank borrowings and borrowings from other financial institutions of RMB28,901,037,000 were secured by our property and equipment, investment properties, land use rights, properties under development, completed properties held for sale and restricted cash. As of June 30, 2014, secured borrowings of RMB1,735,150,000 were further guaranteed by Mr. Hui Wing Mau.
- (2) On June 12, 2014, we entered into the 2014 Syndicated Loan Facilities. Pursuant to the agreement, we obtained four-year syndicated loan facilities, comprising a US\$665,000,000 facility and a HK\$555,000,000 facility at a floating interest rate, 15% out of which loan principal will mature in 2016, 35% will mature in 2017 and 50% will mature in 2018. The loan facilities were guaranteed by certain of our subsidiaries, and secured by pledges of the shares of these subsidiary guarantors. As of the date of this offering memorandum US\$665,000,000 and HK\$505,000,000 have been drawn down.
- (3) As of June 30, 2014, 338,080,000 shares of Shanghai Shimao held by us had been pledged for bank borrowings and borrowings from other financial institutions of RMB1,635,000,000 for group companies, respectively.

The maturity of our bank borrowings as of December 31, 2011, 2012 and 2013 and June 30, 2014 that were included in non-current liabilities were as follows:

	As of December 31,				As of June 30,	
	2011	2012	2013	2013	2014	2014
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
	(in thousands)					
Bank borrowings and borrowings from other financial institutions:						
Between 1 and 2 years	8,866,957	6,718,541	9,388,065	1,513,325	12,157,579	1,959,762
Between 2 and 5 years	7,125,554	9,261,013	11,950,883	1,926,443	12,896,277	2,078,837
Over 5 years	4,204,500	5,242,600	6,313,570	1,017,727	6,249,933	1,007,469
Senior notes:						
Between 2 and 5 years	2,135,048	5,232,183	5,102,976	822,583	2,139,285	344,846
Over 5 years	5,245,775	2,158,960	4,798,187	773,452	8,574,957	1,382,255
Total	<u>27,577,834</u>	<u>28,613,297</u>	<u>37,553,681</u>	<u>6,053,530</u>	<u>42,018,031</u>	<u>6,773,169</u>

The effective interest rates as of December 31, 2011, 2012 and 2013 and June 30, 2014 were as follows:

	As of December 31,			As of June 30,
	2011	2012	2013	2014
Bank borrowings—RMB	7.78%	8.57%	7.35%	6.84%
Borrowings from other financial institutions—RMB	9.46%	10.78%	8.06%	7.77%
Bank borrowings—US\$	3.59%	2.87%	4.59%	3.59%
Bank borrowings—HK\$	2.73%	2.91%	3.92%	3.03%
Senior notes—US\$	10.02%	10.02%	8.94%	8.83%

The carrying amounts of all our borrowings as of December 31, 2011, 2012 and 2013 and June 30, 2014 were denominated in the following currencies:

	As of December 31,						As of June 30,		
	2011		2012		2013		2014		
	(RMB)	(%)	(RMB)	(%)	(RMB)	(US\$)	(RMB)	(US\$)	(%)
	(in thousands, except percentages)								
RMB	29,076,557	68.3	25,857,139	63.1	29,301,086	4,723,239	31,822,731	5,129,720	58.2
HK\$	3,325,177	7.8	3,393,929	8.3	3,350,660	540,115	3,481,166	561,153	6.4
US\$	10,159,519	23.9	11,742,873	28.6	16,677,257	2,688,319	19,394,395	3,126,313	35.4
Total	<u>42,561,253</u>	<u>100.0</u>	<u>40,993,941</u>	<u>100.0</u>	<u>49,329,003</u>	<u>7,951,674</u>	<u>54,698,292</u>	<u>8,817,186</u>	<u>100.0</u>

The following sets forth the breakdown of our borrowings into those on a fixed-rate basis and those on a floating-rate basis:

	As of December 31,						As of June 30,		
	2011		2012		2013		2014		
	(RMB)	(%)	(RMB)	(%)	(RMB)	(US\$)	(RMB)	(US\$)	(%)
	(in thousands, except percentages)								
Fixed-rate	10,055,722	23.6	15,975,346	39.0	16,868,469	2,719,142	19,935,736	3,213,575	36.4
Floating-rate	32,505,531	76.4	25,018,595	61.0	32,460,534	5,232,532	34,762,556	5,603,610	63.6
Total	<u>42,561,253</u>	<u>100.0</u>	<u>40,993,941</u>	<u>100.0</u>	<u>49,329,003</u>	<u>7,951,674</u>	<u>54,698,292</u>	<u>8,817,185</u>	<u>100.0</u>

Subsequent to June 30, 2014, we fully redeemed the 2010 Notes and drew down the 2014 Syndicated Loan Facilities in full and have from time to time entered into additional loan agreements to finance our property developments or for general corporate purposes in the ordinary course of business.

Our sources of funds as of June 30, 2014 comprised the following:

	As of June 30, 2014			
	Available facilities	Utilized facilities	Undrawn facilities	Undrawn facilities expiring within 1 year
	(RMB in thousands)			
Borrowings				
Current	10,000,000	4,567,063	5,432,937	5,432,937
Non-current	10,000,000	—	10,000,000	10,000,000
Total committed facilities	<u>20,000,000</u>	<u>4,567,063</u>	<u>15,432,937</u>	<u>15,432,937</u>
Total loan facilities	<u>20,000,000</u>	<u>4,567,063</u>	<u>15,432,937</u>	<u>15,432,937</u>

As of June 30, 2014, our total outstanding borrowings were RMB54,698.3 million (US\$8,817.2 million). A substantial portion of these loans were PRC bank loans and were secured by land use rights and other assets and properties as well as guaranteed by certain of our PRC subsidiaries.

For a more detailed discussion of our other material indebtedness, see “Description of Other Material Indebtedness.”

Restricted Cash

In connection with mortgage loans provided to our purchasers, the mortgagee banks typically require our project companies to make guarantee deposits with them. As of December 31, 2011, 2012 and 2013 and June 30, 2014, such guarantee deposits amounted to approximately RMB365.1 million, RMB222.4 million, RMB17.5 million (US\$2.8 million) and RMB526.2 million (US\$84.8 million), respectively.

In 2011, 2012 and 2013 and the first half of 2014, some of our bank deposits were pledged for certain of our bank borrowings. As of December 31, 2011, 2012 and 2013 and June 30, 2014, such pledged bank deposits amounted to approximately RMB1,316.1 million, RMB1,981.6 million, RMB517.5 million (US\$83.4 million) and RMB526.2 million (US\$84.8 million), respectively.

Contractual commitments

We fund our contractual commitments using any one or a combination of our internal cash flow, bank loans, shareholders' contributions and funds raised from the capital markets. The table below sets forth our contractual commitments as of December 31, 2013 and June 30, 2014:

	As of December 31, 2013		As of June 30, 2014	
	(RMB)	(US\$)	(RMB)	(US\$)
	(in thousands)			
Commitments for capital and property development expenditure				
Contracted but not provided for				
— Property, equipment and investment properties	1,453,432	234,288	1,255,007	202,303
— Land use rights (including those related to associated companies and jointly controlled entities)	17,662,724	2,847,173	14,225,779	2,293,149
— Properties being developed for sale	20,165,097	3,250,548	23,279,164	3,752,525
— Equity interest	1,190,000	191,824	—	—
	<u>40,471,253</u>	<u>6,523,833</u>	<u>38,759,950</u>	<u>6,247,977</u>
Operating lease commitments				
Within one year	192,005	30,951	188,712	30,420
Between two to five years	731,440	117,906	533,396	85,982
After five years	363,989	58,674	295,978	47,711
	<u>1,287,434</u>	<u>207,531</u>	<u>1,018,086</u>	<u>164,113</u>

Contingent liabilities

As of December 31, 2011, 2012 and 2013 and June 30, 2014, we had provided guarantees for RMB7,093.0 million, RMB8,400.1 million, RMB10,054.7 million (US\$1,620.8 million) and RMB6,051.8 million (US\$975.5 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of our properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, we are responsible for repaying the outstanding mortgage principal amounts together with accrued interest and penalties owed by the defaulting purchasers to the banks and we are entitled to take over the legal title and possession of the related properties. Our directors consider that in case of a default in payments, the net realizable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalties and therefore no provision has been made in the financial statements for the guarantees. See “Risk Factors—Risks Relating to Our Business—We guarantee mortgage loans of our customers and may be liable to the mortgagee banks if our customers default on their mortgage payments.” We have also provided certain guarantees in connection with borrowing arrangements of certain of our jointly-controlled entities. See “Description of Other Material Indebtedness—Other Obligations.”

Off-Balance Sheet Commitments and Arrangements

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

Market Risks

Interest Rate Risk

Our business is sensitive to fluctuations in interest rates. Our exposure to changes in interest rates is mainly attributable to our borrowings, especially long-term borrowings. Borrowings at variable rates expose us to cash flow interest rate risk. Borrowings at fixed rate expose us to fair value interest rate risk. As of June 30, 2014, we had floating-rate borrowings of RMB34,762.6 million (US\$5,603.6 million) and fixed-rate borrowings of RMB19,935.7 million (US\$3,213.6 million). As of the date of this offering memorandum, we have managed certain of our interest rate risk by using fixed-to-floating interest rate swaps and have converted borrowings of US\$300,000,000 from fixed rate to floating rate through interest rate swap.

An increase in interest rates may also adversely affect prospective purchasers' ability to obtain financing and depress overall housing demand. Higher interest rates may adversely affect our revenue and profits. The PBOC benchmark one-year lending rates in China (which directly affects the property mortgage rates offered by commercial banks in the PRC) as of December 31, 2011, 2012 and 2013 and June 30, 2014 were 6.56%, 6.00%, 6.00% and 6.00%, respectively, and 5.60% as of December 31, 2014. We cannot assure you that the PBOC will not raise lending rates in the future or that our business, financial condition and results of operations will not be adversely affected as a result of these adjustments. See "Risk Factors—Risks Relating to Our Business—Our financing costs are affected by changes in interest rates."

We are also exposed to fluctuations in HIBOR or LIBOR, to which the interest rate of our borrowings under the Hong Kong dollar and U.S. dollar tranches of our 2012 Syndicated Loan Facilities, 2013 Syndicated Loan Facilities and 2014 Syndicated Loan Facilities, respectively, are linked. See "Description of Other Material Indebtedness." Higher interest rates may increase our finance costs, and our business, financial condition and results of operations could be adversely affected.

Foreign Exchange Rate Risk

We conduct our sales and purchases almost exclusively in Renminbi except that a small portion of our sales proceeds are in other currencies. Our exposure to foreign exchange risk is principally due to our U.S. dollar and Hong Kong dollar-denominated debt and our bank deposits in foreign currencies, mainly Hong Kong dollars and U.S. dollars. As of June 30, 2014, we had U.S. dollar-denominated debt totaling RMB19,394 million (US\$3,126 million), consisting of the drawn-down amounts under our 2011 Notes, 2013 Notes, the 2014 Notes and the U.S. dollar tranche of the 2012 Syndicated Loan Facilities, 2013 Syndicated Loan Facilities. As of the same date, we had aggregate cash and bank balances (including restricted cash balances) of RMB21,132.0 million (US\$3,406.4 million), of which RMB65.9 million (US\$10.6 million) was denominated in Hong Kong dollars and RMB821.1 million (US\$132.4 million) was denominated in U.S. dollars.

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

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

Inflation

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business. According to the National Bureau of Statistics of China, China’s overall national inflation rate, as represented by the general consumer price index, was approximately 5.4% and 2.6% in 2011 and 2012, respectively. Deflation could negatively affect our business as it would be a disincentive for prospective property buyers to make a purchase. As of the date of this offering memorandum, we had not been materially affected by any inflation or deflation.

Non-GAAP Financial Measures

We use certain non-GAAP data, such as EBITDA, to provide additional information about our operating performance as we believe that it is a useful measure for certain investors to assess our operating performance, operating cash flow and historical ability to meet debt service and capital expenditure requirement.

Our calculation of EBITDA refers to our earnings before the following items:

- income tax expense;
- net finance costs including interest expense offset by interest income;
- share of results of associated companies and jointly controlled entities;
- depreciation of property and equipment and amortization of land use rights;
- fair value gain or loss on investment properties; and
- certain other special gains or expenses, including gains on deemed disposal to non-controlling interests, gain on partial disposal of a subsidiary, negative goodwill arising from acquisition of subsidiaries and non-controlling interests, impairment of goodwill and net exchange gain.

EBITDA is not a standard measure under either HKFRS or U.S. GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of liquidity, profitability or cash flows derived in accordance with HKFRS. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized.

As a measure of our operating performance, we believe that the most directly comparable HKFRS and U.S. GAAP measure to EBITDA is profit for the year/period. We operate in a capital intensive industry. We use EBITDA in addition to profit for the year/period because profit for the year/period includes many accounting items associated with capital expenditures, such as depreciation and amortization, as well as non-operating items, such as fair value gains or losses on investment properties, interest income and expenses, other special gains or expenses arising from certain acquisitions and disposals and foreign exchange differences. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, intangible assets amortization and interest income and expense, fair value changes of investment properties and certain other special gains or expenses, we believe our calculation of EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our operating profit for the year/period under HKFRS to our definition of EBITDA for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
				Unaudited	Unaudited	Unaudited	Unaudited
				(in thousands)			
Operating profit for the year/period	11,010,049	10,035,365	12,335,983	1,988,520	5,745,906	7,188,593	1,158,776
Adjustments:							
Add:							
Capitalized interest recognized in cost of sales.....	975,636	1,827,735	2,441,946	393,634	922,106	1,250,477	201,573
Depreciation of property and equipment	298,014	347,031	372,580	60,059	165,535	198,523	32,001
Amortization of land use rights	40,058	42,368	44,742	7,212	22,549	27,410	4,418
Impairment of goodwill.....	16,435	124,102	292,352	47,126	19,183	6,241	1,006
Fair value loss on derivative financial instruments	52,115	—	—	—	15,919	—	—
Net loss on disposal of subsidiaries/joint ventures	—	—	14,927	2,406	—	—	—
Net exchange loss	—	—	—	—	—	224,576	36,201
Less:							
Fair value gains on investment properties.....	2,527,013	2,362,880	1,031,206	166,227	855,821	1,097,144	176,856
Fair value gain on derivative financial instruments	—	—	5,674	915	—	26,182	4,220
Gains on deemed disposal to non-controlling interests	—	545,135	—	—	—	—	—
Gains on disposal of subsidiaries/jointly ventures	—	240,089	—	—	134,684	104,423	16,831
Net exchange gain.....	520,134	26,793	480,996	77,535	256,435	—	—
EBITDA (Unaudited)	<u>9,345,160</u>	<u>9,201,704</u>	<u>13,984,654</u>	<u>2,254,280</u>	<u>5,644,258</u>	<u>7,668,071</u>	<u>1,236,068</u>

You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the year/period or as an indicator of operating performance or any other standard measure under HKFRS or U.S. GAAP. Our EBITDA measures may not be comparable to similarly titled measures used by other companies.

INDUSTRY OVERVIEW

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

Macro-Economic Situation in China

China's economy has achieved significant growth since the adoption of an open door policy in 1978, and its accession to the World Trade Organization further benefited the economy. In the past seven years, China's nominal GDP has increased from RMB26,581 billion in 2007 to approximately RMB56,885 billion in 2013 at a compound annual growth rate of approximately 13.5%, making China one of the fastest growing economies in the world. In 2013, China's GDP grew approximately 7.7% in real term as compared to 2012. In addition, the cities and provinces (Shanghai, Beijing, Tianjin, Wuhan, Wuhu, Xianyang, Chengdu, Guangzhou, Changchun, Changsha, Nanchang, Liaoning Province, Jiangsu Province, Zhejiang Province, Shandong Province, Fujian Province and Heilongjiang Province) where we have property development projects have also experienced high GDP growth for the seven years from 2007 to 2013. The tables below set out the GDP, GDP growth and per capita GDP data for China and the aforementioned cities and provinces for the years indicated:

	2007	2008	2009	2010	2011	2012	2013
Nominal GDP (RMB in billions)							
China	26,581	31,405	34,090	40,151	47,310	51,947	56,885
Shanghai	1,249	1,407	1,505	1,717	1,920	2,018	2,160
Beijing	985	1,112	1,215	1,411	1,625	1,780	1,950
Tianjin	525	672	752	922	1,131	1,289	1,437
Wuhan.....	314	396	462	557	676	800	905
Wuhu	58	75	90	111	166	187	210
Xianyang	59	76	87	110	136	157	186
Chengdu.....	332	390	450	555	685	814	911
Guangzhou.....	714	829	914	1,075	1,242	1,355	1,542
Changchun	209	256	285	333	400	446	500
Changsha	219	300	374	455	562	640	715
Nanchang	139	166	184	220	269	300	334
Liaoning.....	1,116	1,367	1,521	1,846	2,223	2,485	2,708
Jiangsu.....	2,602	3,098	3,446	4,143	4,911	5,406	5,916
Zhejiang.....	1,875	2,146	2,299	2,772	3,232	3,467	3,757
Shandong	2,578	3,093	3,390	3,917	4,536	5,001	5,468
Fujian.....	925	1,082	1,224	1,474	1,756	1,970	2,176
Heilongjiang	710	831	859	1,037	1,258	1,369	1,438

	2007	2008	2009	2010	2011	2012	2013
GDP growth rate (%)							
China	14.2	9.6	9.2	10.4	9.3	7.7	7.7
Shanghai	15.2	9.7	8.2	10.3	8.2	7.5	7.7
Beijing	14.5	9.1	10.2	10.3	8.1	7.7	7.7
Tianjin	15.5	16.5	16.5	17.4	16.4	13.9	12.5
Wuhan.....	15.6	15.1	13.7	14.7	12.5	11.4	10.0
Wuhu	16.6	15.8	15.5	18.2	16.0	13.8	12.0
Xianyang	13.2	16.0	14.2	14.5	14.2	14.5	13.1
Chengdu.....	15.3	12.1	14.7	15.0	15.2	13.1	10.2
Guangzhou.....	15.3	12.5	11.7	13.2	11.3	10.5	11.6
Changchun.....	17.7	16.5	15.0	15.3	13.3	12.0	8.3
Changsha	16.0	15.1	14.7	15.5	14.5	13.0	12.0
Nanchang	15.4	15.0	13.1	14.0	13.0	12.5	10.7
Liaoning.....	15.0	13.4	13.1	14.2	12.2	9.5	8.7
Jiangsu.....	14.9	12.7	12.4	12.7	11.0	10.1	9.6
Zhejiang.....	14.7	10.1	8.9	11.9	9.0	8.0	8.2
Shandong	14.2	12.0	12.2	12.3	10.9	9.8	9.6
Fujian.....	15.2	13.0	12.3	13.9	12.3	11.4	11.0
Heilongjiang	12.0	11.8	11.4	12.7	12.3	10.0	8.0

	2007	2008	2009	2010	2011	2012	2013
GDP per capita (RMB)							
China	20,169	23,708	25,608	30,015	35,198	38,459	41,908
Shanghai	62,041	66,932	69,164	76,074	82,560	85,373	90,092
Beijing	60,096	64,491	66,940	73,856	81,658	87,475	93,213
Tianjin	47,970	58,656	62,574	72,994	85,213	93,173	99,607
Wuhan.....	35,582	44,290	51,144	58,961	68,315	79,482	89,000
Wuhu	25,933	32,500	39,142	48,306	46,626	52,453	58,525
Xianyang	11,705	15,286	17,429	22,477	27,751	31,982	37,695
Chengdu.....	26,525	30,855	35,215	48,510	49,438	57,624	63,477
Guangzhou.....	69,673	76,440	79,383	87,458	97,588	105,909	119,695
Changchun	28,132	34,193	37,753	43,936	52,649	58,691	66,286
Changsha	33,711	45,765	56,620	66,443	79,530	89,903	99,570
Nanchang	30,460	36,105	39,669	43,769	53,023	58,715	64,678
Liaoning.....	26,057	31,739	35,149	42,355	50,760	56,649	61,686
Jiangsu.....	33,837	40,014	44,253	52,840	62,290	68,347	74,607
Zhejiang.....	36,676	41,045	43,842	51,711	59,249	63,374	68,462
Shandong	27,604	32,936	35,894	41,106	47,335	51,768	56,323
Fujian.....	25,582	29,755	33,437	40,025	47,377	52,763	57,856
Heilongjiang	18,580	21,740	22,447	27,076	32,819	35,711	37,509

Source: CEIC Data Company Limited ("CEIC")

China's per capita disposable annual income for urban households increased from RMB13,786 in 2007 to RMB26,955 in 2013 at a CAGR of approximately 11.8%, implying increased purchasing power for urban households throughout China. A similar trend can also be witnessed for cities including Shanghai, Beijing, Tianjin, Wuhan, Wuhu, Xinyang, Chengdu, Guangzhou, Changchun, Changsha, Nanchang, Liaoning Province, Jiangsu Province, Zhejiang Province, Shandong Province, Fujian Province and Heilongjiang Province. The following tables illustrate the per capita disposable annual income for urban households and the per capita savings for China as well as for selected cities and provinces:

	2007	2008	2009	2010	2011	2012	2013
Per capita disposable annual income for urban households (RMB)							
China	13,786	15,781	17,175	19,109	21,810	24,565	26,955
Shanghai	23,623	26,675	28,838	31,838	36,230	40,188	43,851
Beijing	21,989	24,725	26,738	29,073	32,903	36,469	40,321
Tianjin	16,357	19,423	21,402	24,293	26,921	29,626	32,294
Wuhan.....	14,358	16,712	18,385	20,806	23,738	27,061	29,821
Wuhu	13,234	14,399	16,747	18,727	21,011	23,784	26,264
Xianyang	10,970	13,208	16,404	18,914	22,224	25,758	28,488
Chengdu.....	14,849	15,580	17,589	19,920	23,048	26,590	29,968
Guangzhou.....	22,469	25,317	27,610	30,658	34,438	38,054	42,049
Changchun	12,811	15,003	16,072	17,922	20,487	22,970	26,034
Changsha	16,153	17,891	20,238	22,814	26,451	30,288	33,662
Nanchang	13,253	15,112	16,472	18,276	20,741	23,602	26,151
Liaoning.....	12,300	14,393	15,761	17,713	20,467	23,223	25,578
Jiangsu	16,378	18,680	20,552	22,944	26,341	29,677	32,538
Zhejiang.....	20,574	22,727	24,611	27,359	30,971	34,550	37,851
Shandong	14,265	16,305	17,811	19,946	22,792	25,755	28,264
Fujian.....	15,506	17,961	19,577	21,781	24,907	28,055	30,816
Heilongjiang	10,245	11,581	12,566	13,857	15,696	17,760	19,597

Source: CEIC

Real Estate Market in China

Real estate reform in the PRC did not commence until the 1990s, prior to which the PRC real estate development industry was part of the nation's planned economy. In the 1990s, China's real estate and housing sector began its transition to a market-based system. A brief timeline of key housing reforms is set out below:

Year	Event
1988	The PRC government amended the national constitution to permit the transfer of state-owned land use rights
1992	Public housing sales in major cities commenced
1994	The PRC government further implemented the reform and established an employer/employee-funded housing fund
1995	The PRC government issued regulations regarding the sales and pre-sales of real estate, establishing a regulatory framework for real estate sales
1998	The PRC government abolished state-allocated housing policy
	Guangdong government issued regulations on the administration of pre-sales of commodity properties in Guangdong Province

Year	Event
1999	The PRC government extended maximum mortgage term to 30 years The PRC government increased the maximum mortgage financing from 70% to 80% The PRC government formalized procedures for the sale of real property in the secondary market
2000	The PRC government issued regulations to standardize the quality of construction projects, establishing a framework for administering construction quality
2001	The PRC government issued regulations relating to sales of commodity properties
2002	The PRC government promulgated the Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-For-Sale The PRC government eliminated the dual system for domestic and overseas home buyers in China
2003	The PRC government promulgated rules for more stringent administration of real estate loans with a view to reducing the credit and systemic risks associated with such loans The PRC State Council (the “State Council”) issued a notice for sustained and healthy development of the property market
2004	The State Council issued a notice requiring that, with respect to property development projects (excluding ordinary housing), the proportion of capital funds should be increased from 20% to 35% Ministry of Construction amended Administrative Measures on the Presale of Commercial Housing in Cities The CBRC issued the Guideline for Commercial Banks on Risks of Real Estate Loans to further strengthen the risk control of commercial banks on real estate loans
2005	The PRC government instituted additional measures to discourage speculation in certain regional markets including, among others, increasing the minimum required down payment to 30% of the total purchase price, eliminating the preferential mortgage interest rate for residential housing, imposing a business tax of 5% for sales within two years of purchase, and prohibiting reselling unfinished properties before they are completed
2006 to mid-2008	The PRC government implemented additional land supply, bank financing, foreign investment and other measures to curtail fast increases in property prices, to encourage the development of middle- to low-end housing and to promote healthy development of the PRC property industry The PRC government issued regulations to urge the full and effective use of existing construction land and the preservation of farming land and rules to control financial institutions’ property financings to further curtail speculation, over development and fast increases in property prices.

Year	Event
Mid-2008 to 2009	The PRC government implemented a number of measures to combat the global economic slowdown. These measures include the lowering of the PBOC benchmark bank lending rates, the internal capital ratio for property projects and the down payment requirements for purchasing residential properties. However, from the fourth quarter of 2009, the PRC government adjusted some policies in order to enhance regulation in the property market, to restrain property purchases for investment or speculation purposes and to curtail the overheating of the PRC property market, including abolishing certain preferential treatment in respect of business tax payable upon transfer of residential properties.
2010	The PRC government issued a number of measures and policies to curtail the overheating of the property market. These measures and policies include increasing the down payment and the loan interest rates for properties purchased with mortgage loans, imposing more stringent requirements on the payment of land premiums, suspending grants of mortgage loans to nonresidents who cannot provide any proof of local tax or social insurance payment for more than one year, abolishing or adjusting certain preferential tax treatment on deed tax and individual tax upon transfer of property and limiting the number of residential properties one household can purchase in certain areas. The PRC government also clarified certain issues with respect to the calculation, settlement and collection of LAT in order to enforce the settlement and collection of LAT, and the criteria for commercial banks to identify the second housing unit when approving mortgage loans. The PRC government issued a notice to further tighten up real property land administration, which requires that residential construction projects must commence within one year from the land title delivery date as stipulated in the land allocation decision or land grant contract and must be completed within three years from the date of commencement.
2011	The PRC government issued several notices to further regulate the property market, including raising minimum down payment for second house purchasers, abolishing the business tax preferential treatment on transfer of ordinary residential properties within five years calculating from purchasing date, further limiting the number of residential properties one household can purchase and tightening the review of entry qualification and source of funding for enterprises in the land market. In addition, on January 28, 2011, Shanghai and Chongqing commenced trials in levying property tax. Many cities, including Beijing, Shanghai, Guangzhou, Tianjin, Nanjing, Chengdu, Wuxi, Qingdao, Hangzhou, Xi'an, Changzhou, Shenyang and Dalian, have promulgated local measures to restrict housing purchases, as a step to implement the Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market issued on January 26, 2011.
2012	The PRC government issued a revised catalog of guidance, effective in January 2012, pursuant to which foreign investment in the construction and operation of villas is removed from the restriction category to the prohibited category. The PRC government issued a notice which aimed to insist on stabilizing the housing price and guaranteeing the sufficient supply of social security housing and ordinary commercial housing. In December 2012, the Central Economic Work Conference announced that China will continue its property market control policies in 2013, step up the construction and management of low-income housing, as well as renovation of run-down areas.

Year	Event
2013	On February 26, 2013, the State Council issued the Notice on Continuing Adjustment and Control of Property Markets (關於繼續做好房地產市場調控工作的通知) which requires, among other restrictive measures: (i) improving the responsibility system for stabilizing housing prices. Municipalities directly under the central government, cities listed on state plans and provincial capitals (excluding Lhasa) must set an annual objective for controlling housing prices and publish annually a new commodity housing price control target in the first quarter of the year; (ii) firmly restraining purchases of residential housing for investment and speculation purposes; and (iii) expanding ordinary commodity housing units and increasing the supply of land. On July 19, 2013, the PBOC announced a few measures to further liberalize China's lending interest rates effective from July 20, 2013. The most important measure is the removal of the lending rate floor, which was 30% below the benchmark rates. However, the floor on the benchmark mortgage rate will remain to curb speculative demand in the property market and maintain stable and healthy development of the market.
2014	On August 7, 2014, Foshan eased its home purchase restriction allowing non-residents to buy one housing unit and registered local residents to buy up to two units. On September 3, 2014, Dalian removed its home purchase restriction, allowing both residents and non-residents to buy houses in Dalian without limits on the number of units purchased. On September 24, 2014, Wuhan removed the restriction on the purchase of homes . As of September 30, 2014, other than Beijing, Shanghai, Guangzhou, Shenzhen and Sanya, cities that had property-purchasing limitations have loosened or canceled such limitations. On September 29, 2014, the PBOC and the CBRC jointly issued the Circular on Further Improving Financial Services for Housing Consumption (關於進一步做好住房金融服務工作的通知), which provides that the down payment for the first time home purchase with mortgage loans or the home upgrade purchase with mortgage loans after full repayment of the first home purchase shall be not less than is 30% of the purchase price, and the loan interest rate shall be not lower than 70% of the benchmark landing rate published by the PBOC. In cities where restriction on purchasing residential properties have not been applied or have been canceled, the banks may determine the down payment as a percentage of purchase price and the interest rate based on the solvency and credit status of mortgage loan applicants who own two or more residential properties with mortgage loans fully repaid and are applying for mortgage loans to buy another property. On November 21, 2014, the PBOC reduced the benchmark one-year lending rate to 5.60%.

Growth of the Real Estate Market in China

High economic growth coupled with an increase in disposable income and urbanization rates are among the key factors contributing to the growth of China's real estate market. According to CEIC, a total of approximately 1,305.5 million sq.m. of GFA was sold in China in 2013, representing a 9.1% compound annual growth rate from 2007. The real estate market in Shanghai, Beijing, Tianjin, Wuhan, Wuhu, Xianyang, Chengdu, Guangzhou, Changchun, Changsha, Nanchang, Liaoning Province, Jiangsu Province, Zhejiang Province, Shandong Province, Fujian Province and Heilongjiang Province also showed healthy growth over the years. The following tables set forth figures showing the total commodity property GFA sold and completed, total sales volume and property price per sq.m. in China as well as for the aforementioned cities and provinces for the periods indicated:

	2007	2008	2009	2010	2011	2012	2013
GFA sold (sq.m. in millions)							
China	773.5	659.7	947.6	1,047.6	1,093.7	1,113.0	1,305.5
Shanghai	36.9	23.0	33.7	20.6	17.9	19.0	23.8
Beijing	21.8	13.4	23.6	16.4	14.4	19.4	19.0
Tianjin	15.5	12.5	15.9	15.1	15.9	16.6	18.5
Wuhan.....	11.4	7.3	10.9	12.1	13.3	15.8	20.0
Wuhu	2.0	1.8	2.9	3.2	3.8	4.3	N/A
Xianyang	0.8	1.1	1.3	1.6	2.2	1.4	2.0
Chengdu.....	22.3	14.6	27.1	25.6	26.8	28.4	29.5
Guangzhou.....	13.5	10.2	13.8	14.1	11.9	13.3	17.0
Changchun.....	5.1	5.7	7.2	8.6	8.8	9.1	8.5
Changsha	9.8	8.6	14.1	16.8	15.1	15.3	18.6
Nanchang	4.8	3.4	4.9	5.2	5.0	6.9	8.4
Liaoning.....	38.3	40.9	53.8	68.0	75.4	88.3	92.9
Jiangsu.....	76.0	54.1	102.5	94.9	79.7	90.2	114.5
Zhejiang.....	45.4	29.9	55.4	48.2	35.3	40.1	48.9
Shandong	50.6	55.1	70.2	92.9	95.8	86.3	103.3
Fujian.....	24.2	16.3	27.2	25.8	27.1	32.6	46.8
Heilongjiang	17.1	14.9	20.2	27.2	34.3	38.1	33.4

	2007	2008	2009	2010	2011	2012	2013
GFA completed (sq.m. in millions)							
China	1,342.5	1,470.7	1,645.4	1,754.3	2,260.2	2,413.2	2,572.3
Shanghai	43.3	32.8	24.7	24.0	30.4	28.2	26.8
Beijing	35.0	33.7	33.1	29.4	34.4	31.8	36.4
Tianjin	22.2	24.4	28.4	29.2	33.8	44.8	48.0
Wuhan.....	9.3	8.7	9.5	9.0	11.7	10.5	6.8
Wuhu	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Xianyang	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Chengdu.....	10.9	12.1	17.4	15.8	15.6	21.1	18.8
Guangzhou.....	8.8	10.6	10.8	10.9	12.9	12.9	11.4
Changchun.....	5.4	4.8	5.8	9.6	7.5	9.1	10.1
Changsha	7.0	7.6	13.1	13.9	14.3	14.0	14.0
Nanchang	3.7	3.3	3.7	4.0	4.5	4.2	3.7
Liaoning.....	68.5	79.9	84.0	92.5	110.8	126.9	145.5
Jiangsu.....	130.0	156.9	176.2	188.3	276.7	310.5	333.4
Zhejiang.....	80.0	85.7	83.1	85.2	156.9	159.3	187.8
Shandong	106.8	109.0	115.2	116.7	185.5	189.5	182.6
Fujian.....	32.5	34.9	46.0	46.9	83.9	84.7	105.0
Heilongjiang	38.2	39.3	57.9	67.6	70.8	72.5	97.8

	2007	2008	2009	2010	2011	2012	2013
Total sales volume (RMB in billions)							
China	2,988.9	2,506.8	4,435.5	5,272.1	5,858.9	6,445.6	8,142.8
Shanghai	308.9	189.5	433.0	298.1	261.5	266.9	391.2
Beijing	251.5	165.8	326.0	291.5	242.5	330.9	353.1
Tianjin	90.0	75.3	109.5	124.6	139.4	136.6	161.5
Wuhan.....	53.0	35.0	57.9	69.5	95.6	115.8	154.0
Wuhu	6.3	7.1	11.0	16.6	20.7	23.6	N/A
Xianyang	1.7	2.7	3.5	5.1	8.2	5.3	8.4
Chengdu.....	95.2	70.9	133.4	151.9	181.1	207.3	212.3
Guangzhou.....	117.2	93.5	128.6	167.5	144.5	175.5	260.6
Changchun	16.7	19.9	29.6	44.7	53.9	50.3	51.0
Changsha	32.3	28.2	51.3	74.2	88.4	93.2	117.1
Nanchang	17.0	11.6	18.7	23.8	29.6	44.3	59.8
Liaoning.....	133.7	153.8	216.9	306.3	356.9	436.3	475.9
Jiangsu	305.8	246.7	510.6	554.0	522.4	606.7	791.4
Zhejiang.....	262.8	187.4	433.4	445.9	347.4	426.3	539.6
Shandong	147.0	163.6	245.9	366.5	425.9	411.2	521.5
Fujian.....	113.5	71.3	147.8	161.1	210.2	281.8	423.2
Heilongjiang	42.2	42.1	65.4	101.2	136.2	154.8	158.2
	2007	2008	2009	2010	2011	2012	2013
Property price (RMB per sq.m.)							
China	3,864	3,800	4,681	5,032	5,357	5,791	6,237
Shanghai	8,361	8,195	12,840	14,464	14,603	14,061	16,420
Beijing	11,553	12,418	13,799	17,782	16,852	17,022	18,553
Tianjin	5,811	6,015	6,886	8,230	8,745	8,218	8,746
Wuhan.....	4,664	4,781	5,329	5,751	7,193	7,344	7,717
Wuhu	3,208	3,984	3,851	5,197	5,417	5,533	N/A
Xianyang	2,079	2,374	2,735	3,073	3,803	3,819	4,121
Chengdu.....	4,276	4,857	4,925	5,937	6,717	7,288	7,197
Guangzhou.....	8,673	9,123	9,351	11,921	12,104	13,163	15,330
Changchun	3,250	3,489	4,142	5,178	6,131	5,540	6,026
Changsha	3,305	3,288	3,648	4,418	5,880	6,101	6,292
Nanchang	3,558	3,461	3,775	4,566	5,939	6,419	7,101
Liaoning.....	3,490	3,758	4,034	4,505	4,733	4,942	5,122
Jiangsu	4,024	4,049	4,983	5,841	6,554	6,727	6,909
Zhejiang.....	5,786	6,262	7,826	9,258	9,838	10,643	11,042
Shandong	2,904	2,970	3,505	3,944	4,448	4,763	5,049
Fujian.....	4,684	4,384	5,427	6,256	7,764	8,646	9,050
Heilongjiang	2,471	2,832	3,241	3,719	3,966	4,067	4,738

Source: CEIC

Hotel Industry In The PRC

China's tourism industry has benefitted from the strong economic growth in China which has resulted in higher disposable income for urban households, reflecting a more affluent domestic customer base. In addition, the increased number of international travelers to China also contributed to the growth of China's tourism sector. The total number of overseas visitor arrivals reached 129.1 million visitors in 2013. The majority of these visitor arrivals were compatriots from Hong Kong, Macau and Taiwan, who accounted for approximately 79.6% of all overseas visitors to the PRC in 2013. Moreover, the number of foreign visitors to the PRC also increased at a compound annual growth rate of 0.1% between 2007 and 2013. The table below sets out the number of overseas visitors arriving in the PRC for the period 2007 to 2013:

	Overseas visitor arrivals						
	2007	2008	2009	2010	2011	2012	2013
	(millions, except percentages)						
From Hong Kong/Macau..	101.1	101.3	100.1	102.5	103.0	99.9	97.6
From Taiwan.....	4.6	4.4	4.5	5.1	5.3	5.3	5.2
Foreigners.....	26.1	24.3	21.9	26.1	27.1	27.2	26.3
Total.....	131.9	130.0	126.5	133.8	135.4	132.4	129.1
Increase/(Decrease).....	5.5%	(1.4%)	(2.7%)	5.8%	1.2%	(2.2%)	(2.5%)

Source: CEIC

In particular, Shanghai remained at a comfortable level regarding overseas visitor arrivals from 2007 to 2013. Among all overseas visitor arrivals to Shanghai in 2013, approximately 78.9% were foreigners (excluding compatriots from Hong Kong, Macau and Taiwan). The table below sets out the overseas visitor arrival statistics for Shanghai for the period 2007 to 2013:

	Overseas visitor arrivals to Shanghai						
	2007	2008	2009	2010	2011	2012	2013
	(millions, except percentages)						
From Hong Kong/Macau..	0.5	0.5	0.5	0.8	0.7	0.6	0.6
From Taiwan.....	0.8	0.8	0.9	1.1	1.0	1.0	1.0
Foreigners.....	5.4	5.1	4.9	6.7	6.5	6.3	6.0
Total.....	6.7	6.4	6.3	8.5	8.2	8.0	7.6
Increase/(Decrease)	9.9%	(3.8%)	(1.8%)	35.3%	(3.9%)	(2.5%)	(5.4%)

Source: CEIC and Shanghai Bureau of statistics

The table below sets forth the number of star-rated hotels as well as the average occupancy rates for China from 2007 to 2013 and for Shanghai, in particular, five-star hotels in Shanghai, from 2007 to 2013, reflecting supply in the China hotel sector and Shanghai hotel sector:

	Hotel rooms and average occupancy rates						
	2007	2008	2009	2010	2011	2012	2013
China							
Star-rated hotels.....	13,583	14,099	14,237	13,991	13,552	13,304	13,508
Average occupancy rates ..	61.0%	58.3%	57.9%	60.3%	61.0%	59.5%	56.0%
Shanghai							
Star-rated hotels.....	320	310	298	298	297	278	271
Average occupancy rates ..	61.5%	55.4%	50.2%	65.7%	55.1%	56.9%	59.2%
Shanghai Five-star Hotels							
Number of hotels.....	32	37	38	44	53	55	60
Average occupancy rates ..	68.2%	59.9%	53.5%	68.0%	58.3%	59.1%	60.1%
Average room rate (RMB/room day).....	1,336	1,233	1,010	1,136	1,008	956	942

Source: CEIC and Shanghai Bureau of Statistics

Office Property Market in China

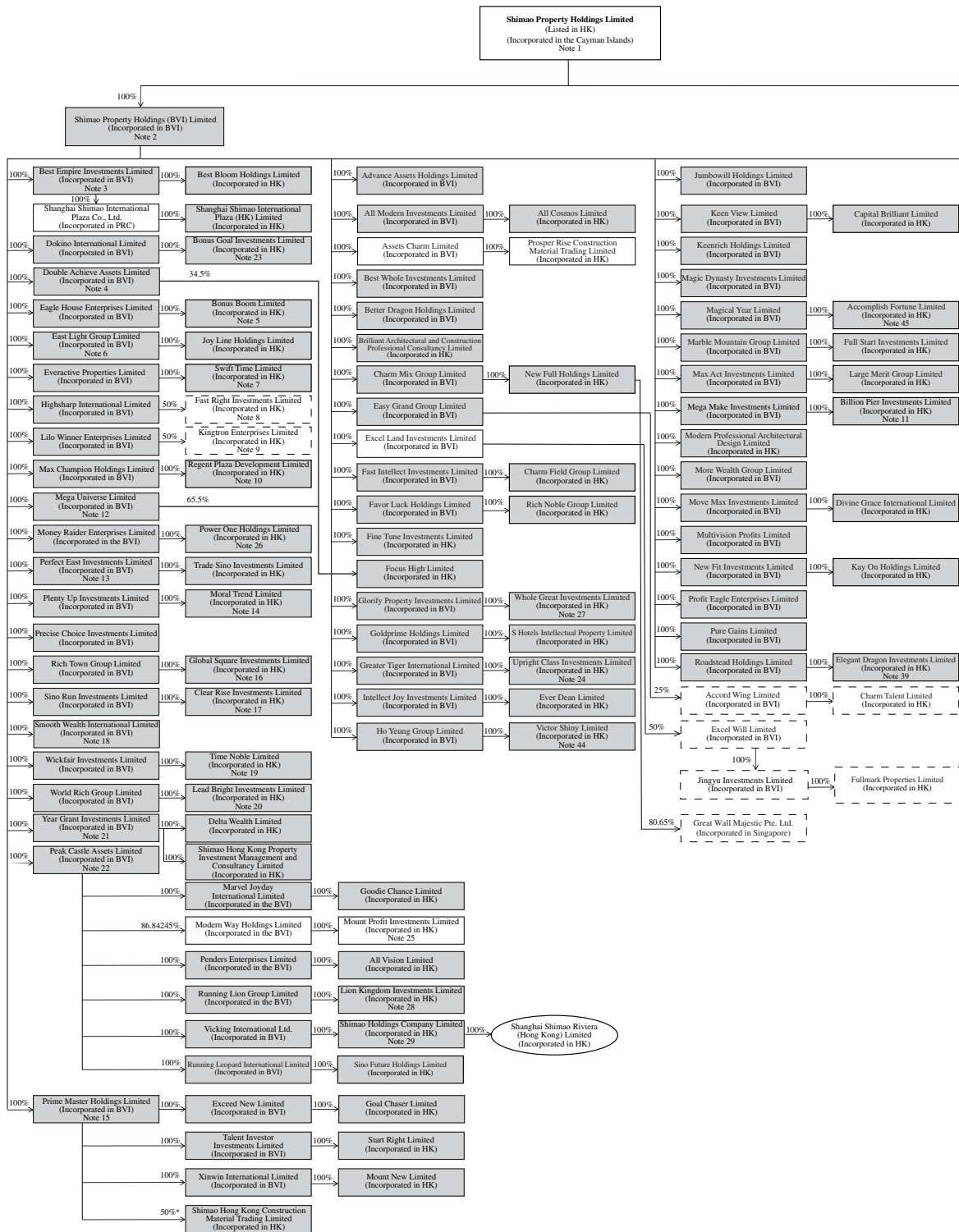
Total foreign investments in China increased from US\$83.5 billion in 2007 to US\$117.6 billion in 2013. Many multi-national corporations have set up their regional headquarters in order to better access local market and establish global foothold. The economic growth has been accompanied by a general shifting of the economic base within major urban areas such that there has been a move away from production-based industrial activities to more service-based activities, such as research and development, product design, market research and branding and positioning. The Tertiary industry is becoming a more important component of the overall economy, and GDP from the tertiary industry increased from RMB11,135.2 billion in 2007 to RMB26,220.4 billion in 2013. The employed population in the tertiary sector in China increased from 244 million in 2007 to 296 million in 2013 and its share of the entire workforce rose from 32.4% to 38.5%, respectively. The growth in the tertiary sector will generate more demand for office properties to house the enlarging workforce in this sector.

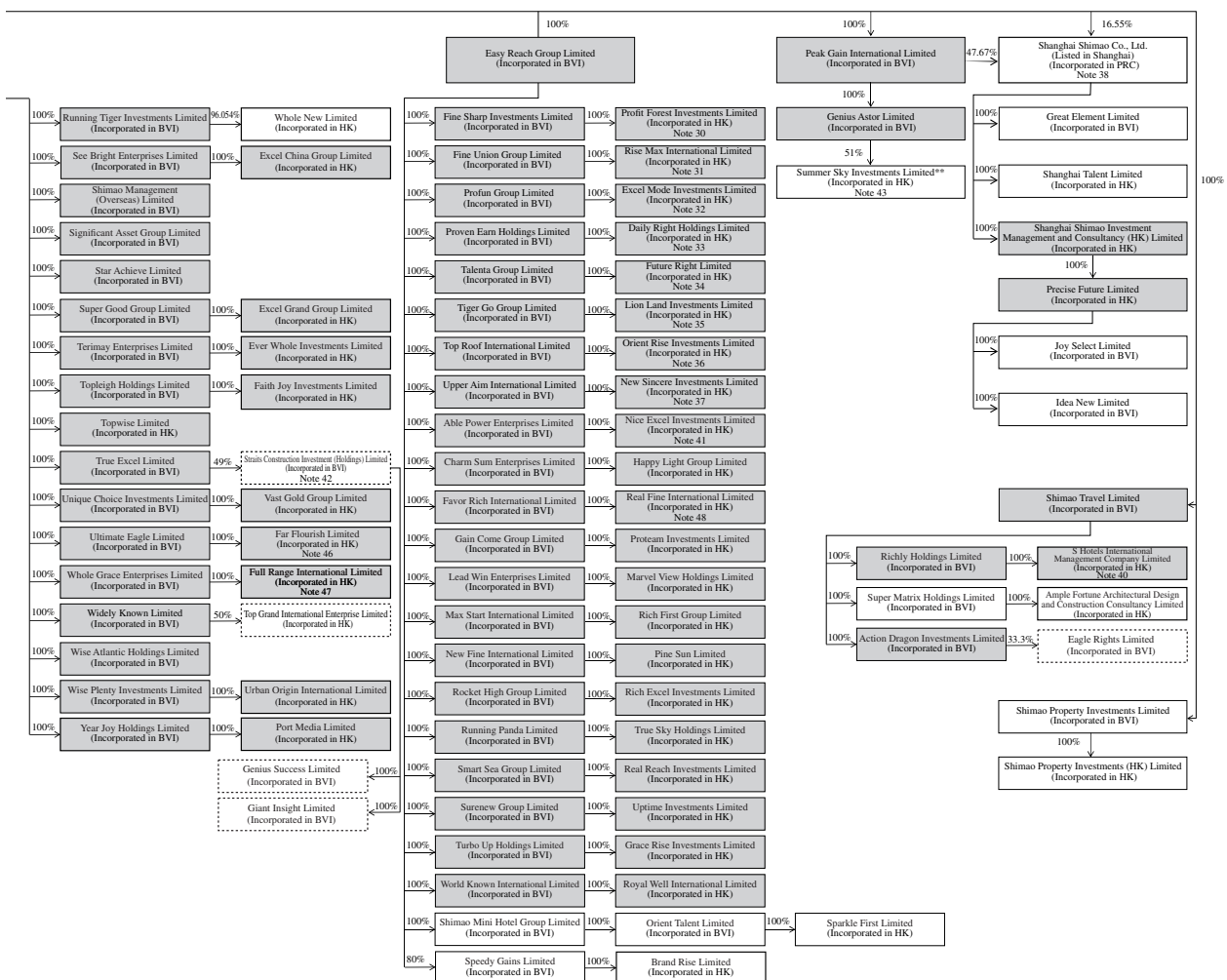
Retail Property Market in China

Retail sales in China have experienced strong growth. Retail sales in China grew by 11.8% in 2013. Growth in retail sales largely reflected the urbanization of households in China, as the propensity to consume of urban households is higher than that of rural households. China's urbanization rate has reached 53.7% by the end of 2013, according to the China Association of Mayors. Disposable income in China has continued to grow steadily and this has benefited the development of the retail sector in the country. As China's population becomes more affluent, the composition of its population's retail spending is shifting away from a heavy weighting towards food to a more balanced consumption model often common for a more developed country. The shift in consumption pattern towards more discretionary spending is expected to continue as income increases. Demand for prime retail spaces is expected to remain firm on the back of China's rapid urbanization and rising income level of middle and upper class.

CORPORATE STRUCTURE

The following chart illustrates our simplified corporate structure as of October 31, 2014:





Subsidiary Guarantor

Unrestricted Subsidiary

Joint Ventures (unconsolidated)

* Shanghai Shimao holds the other 50% equity interest of the company

** JV subsidiary guarantor under the 2011 Notes and the 2013 Notes

Notes:

The table below sets forth details of the following Non-Guarantor Subsidiaries incorporated outside the PRC with no significant operations and assets acquired as of October 31, 2014 that are not included in the corporate structure above:

Company	Place of Incorporation	Interest held by us
Benesome Limited	BVI	100%
Century Select Limited	BVI	100%
Dynamic Classic Holdings Limited	BVI	100%
Easygain Global Limited	BVI	100%
Precision One Investments Limited	BVI	100%
Sino Fusion Ventures Limited	BVI	100%
Starry Vision Limited	BVI	100%
Year Honour Limited	BVI	100%
Best Harmony Limited	Hong Kong	100%
Grandeur Hope Limited	Hong Kong	100%
Huge Profit Creation Limited	Hong Kong	100%
Legend One Limited	Hong Kong	100%
Smart Arch Limited	Hong Kong	100%

The table below sets forth details of the following Non-Guarantor Subsidiaries incorporated outside the PRC with no significant operations and assets acquired subsequent to October 31, 2014 that are not included in the corporate structure above:

Company	Place of Incorporation	Interest held by us
Genuine Victory Holdings Limited	BVI	100%
Insight Best Limited	BVI	100%
Sino Green Group Limited	BVI	100%
Adventure Success Limited	Hong Kong	100%
All Excellent Limited	Hong Kong	100%
Bonus Yield Limited	Hong Kong	100%
Powerful Brilliant Limited	Hong Kong	100%
Upper Bonus Limited	Hong Kong	100%

The table below sets forth the interest in each project held by the relevant company (including our subsidiaries and associated companies):

Note	Project company	Interest held by direct holding company	Project held
1	Ningbo Shimao New Domain Property Co., Ltd. (寧波世茂新領域置業有限公司)	100%	Ningbo Chief Mansion
2	Shaoxing Shimao New City Real Estate Development Co., Ltd. (紹興世茂新城房地產開發有限公司)	80%	Shaoxing Shimao Dear Town
2	Shaoxing Shimao New Property Development Co., Ltd. (紹興世茂新置業發展有限公司)	80%	Shaoxing Shimao Dear Town
2	Shaoxing Shimao Property Co., Ltd. (紹興世茂置業有限公司)	80%	Shaoxing Shimao Dear Town
2	Xuzhou Shimao New City Real Estate Development Co., Ltd. (徐州世茂新城房地產開發有限公司)	60%	Xuzhou Shimao Dongdu
3	Ningbo Shimao New Era Property Co., Ltd. (寧波世茂新紀元置業有限公司)	100%	Ningbo Shimao Sea Dawn
3	Shanghai Shimao International Plaza Co., Ltd. (上海世茂國際廣場有限責任公司)	100%	Shanghai Shimao International Plaza and Le Royal Méridien Shanghai

Note	Project company	Interest held by direct holding company	Project held
4	Shanghai Shimao North Bund Development and Construction Co., Ltd. (上海世茂北外灘開發建設有限公司)	34.5%	Hyatt on the Bund Shanghai
5	Suzhou Shimao Property Co., Ltd. (蘇州世茂置業有限公司)	100%	Suzhou Shimao Canal Scene
5	Chengdu Shimao Investment Co., Ltd. (成都世茂投資有限公司)	2.5%	Chengdu Shimao City
5	Wuxi Shimao Real Estate Development and Construction Co., Ltd. (無錫世茂房地產開發建設有限公司)	5%	Wuxi Shimao The Capital
5	Nanjing Shuotian Investment and Management Co., Ltd. (南京碩天投資管理有限公司)	0.98%	Nanjing Shimao Glory Villa
5	Ningbo Shimao New Century Real Estate Development Co., Ltd. (寧波世茂新世紀房地產開發有限公司)	5%	Ningbo Shimao City
6	Ningbo Shimao New Way Property Co., Ltd. (寧波世茂新里程置業有限公司)	100%	Ningbo World Gulf Damuwan
6	Changzhou Shimao Real Estate Development Co., Ltd. (常州世茂房地產有限公司)	100%	Changzhou Shimao Champagne Lake
6	Suzhou Shimao New Development Property Co., Ltd. (蘇州世茂新發展房地產開發有限公司)	0.98%	Suzhou Millennium Bay
6	Suzhou Shimao New Century Real Estate Development Co., Ltd. (蘇州世茂新世紀房地產開發有限公司)	5.09%	Suzhou Millennium Bay
6	Hangzhou Shimao New Domain Real Estate Development Co., Ltd. (杭州世茂新領域房地產開發有限公司)	51%	Hangzhou East No.1
6	Hangzhou Shimao Carnival Property Co., Ltd. (杭州世茂嘉年華置業有限公司)	52%	Hangzhou Born with Legend
6	Nantong Shimao New Era Real Estate Development Co., Ltd. (南通世茂新紀元房地產開發有限公司)	2.14%	Nantong Lohas City
6	Nantong Shimao New Way Real Estate Development Co., Ltd. (南通世茂新里程房地產開發有限公司)	5%	Nantong Lohas City
7	Harbin Shimao Riviera New City Development and Construction Co., Ltd. (哈爾濱世茂濱江新城開發建設有限公司)	100%	Harbin Shimao Riviera New City
7	Chengdu Shimao Property Development Co., Ltd. (成都世茂房地產開發有限公司)	100%	Chengdu Shimao Royal Bay
7	Ningbo Shimao Xintiyan Property Co., Ltd. (寧波世茂新體驗置業有限公司)	30%	Ningbo World Gulf Damuwan
8	Hangzhou Shimao Shiyang Property Development Co., Ltd. (杭州世茂世盈房地產開發有限公司)	100%	Hangzhou Shimao Imperial Landscape
9	Hai Shu Property Development (Hangzhou) Co., Ltd. (海墅房地產開發(杭州)有限公司)	100%	Hangzhou Shimao Imperial Landscape
10	Beijing Pengli Garden Real Estate Development Co., Ltd. (北京鵬麗花園房地產發展有限公司)	100%	Beijing Shimao Alhambra Palace
11	Guangzhou Lihe Property Development Company Limited (廣州利合房地產開發有限公司)	14%	Guangzhou Asian Games City
12	Shanghai Shimao North Bund Development and Construction Co., Ltd. (上海世茂北外灘開發建設有限公司)	65.5%	Hyatt on the Bund Shanghai
13	Xianyang Shimao Real Estate Development Co., Ltd. (咸陽世茂房地產開發有限公司)	70%	Xianyang Shimao The Centre

Note	Project company	Interest held by direct holding company	Project held
14	Taizhou Shimao New City Real Estate Development Co., Ltd. (泰州世茂新城房地產開發有限公司)	100%	Taizhou Shimao Riverside Garden
15	Fujian Shimao Investment and Development Co., Ltd. (福建世茂投資發展有限公司)	50%	Fuzhou Shimao Bund Garden
15	Nanjing Shimao Real Estate Development Co., Ltd. (南京世茂房地產開發有限公司)	50%	Nanjing Shimao Bund New City
15	Nanjing Shimao New Way Property Co., Ltd. (南京世茂新里程置業有限公司)	50%	Hilton Nanjing Riverside
16	Ningbo Shimao New Development Property Co., Ltd. (寧波世茂新發展置業有限公司)	100%	Ningbo Shimao World Gulf
16	Ningbo Shimao Real Estate Development Co., Ltd. (寧波世茂房地產開發有限公司)	74.69%	Ningbo Shimao World Gulf
17	Mudanjiang Shimao New City Real Estate Development Co., Ltd. (牡丹江世茂新城房地產開發有限公司)	100%	Mudanjiang Shimao South Bund and Mudanjiang Shimao Holiday Landscape
18	Xianyang Shimao Real Estate Development Co., Ltd. (咸陽世茂房地產開發有限公司)	30%	Xianyang Shimao The Centre
19	Kunshan Shimao New Development Property Co., Ltd. (昆山世茂新發展置業有限公司)	100%	Kunshan Shimao East No.1 and Kunshan Shimao East Bund
20	Dalian Shimao Longhe Development Co., Ltd. (大連世茂龍河發展有限公司)	17.15%	Dalian Shimao Glory City
21	Shanghai Shimao Manor Real Estate Co., Ltd. (上海世茂莊園置業有限公司)	100%	Shanghai Shimao Sheshan Villa and Le Méridden Sheshan Shanghai
22	Dalian Shimao Carnival Property Co., Ltd. (大連世茂嘉年華置業有限公司)	50%	Dalian Shimao Dragon Bay
22	Kunshan Shimao Butterfly Bay Development and Construction Co., Ltd. (昆山世茂蝶湖灣開發建設有限公司)	61.4%	Kunshan Shimao Butterfly Bay
22	Shaoxing Shimao New City Real Estate Development Co., Ltd. (紹興世茂新城房地產開發有限公司)	20%	Shaoxing Shimao Dear Town
22	Shaoxing Shimao New Property Development Co., Ltd. (紹興世茂新置業發展有限公司)	20%	Shaoxing Shimao Dear Town
22	Shaoxing Shimao Property Co., Ltd. (紹興世茂置業有限公司)	20%	Shaoxing Shimao Dear Town
22	Wuhan Shimao Splendid River Real Estate Development Co., Ltd. (武漢世茂錦繡長江房地產開發有限公司)	70.01%	Wuhan Shimao Splendid River
22	Wuhu Shimao Real Estate Development Co., Ltd. (蕪湖世茂房地產開發有限公司)	100%	Wuhu Shimao Riviera Garden
22	Xuzhou Shimao New City Real Estate Development Co., Ltd. (徐州世茂新城房地產開發有限公司)	40%	Xuzhou Shimao Dongdu
22	Changsha Shimao Property Co., Ltd. (長沙世茂房地產有限公司)	2.5%	Changsha Shimao Brilliant Bay
22	Nanchang Shimao New Development Property Co., Ltd. (南昌世茂新發展置業有限公司)	2.5%	Nanchang Shimao The Centre
22	Zhangjiagang Shimao Real Estate Development Co., Ltd. (張家港世茂房地產開發有限公司)	51%	Zhangjiagang Shimao Lake Palace
22	Jiangyin Shimao New City Real Estate Development Co., Ltd. (江陰世茂新城房地產開發有限公司)	59.8%	Jiangyin Shimao Dragon Bay
22	Jianyang Shimao Real Estate Development Co., Ltd. (簡陽世茂房地產開發有限公司)	100%	Jianyang Sancha Lake (三岔湖) Project
22	Nanning Shimao New Era Real Estate Development Co., Ltd. (南寧世茂新紀元房地產開發有限公司)	51%	Nanning Shimao Longgang Garden

Note	Project company	Interest held by direct holding company	Project held
22	Ningbo Shimao Carnival Property Co., Ltd. (寧波世茂嘉年華置業有限公司)	61.4%	Ningbo Shimao Fenghua Peach Garden
22	Qianhai Shimao Development (Shenzhen) Co., Ltd. (前海世茂發展(深圳)有限公司)	51%	Shenzhen Qianhai Project
22	Yinchuan Shimao Real Estate Development Co., Ltd. (銀川世茂房地產開發有限公司)	100%	Yinchuan Shimao City
23	Jiaxing Shimao New City Real Estate Development Co., Ltd. (嘉興世茂新城房地產開發有限公司)	100%	Jiaxing Shimao Century Park
24	Shenyang Shimao New Development Property Co., Ltd. (瀋陽世茂新發展置業有限公司)	100%	Shenyang Shimao Wulihe
25	Wuhan Shimao Splendid River Estate Development Co., Ltd. (武漢世茂錦繡長江房地產開發有限公司)	29.99%	Wuhan Shimao Splendid River
26	Fuzhou Shimao New City Real Estate Development Co., Ltd. (福州世茂新城房地產開發有限公司)	100%	Fuzhou Shimao Skyscrapers
26	Fujian Shimao Property Co., Ltd. (福建世茂置業有限公司)	100%	Xiamen Shimao Lakeside Garden
26	Fuzhou Shimao New Century Real Estate Development Co., Ltd. (福州世茂新世紀房地產開發有限公司)	100%	Fuzhou Minhou Shimao Dragon Bay
26	Fuzhou Shimao New Development Property Co., Ltd. (福州世茂新發展房地產開發有限公司)	100%	Fuzhou Minhou Shimao Dragon Bay
26	Quanzhou Shimao New Development Property Co., Ltd. (泉州世茂新發展置業有限公司)	100%	Fujian Jinjiang Shimao Dragon Bay
26	Wenchang Shimao New Way Property Co., Ltd. (文昌世茂新里程置業有限公司)	100%	Hainan Wenchang Moonriver
26	Fuzhou Shimao Carnival Property Co., Ltd. (福州世茂嘉年華置業有限公司)	50.98%	Fuzhou Nantong Village Project
26	Quanzhou Shimao Ruiying Property Co., Ltd. (泉州世茂瑞盈置業有限公司)	51.01%	Jinjiang Zimaoshan
26	Quanzhou Shimao Xintiyan Property Co., Ltd. (泉州世茂新體驗置業有限公司)	100%	Jinjiang Zimaoshan
26	Quanzhou Taiwanese Investment Zone Shimao Huiying Property Co., Ltd. (泉州台商投資區世茂匯盈置業有限公司)	51.39%	Jinjiang Shimao Hi Dream
26	Quanzhou Taiwanese Investment Zone Shimao Yueying Property Co., Ltd. (泉州台商投資區世茂悅盈置業有限公司)	53.98%	Jinjiang Shimao Hi Dream
26	Xiamen Shimao New Era Property Co., Ltd. (廈門世茂新紀元置業有限公司)	100%	Xiamen Shimao Lakeside Garden
27	Qingdao Shimao New City Real Estate Development Co., Ltd. (青島世茂新城房地產開發有限公司)	50%	Qingdao Shimao Century Land
28	Hangzhou Shimao New Way Property Co., Ltd. (杭州世茂新里程置業有限公司)	100%	Hangzhou Shimao New West Lake
28	Hangzhou Shimao Property Co., Ltd. (杭州世茂置業有限公司)	100%	Hangzhou Shimao Riviera Garden and Hangzhou Shimao New City
29	Changsha Shimao Property Co., Ltd. (長沙世茂房地產有限公司)	47.5%	Changsha Shimao Brilliant Bay
29	Chengdu Shimao Property Co., Ltd. (成都世茂置業有限公司)	100%	Chengdu Shimao City
29	Chengdu Shimao New City Real Estate Development Co., Ltd. (成都世茂新城房地產開發有限公司)	100%	Chengdu Shimao City
29	Chengdu Shimao Investment Co., Ltd. (成都世茂投資有限公司)	47.5%	Chengdu Shimao City

Note	Project company	Interest held by direct holding company	Project held
29	Dalian Shimao Carnival Property Co., Ltd. (大連世茂嘉年華置業有限公司)	50%	Dalian Shimao Dragon Bay
29	Dalian Shimao Longhe Development Co., Ltd. (大連世茂龍河發展有限公司)	51.46%	Dalian Shimao Glory City
29	Dalian Shimao New Era Property Co., Ltd. (大連世茂新紀元置業有限公司)	100%	Dalian Shimao Dragon Bay
29	Fujian Shimao New Way Investment and Development Co., Ltd. (福建世茂新里程投資發展有限公司)	49%	Xiamen Shimao MO Sky Mansion
29	Nanchang Shimao New Development Property Co., Ltd. (南昌世茂新發展置業有限公司)	47.5%	Nanchang Shimao The Centre
29	Ningbo Shimao New City Real Estate Development Co., Ltd. (寧波世茂新城房地產開發有限公司)	100%	Ningbo Shimao Sea Dawn
29	Ningbo Shimao Real Estate Development Co., Ltd. (寧波世茂房地產開發有限公司)	25.31%	Ningbo Shimao World Gulf
29	Shanghai Bicheng Real Estate Co., Ltd. (上海碧橙房地產有限公司)	100%	Shanghai Shimao Emme County
29	Shanghai Shimao Real Estate Co., Ltd. (上海世茂房地產有限公司)	100%	Shanghai Shimao Riviera Garden
29	Tianjin Eco City Shimao New Era Investment and Development Co., Ltd. (天津生態城世茂新紀元投資開發有限公司)	100%	Tianjin Shimao Ecology City
29	Tianjin Shimao New Prospect Property Co., Ltd. (天津世茂新里程置業有限公司)	100%	Tianjin Shimao Ecology City
29	Wuhan Shimao Carnival Property Co., Ltd. (武漢世茂嘉年華置業有限公司)	49%	Wuhan Shimao Carnival
29	Wuhan Shimao New City Real Estate Development Co., Ltd. (武漢世茂新城房地產開發有限公司)	100%	Wuhan Shimao Dragon Bay
29	Wuxi Shimao New Development Property Co., Ltd. (無錫世茂新發展置業有限公司)	47%	Wuxi Shimao The Capital
29	Wuxi Shimao Real Estate Development and Construction Co., Ltd. (無錫世茂房地產開發建設有限公司)	44%	Wuxi Shimao The Capital
29	Guangzhou Lihe Property Development Company Limited (廣州利合房地產開發有限公司)	6%	Guangzhou Asian Games City
29	Kunshan Shimao Butterfly Bay Development and Construction Co., Ltd. (昆山世茂蝶湖灣開發建設有限公司)	38.6%	Kunshan Shimao Butterfly Bay
29	Shanghai Shimao Sheshan Huiying Property Co., Ltd. (上海世茂佘山匯盈置業有限公司)	60%	Shanghai Shimao Sheville
29	Zhengda Qiaoshang Real Estate Development Co., Ltd. (正大僑商房地產開發有限公司)	2.5%	Beijing CBD Project
29	Dachang Hui Autonomous County Zhongji Taiye Real Estate Development Co., Ltd. (大廠回族自治縣中基太業房地產開發有限公司)	65%	Beijing Shimao Salamanca
29	Tianjin Jinnan New City Property Development Co., Ltd. (天津津南新城房地產開發有限公司)	25%	Tianjin Jinnan New City
29	Shenyang Zhaolong Real Estate Development Co., Ltd. (瀋陽兆隆地產開發有限公司)	100%	Shenyang Shimao Notting Hill
29	Qingdao Shimao New City Real Estate Development Co., Ltd. (青島世茂新城房地產開發有限公司)	50%	Qingdao Shimao Century Land
29	Beijing Liangyu Real Estate Development Co., Ltd. (北京良譽房地產開發有限公司)	100%	Beijing La Villa

Note	Project company	Interest held by direct holding company	Project held
29	Beijing Chuangyu Real Estate Development Co., Ltd. (北京創譽房地產開發有限公司)	100%	Beijing Changyang
29	Nanjing Shuotian Investment and Management Co., Ltd. (南京碩天投資管理有限公司)	50.02%	Nanjing Shimao Glory Villa
29	Suzhou Shimao New Development Property Co., Ltd. (蘇州世茂新發展房地產開發有限公司)	50.02%	Suzhou Millennium Bay
29	Suzhou Shimao New Century Real Estate Development Co., Ltd. (蘇州世茂新世紀房地產開發有限公司)	45.91%	Suzhou Millennium Bay
29	Ningbo Shimao New Century Real Estate Development Co., Ltd. (寧波世茂新世紀房地產開發有限公司)	45%	Ningbo Shimao City
29	Nanchang Water City Investment Holding Co., Ltd. (南昌水城投資股份有限公司)	100%	Nanchang Water City
29	Tianjin Eco-City Shimao Investment and Development Co., Ltd. (天津生態城世茂投資發展有限公司)	100%	Tianjin Shimao Ecology City
29	Tianjin Sino-Singapore Eco-City Shimao Zhihe Investment Co., Ltd. (天津中新生態城世茂智合投資有限公司)	100%	Tianjin Shimao Ecology City
29	Wuhan Hongyu Property Co., Ltd. (武漢虹玉置業有限公司)	51.22%	Wuhan K11
29	Shishi Shimao Real Estate Development Co., Ltd. (石獅世茂房地產開發有限公司)	70.42%	Shishi Shimao Skyscrapers City
29	Shishi Shimao New City Real Estate Development Co., Ltd. (石獅世茂新城房地產開發有限公司)	70.42%	Shishi Shimao Skyscrapers City
29	Guangzhou Suirong Real Estate Development Co., Ltd. (廣州穗榮房地產開發有限公司)	100%	Guangzhou FCC
29	Nantong Shimao Real Estate Development Co., Ltd. (南通世茂房地產開發有限公司)	100%	Nantong Wetland Century
29	Nantong Shimao New Era Real Estate Development Co., Ltd. (南通世茂新紀元房地產開發有限公司)	47.86%	Nantong Lohas City
29	Nantong Shimao New Way Real Estate Development Co., Ltd. (南通世茂新里程房地產開發有限公司)	95%	Nantong Lohas City
29	Shandong Shiyong Property Co., Ltd. (山東世盈置業有限公司)	50.82%	Jinan Pride of The City
29	Nanchang Shimao New Era Property Co., Ltd. (南昌世茂新紀元置業有限公司)	51%	Nanchang City Holiday
29	Nanchang Water City Investment Holding Co., Ltd. (南昌水城投資股份有限公司)	100%	Nanchang Water City
29	Nanning Shimao Investment Co., Ltd. (南寧世茂投資有限公司)	100%	Nanning Shimao International Center
29	Nanning Shimao New Era Real Estate Development Co., Ltd. (南寧世茂新紀元房地產開發有限公司)	49%	Nanning Shimao Longgang Garden
29	Ningbo Shimao Carnival Property Co., Ltd. (寧波世茂嘉年華置業有限公司)	100%	Ningbo Shimao Fenghua Peach Garden
29	Shanghai Shimao Property Development Co., Ltd. (上海世茂置業發展有限公司)	100%	Shanghai North Bund
29	Shanxi Chuangxin Real Estate Development Co., Ltd. (陝西創鑫房地產開發有限公司)	95%	Xi'an Shimao Metropolis
29	Shishi Shimao New Way Real Estate Development Co., Ltd. (石獅世茂新里程房地產開發有限公司)	100%	Shishi Shimao Skyscrapers City
29	Yinchuan Shimao Investment Co., Ltd. (銀川世茂投資有限公司)	100%	Yinchuan Shimao City

Note	Project company	Interest held by direct holding company	Project held
29	Yuyao Shimao Moushan Lake Leisure Resort Development Co., Ltd. (余姚世茂牟山湖休閒度假區開發有限公司)	70%	Ningbo Yuyao Shimao Moushan Lake
30	Xuzhou Shimao New Era Real Estate Development Co., Ltd. (徐州世茂新紀元房地產開發有限公司)	100%	Xuzhou Shimao Dongdu
31	Taizhou Shimao New Development Property Co., Ltd. (泰州世茂新發展置業有限公司)	100%	Taizhou Shimao Riverside Garden
32	Fuzhou Shimao Industrial Co., Ltd. (福州世茂實業有限公司)	100%	Fuzhou Shimao Skyscrapers
32	Fuzhou Shimao New Domain Property Co., Ltd. (福州世茂新領域置業有限公司)	100%	Fuzhou Guling Project
32	Fuzhou Shimao New Era Property Co., Ltd. (福州世茂新紀元置業有限公司)	100%	Fuzhou Minhou Shimao Dragon Bay
32	Quanzhou Shimao New Domain Property Co., Ltd. (泉州世茂新領域置業有限公司)	100%	Fujian Jinjiang Shimao Dragon Bay
32	Wenchang Shimao Property Co., Ltd. (文昌世茂置業有限公司)	100%	Hainan Wenchang Moonriver
32	Wenchang Shimao New Era Property Co., Ltd. (文昌世茂新紀元置業有限公司)	100%	Hainan Wenchang Moonriver
32	Quanzhou Shimao Carnival Property Co., Ltd. (泉州世茂嘉年華置業有限公司)	100%	Jinjiang Zimaoshan
32	Quanzhou Taiwanese Investment Zone Shimao New Era Property Co., Ltd. (泉州台商投資區世茂新紀元置業有限公司)	100%	Jinjiang Shimao Hi Dream
32	Quanzhou Taiwanese Investment Zone Shimao Xintian Property Co., Ltd. (泉州台商投資區世茂新體驗置業有限公司)	100%	Jinjiang Shimao Hi Dream
33	Shenyang Shimao New Era Property Co., Ltd. (瀋陽世茂新紀元置業有限公司)	100%	Shenyang Shimao Wulihe
34	Yantai Shimao Property Co., Ltd. (煙臺世茂置業有限公司)	100%	Yantai Shimao No.1 The Harbour
35	Jiaxing Shimao New Prospect Property Co., Ltd. (嘉興世茂新里程置業有限公司)	100%	Jiaxing Shimao Century Park
36	Wuhu Shimao New Century Property Co., Ltd. (蕪湖世茂新世紀置業有限公司)	100%	Wuhu Shimao Riviera Garden
37	Mudanjiang Shimao Property Co., Ltd. (牡丹江世茂置業有限公司)	95%	Mudanjiang Holiday Inn
38	Changshu Shimao New Development Property Co., Ltd. (常熟世茂新發展置業有限公司)	100%	Changshu Shimao The Center
38	Fujian Shimao Investment and Development Co., Ltd. (福建世茂投資發展有限公司)	50%	Fuzhou Shimao Bund Garden
38	Fujian Shimao New Way Investment and Development Co., Ltd. (福建世茂新里程投資發展有限公司)	51%	Xiamen Shimao MO Sky Mansion
38	Nanjing Shimao Real Estate Development Co., Ltd. (南京世茂房地產開發有限公司)	50%	Nanjing Shimao Bund New City
38	Qingdao Shiao Investment and Development Co., Ltd. (青島世奧投資發展有限公司)	75%	Qingdao Shi'ao Tower and Qingdao Shier House
38	Shanghai Shimao Wonderland Property Co., Ltd. (上海世茂新體驗置業有限公司)	100%	Shanghai Shimao Nano Magic City
38	Shaoxing Shimao Investment and Development Co., Ltd. (紹興世茂投資發展有限公司)	93.8%	Shaoxing Shimao Dear Town

Note	Project company	Interest held by direct holding company	Project held
38	Shaoxing Shimao New Era Property Co., Ltd. (紹興世茂新紀元置業有限公司)	100%	Shaoxing Shimao Dear Town
38	Suzhou Shimao Investment and Development Co., Ltd. (蘇州世茂投資發展有限公司)	100%	Suzhou Shimao Canal Scene
38	Wuhan Shimao Carnival Property Co., Ltd. (武漢世茂嘉年華置業有限公司)	51%	Wuhan Shimao Carnival
38	Wuxi Shimao New Development Property Co., Ltd. (無錫世茂新發展置業有限公司)	48%	Wuxi Shimao The Capital
38	Xuzhou Shimao Property Co., Ltd. (徐州世茂置業有限公司)	100%	Xuzhou Shimao Dongdu
38	Beijing Maoyue Shengxin Enterprises Management Co., Ltd. (北京茂悅盛欣企業管理有限公司)	100%	Beijing Shimao Tower
38	Tianjin Maoyue Investments Co., Ltd. (天津茂悅投資有限公司)	100%	Tianjin Wuqing Project
38	Jinan Shimao Property Co., Ltd. (濟南世茂置業有限公司)	100%	Jinan Shimao International Plaza
38	Wuhu Shimao New Development Property Co., Ltd. (蕪湖世茂新發展置業有限公司)	100%	Wuhu Shimao Riviera Garden (Commercial)
38	Qingdao Shimao Coastal Property Co., Ltd. (青島世茂濱海置業有限公司)	100%	Qingdao Jiaonan Project
38	Qingdao Shimao Investment and Development Co., Ltd. (青島世茂投資發展有限公司)	100%	Qingdao Jiaonan Shimao International Plaza
38	Nanjing Shimao New Way Property Co., Ltd. (南京世茂新里程置業有限公司)	50%	Hilton Nanjing Riverside
38	Suzhou Shimao New Way Property Co., Ltd. (蘇州世茂新里程置業有限公司)	100%	Suzhou Mudu Project
38	Suzhou Industrial Park Shimao Century Property Co., Ltd. (蘇州工業園區世茂世紀置業有限公司)	40%	Suzhou Bronze Swallow Terrace
38	Suzhou Industrial Park Shimao Hubin Property Co., Ltd. (蘇州工業園區世茂湖濱置業有限公司)	49.29%	Suzhou Bronze Swallow Terrace
38	Changshu Shimao New Era Property Co., Ltd. (常熟世茂新紀元置業有限公司)	37.65%	Changshu Huanghe Road
38	Kunshan Shimao East China Mall Development Co., Ltd. (昆山世茂華東商城開發有限公司)	100%	Kunshan Shimao Plaza
38	Changzhou Shimao New City Real Estate Development Co., Ltd. (常州世茂新城房地產開發有限公司)	100%	Changzhou Shimao Champagne Lake (Commercial)
38	Ningbo Shimao Lixiang Property Co., Ltd. (寧波世茂理想置業有限公司)	100%	Ningbo Baojiacao Project
38	Ningbo Shimao Xintengfei Property Co., Ltd. (寧波世茂新騰飛置業有限公司)	48.32%	Ningbo Binjiang Project
38	Ningbo Dingfeng Real Estate Development Co., Ltd. (寧波鼎峰房地產開發有限公司)	100%	Ningbo Sunjia Project
38	Shishi Shimao Real Estate Development Co., Ltd. (石獅世茂房地產開發有限公司)	70.42%	Shishi Shimao Skyscrapers City
38	Shishi Shimao New City Real Estate Development Co., Ltd. (石獅世茂新城房地產開發有限公司)	70.42%	Shishi Shimao Skyscrapers City
38	Beijing Fortune Times Property Co., Ltd. (北京財富時代置業有限公司)	100%	Beijing Shimao International Plaza
38	Beijing Shimao New Century Business Management Co., Ltd. (北京世茂新世紀商業管理有限公司)	100%	Beijing Shimao Gongsan Plaza

Note	Project company	Interest held by direct holding company	Project held
38	Jinan Shimao Sky City Property Co., Ltd. (濟南世茂天城置業有限公司)	100%	Jinan Shimao Skyscrapers City
38	Kunshan Shimao New Era Real Estate Development Co., Ltd. (昆山世茂新紀元房地產開發有限公司)	100%	Kunshan Shimao Plaza
38	Kunshan Shimao Real Estate Development Co., Ltd. (昆山世茂房地產開發有限公司)	100%	Kunshan Shimao International City
38	Shanghai Shimao Co., Ltd. (上海世茂股份有限公司)	100%	Shanghai Shimao Shangdu
38	Shenyang Shimao New Century Real Estate Development Co., Ltd. (瀋陽世茂新世紀房地產開發有限公司)	100%	Shenyang Shimao Wulihe
38	Shishi Shimao New Way Real Estate Development Co., Ltd. (石獅世茂新里程房地產開發有限公司)	100%	Shishi Shimao Skyscrapers City
39	Dalian Shimao Longhe Development Co., Ltd. (大連世茂龍河發展有限公司)	31.39%	Dalian Shimao Glory City
40	Shanghai Xingcheng Real Estate Co., Ltd. (上海星橙房地產有限公司)	100%	Shanghai Shimao Emme County
40	Changchun Shimao Mingfa Real Estate Development Co., Ltd. (長春世茂明發房地產開發有限公司)	62.5%	Changchun Lianhuashan Project
40	Ningbo Shimao Xintiyan Property Co., Ltd. (寧波世茂新體驗置業有限公司)	70%	Ningbo World Gulf Damuwan
41	Yuyao Shimao Property Co., Ltd. (余姚世茂置業有限公司)	70%	Ningbo Yuyao Shimao Moushan Lake
42	Nanjing Straits City Development and Construction Co., Ltd. (南京海峽城開發建設有限公司)	100%	Nanjing Straits City
42	Pingtan Straits Ruyicheng Xindouhui Development and Construction Co., Ltd. (平潭海峽如意城新都會開發建設有限公司)	99%	Fuzhou Pingtan Future City
42	Pingtan Straits Ruyicheng Development and Construction Co., Ltd. (平潭海峽如意城開發建設有限公司)	99%	Fuzhou Pingtan Future City
43	Hangzhou Shirong Huiying Property Co., Ltd. (杭州世融匯盈置業有限公司)	100%	Hangzhou Shimao Above The Lake
44	Chongqing Victory Shiny Real Estate Development Co., Ltd. (重慶浚亮房地產開發有限公司)	100%	Chongqing Shimao Château De La Ville
45	Jiangyin Shimao Property Co., Ltd. (江陰世茂置業有限公司)	100%	Jiangyin Shimao Dragon Bay
46	Hangzhou Shimao Ruiying Property Co., Ltd. (杭州世茂瑞盈置業有限公司)	100%	Hangzhou Gate of Zhejiang
47	Dalian Shimao New Domain Property Co. Ltd. (大連世茂新領域置業有限公司)	49%	Dalian Shimao Dragon Bay
47	Dalian Shimao Xintiyan Property Co., Ltd. (大連世茂新體驗置業有限公司)	49%	Dalian Shimao Dragon Bay
48	Dalian Shimao New Domain Property Co. Ltd. (大連世茂新領域置業有限公司)	51%	Dalian Shimao Dragon Bay
48	Dalian Shimao Xintiyan Property Co., Ltd. (大連世茂新體驗置業有限公司)	51%	Dalian Shimao Dragon Bay

BUSINESS

Overview

We are a large-scale developer and owner of high-quality real estate projects in China. We specialize in developing mid- to high-end residential, retail and office properties for sale and prime and well-located hotel, retail and office properties for long-term investment. We have a track record of successfully bringing to market real estate projects in Shanghai, Beijing, Hangzhou, Suzhou, Nanjing, Fuzhou and other fast-growing cities in China. We believe that this track record, together with the strong recognition of our “Shimao” brand name, positions us well as we continue to develop and market our real estate projects in cities throughout China. In 2014, we expanded into the Hong Kong real estate market through land acquisition. We aim to continue to grow as a leading property developer and investor with a strong presence in China’s key cities and economic regions as well as Hong Kong by continuing to enhance our “Shimao” brand name, create and develop innovative and market-leading properties, pursue property diversification and increase our proportion of investment properties and hotels to achieve a balanced revenue profile and expand our business operations and land bank in a disciplined manner.

As of June 30, 2014, we had a total of 112 projects (including projects we develop with our joint venture partners) at various stages of development in 42 cities located in the Yangtze River Delta Region (including Jiangsu and Shanghai District and Zhejiang District), Bohai Rim Region, Northeastern Region, Western and Southern Central Region, Southern China and Fujian Province and other regions of rapid economic growth. As of June 30, 2014, we had a land bank with an estimated total GFA attributable to us of approximately 36.9 million sq.m., comprising properties under development with an aggregate planned GFA attributable to us of approximately 16.5 million sq.m. and properties held for future development with an aggregate planned GFA attributable to us of approximately 20.4 million sq.m. As of June 30, 2014, we had completed properties unsold or held for investment or hotel management with an aggregate GFA attributable to us of approximately 1.4 million sq.m. As of June 30, 2014, our projects (including projects we develop with our joint venture partners) held for future development included an aggregate planned GFA attributable to us of approximately 3.8 million sq.m. for which we had not obtained land use rights certificates but had entered into land grant contracts or obtained land grant confirmation letters and were in the process of applying for the relevant land use rights. Our average land cost for our land bank reserve as of June 30, 2014 was approximately RMB2,246 per sq.m. We believe our relatively low cost of land will enable us to continue to achieve a high profit margin in the future.

In addition, we have acquired certain parcels of land, including those for projects we develop with our joint venture partners, with an aggregate planned GFA of approximately 1.7 million sq.m. subsequent to June 30, 2014, of which approximately 1.3 million sq.m. are attributable to us and for which we have not obtained land use rights certificates but have entered into land grant contracts or obtained land grant confirmation letters and are in the process of applying for the relevant land use rights. These parcels of land include development sites in Hefei, Xiamen, Shanghai, Beijing, Chengdu, Hong Kong, Jianyang and Nanjing. See “Business—Recent Developments.”

Our property portfolio comprises high-quality residential, retail and office properties for sale as well as high-end hotels, retail and office properties held for long-term investment, which include, among others, Le Royal Méridien Shanghai and its retail podium, Shanghai Shimao International Plaza, Hyatt on the Bund Shanghai, Le Méridien Sheshan Shanghai, Beijing Shimao Tower, Shaoxing Shimao Holiday Inn and Hilton Nanjing Riverside. For the year ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we generated 94.5%, 92.9%, 95.2% and 95.5%, respectively, of our revenue from the sale of properties and the remaining 5.5%, 7.1%, 4.8% and 4.5%, respectively, from our hotel operations, leasing of commercial properties and other operations.

We believe our past success is partially due to our well-developed knowledge of the socio-economic policies and development trends in China. We have been able to identify high-growth markets such as Beijing and the Bohai Rim Region as well as Shanghai and the Yangtze River Delta Region and have entered these markets in a timely manner. We believe that this has, in turn, allowed us to obtain land at prime locations (or locations that we expect will become prime) at a reasonable cost. Going forward, we intend to continue to increase our land bank reserve in a prudent and strategic manner.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, our revenue was RMB26,031.4 million, RMB28,652.2 million, RMB41,502.7 million (US\$6,690.1 million) and RMB23,675.4 million (US\$3,816.4 million), respectively, and the profit for the year/period attributable to equity holders of our Company was RMB5,722.8 million, RMB5,764.6 million, RMB7,389.9 million (US\$1,191.2 million) and RMB4,180.3 million (US\$673.9 million), respectively.

Our Strengths

We believe our primary competitive strengths are:

Market leadership and proven execution capabilities

We have a track record of successfully bringing to market real estate projects in Shanghai, Beijing, Hangzhou, Suzhou, Nanjing, Fuzhou and other fast-growing cities in China and have achieved balanced sales nationwide, with recognized sales in 28 cities for the six months ended June 30, 2014. We have also adjusted our product mix to focus more on quality mass market projects, i.e., small- to medium-sized residential units, for first-time home buyers and upgraders, in order to boost our contracted sales and fasten our asset turnover rate. In 2013, we adopted an information technology system, namely, the SAP system, which is used to monitor sales and profitability of our projects, enhancing our flexibility to respond to market volatility.

We believe as a result of our market leadership and proven execution capabilities, coupled with the use of advanced technology, we will be able to continuously provide competitive products going forward.

Sizable and geographically diversified low-cost land bank in high growth cities

We have successfully accumulated large areas of land for future development. As of June 30, 2014, we had a total of 112 projects (including projects we develop with our joint venture partners) at various stages of development in 42 cities located in the Yangtze River Delta Region (including Jiangsu and Shanghai District and Zhejiang District), Bohai Rim Region, Northeastern Region, Western and Southern Central Region, Southern China and Fujian Province and other regions of rapid economic growth. As of June 30, 2014, we had a land bank with an estimated total GFA attributable to us of approximately 36.9 million sq.m., comprising properties under development with an aggregate planned GFA attributable to us of approximately 16.5 million sq.m. and properties held for future development with an aggregate planned GFA attributable to us of approximately 20.4 million sq.m. As of June 30, 2014, we had completed properties unsold or held for investment or hotel management with an aggregate GFA attributable to us of approximately 1.4 million sq.m. As of June 30, 2014, our projects held for future development included an aggregate planned GFA of approximately 3.8 million sq.m. for which we had not obtained land use rights certificates but had entered into land grant contracts or obtained land grant confirmation letters and were in the process of applying for the relevant land use rights.

We believe that our market foresight and in-depth understanding of property market dynamics, arising out of the collective experience of our management team, have enabled us to seek and capitalize on land acquisition opportunities at relatively early stages of their long-term appreciation potential. We believe this allows us to achieve advantageous unit land costs relative to the current market values of our property projects, therefore mitigating our financial risk relating to the development of our projects. The average land cost of our land bank as of June 30, 2014 was RMB2,246 per sq.m. Our strategy is to remain focused on the prudent acquisition of land in the Yangtze River Delta Region and expand in Fujian Province. Our recently acquired parcels of land in 2014 are located in Hefei, Xiamen, Shanghai, Beijing, Chengdu, Hong Kong, Jianyang and Nanjing. Most of the land we have acquired is situated at prime locations. As such, we believe these land reserves provide us with an attractive project development pipeline in the coming years.

Balanced property portfolio with strong recurring income

We believe that property selection and positioning are crucial to our success. We have carefully expanded our business model beyond the development and sale of residential properties to include the development of hotels, retail and office properties, which we sell or hold for long-term investment. By balancing our product portfolio, we aim to not only reduce our dependence on the residential property sector, but also to enhance the stability of our long-term investment revenue by increasing the portion of our earnings and cashflow from recurring income from hotel and rental properties.

As of June 30, 2014, we have completed and commenced operations at Le Méridien Sheshan Shanghai, Le Royal Méridien Shanghai, Hyatt on the Bund Shanghai, Mudanjiang Holiday Inn, Shaoxing Shimao Holiday Inn, Hilton Nanjing Riverside DoubleTree by Hilton Wuhu, InterContinental Fuzhou and Crowne Plaza Shaoxing, which together had approximately 3,904 guest rooms. We have established long-term strategic relationships with internationally renowned hotel groups to operate and manage our hotels.

In 2009, we completed the injection of our commercial projects and properties into Shanghai Shimao and acquired a 64.2% equity interest in Shanghai Shimao. Pursuant to this reorganization, Shanghai Shimao began to hold our commercial property development portfolio. As of the date of this offering memorandum, Shanghai Shimao has established long-term and stable relationships with over 150 business partners. Shanghai Shimao had a land bank reserve of approximately 8.9 million sq.m. as of June 30, 2014, which we believe is one of the largest land bank reserves for commercial usage among all listed property developers in China. The property portfolio of Shanghai Shimao includes Shimao International Plaza, an office building, Shimao Department Stores and Shimao Cinemas. As of June 30, 2014, Shimao International Plaza in Shanghai, Shaoxing, Kunshan, Changshu, Suzhou, Xuzhou, Shenyang and Wuhu, an office building in Beijing, Shimao Department Stores in Beijing, Fuzhou and Yantai, and Shimao Cinemas in Shanghai, Chongqing, Shenyang, Xuzhou, Shaoxing, Yantai, Suzhou, Kunshan, Fuzhou, Kunming and Guiyang, have all commenced operations. Shimao International Plaza in Jinan and Nanchang and five Shimao Cinemas in Beijing, Luoyang, Shanghai and Nanchang will commence operations next year.

We believe that as a result of our balanced product portfolio and our strong recurring income, we are less susceptible to fluctuations in any single property market segment in the PRC.

Expertise in integrated development projects

We believe we are one of the few developers in China that have the resources and experience to develop large parcels of land comprising residential, commercial and hotel properties in the same location. We take a large-scale and integrated approach to property development. When developing residential properties, we also build hotels, commercial and leisure facilities and landscape gardens that possess high values and increase the selling prices of the related residential properties by transforming the neighboring areas in a positive fashion. When developing our hotels, we not only build large-scale hotels with sizeable room counts fitted out with quality amenities, but also create diverse and high-quality dining, entertainment, fitness, leisure, business and corporate events facilities which broaden the customer appeal and revenue base of the hotels. By developing both residential and non-residential properties in the same location, we can help create new urban centers. We believe that this large-scale and integrated approach not only allows us to create property developments of significant size and value but also better positions us in our discussions with the local governments with regard to acquiring land and obtaining infrastructure and other support for our projects. Developing large-scale projects also enables us to better leverage our highly experienced project management team and strengthen our negotiation position versus contractors and materials suppliers.

Valuable and well-recognized brand name associated with high quality and innovative products

We believe that we have established a strong brand name in China's property market through our track record of bringing large-scale, high-quality and innovative products in various cities in China to market.

Our philosophy is to develop properties that have top quality in terms of both design and construction. To achieve high quality in design, we engage internationally renowned architects and designers to create innovative and differentiated properties. To achieve high quality in construction, we use premium materials and fittings in the construction and furnishing of our properties, and closely scrutinize the work of our chosen contractors. We believe our focus on quality has enabled us to differentiate our properties and achieve favorable sales and rental prices, and, more importantly, to associate the “Shimao” brand with prestige, high quality and customer satisfaction.

The strength of our brand is evidenced by the many industry awards we have won. We have received numerous accolades for our quality property projects and strong after-sales support and property management services. Our acclaimed flagship project, Shanghai Shimao Riviera Garden, ranked first in terms of sale proceeds among residential developments in Shanghai for four consecutive years from 2001 to 2004. We also received the “Elite Residence Technology Award 2004—Gold Interior Design Award for Boutique” (精瑞住宅科學技術獎(2004年):成品住宅室內裝修金獎), which was jointly awarded by authorities including the PRC State Construction Department. Our “Shimao” brand won a “China Super Brand” (中國超級品牌) award in 2004, and a “Respected Real Estate Enterprise in Shanghai” (令人尊敬的上海房地產企業) award in 2005. In 2009, we were ranked No.1 among the “2009 Top Ten Foreign-Invested Real Estate Enterprises in China” by State Council Development Research Center of Enterprise Institute, Tsinghua University Real Estate Institute and the Institute of Housing Index. We were also ranked among the “Top 100 Star Enterprises of Overseas Chinese in China” from 2006 to 2008 by the Office of the Overseas Chinese Affairs of the State Council of the PRC. In addition, we also received awards including “Hurun Most Valuable Chinese Brands” and “Hurun Corporate Social Responsibility Top 50” by Hurun Report in 2009 and 2010, and “Top 10 PRC Real Estate Enterprises in terms of Brand Value” by China Real Estate Report and the “Golden Landmark—21st Century PRC City Complex Industry Leading Enterprises Award” (金地標•21世紀中國城市綜合體2012年度行業領軍企業大獎) by 21st Century Business Herald and National Real Estate Federation of Industry and Commerce Chamber jointly in 2012. In 2013, we were ranked No.7 among the “2013 Top 100 Listed Property Developers with Comprehensive Capability in China” by China Real Estate Research Association and China Real Estate Association. In 2014, we were ranked No.7 among the “2014 Top 500 Listed Property Developers with Comprehensive Capability in China”; No.1 among the “2014 Top 500 Listed Property Developers with Growth Speed in China”; and No.4 among the “2014 Top 500 Listed Property Developers with Tourism Property in China” by China Real Estate Research Association and China Real Estate Association. In addition, we also received the “Social Contribution Award of New Towns” by China Business Journal. We believe our “Shimao” brand is of tremendous value to us as we expand our business and geographic reach in cities and regions throughout China.

Diversified funding channels with strong financing capabilities

We have established relationships with many leading banks in China as well as major international financial institutions, which provide us with multiple financing channels to fund our business operations. Our major lending PRC banks include all of the four largest state-controlled national banks, namely Bank of China, China Construction Bank, Agriculture Bank of China and Industrial and Commercial Bank of China. To diversify our financing sources and secure sufficient working capital, we also obtained further funding by accessing the international capital markets. Since our initial public offering and listing of shares on the Hong Kong Stock Exchange in 2006, we have engaged in various capital raising transactions, including the offerings of the 2006 Notes, the 2010 Notes, the 2011 Notes, the 2013 Notes and the 2014 Notes. After we acquired an additional equity interest in Shanghai Shimao, a company listed on the Shanghai Stock Exchange, in 2009, Shanghai Shimao became our subsidiary, affording us access to the A-share market in the PRC. In addition, we currently have multiple offshore credit facilities for various purposes, such as financing property development, refinancing our existing indebtedness or for general corporate purposes. We believe that our ability to access global capital markets provides us with flexibility to fund our operations and enhance our liquidity position. In addition, we use working capital efficiently through well-delineated fund deployment among residential property development, commercial property development and hotel development and operations. We believe that our ability to efficiently manage capital enables us to optimize our asset turnover.

Strong relationships with international business and real estate industry partners

We have entered into long-term management agreements with the Starwood Group to manage the Shanghai Le Méridien Sheshan and the Le Royal Méridien Shanghai, which opened in November 2005 and September 2006, respectively. We have also reached similar agreements with the Hyatt Group to manage the Shanghai Hyatt on the Bund, which was opened in 2007, the InterContinental Group to manage the Mudanjiang Holiday Inn, Shaoxing Shimao Holiday Inn, InterContinental Fuzhou and Crowne Plaza Shaoxing, which was opened in October 2010, and September 2011, January 2014 and March 2014, respectively, and Hilton Group for Hilton Nanjing Riverside and Double Tree by Hilton Wuhu, which was opened in December 2011 and November 2013, respectively. We believe the management of our hotels by such world-renowned hotel groups significantly enhances the image and recognition of our hotel properties among our target customers, including international and domestic travelers.

Various domestic and international retailers have also entered into strategic cooperation agreements with us and have agreed to lease a portion of our existing and future retail properties. Our strategic retail partners include Parkson, McDonalds, Starbucks, B&Q, Auchan, Warner Brothers, Decathlon, Watsons, Haoledi, Esprit, Salon Esprit, Clarks, Mister Donut and Skap. We believe that our ability to enter into strategic cooperation agreements with these domestic and international retailers prior to the completion of the relevant retail properties will allow us to obtain a higher occupancy rate upon their respective opening. Through this approach we intend not only to enhance our financial stability and the profile and attractiveness of our retail properties but also to improve the marketability and prospects of our residential properties and hotels which are developed in conjunction with such retail properties.

We have established strong working relationships with different suppliers and consultants, including TOTO China Co., Ltd., Kohler (China) Investment Co., Ltd, Hansgrohe Sanitary Products (Shanghai) Co., Ltd., Bosch Thermotechnology (Beijing) Co., Ltd., Carrier Air Conditioning Sales & Services (Shanghai) Co., Ltd., Hitachi Elevator (China) Co., Ltd., Siemens (China) Co., Ltd., Daikin (China) Investment Co., Ltd., A. O. Smith (China) Water Heater Co., Ltd., RMJM Hong Kong Limited, Parsons Brinckerhoff China (柏誠中國), Earthasia (International) Ltd (泛亞國際), L&A Urban Planning and Landscape Design (Canada) Ltd, Davis Langdon & Seah China Limited, Atkins China, Valode & Pistre Architectes, Wang & Tung International Limited (王董國際有限公司) and Gensler Architecture Consulting (Shanghai) Co., Ltd. (普思建築諮詢(上海)有限公司). We believe our collaboration with such suppliers and international architectural and design consultants have enabled us to attain a consistent standard of high quality in the design and construction of our property projects.

In recent years, we have partnered with various leading PRC property developers, including Agile Property Holdings Limited (“Agile”), China Overseas Land & Investment Ltd, Guangzhou R&F Properties Co., Ltd. (“R&F”) and KWG Property Holding Limited (“KWG”), to develop certain projects in Guangzhou, Hangzhou and Tianjin. We believe that, leveraging on the support and contribution of these property developers, we will further enhance our financial and operational management capabilities and practices, strengthen our overall risk control and management systems and achieve stable long term development.

We believe that stable, long-term collaborative relationships with these partners enhances not only the attractiveness of our property developments and investments, but also our long-term prospects as we continue to develop and expand our business under our “Shimao” brand in China.

Experienced and stable management team

Our chairman, Mr. Hui Wing Mau, has over 24 years of experience in property development and investment throughout China, and is a respected leading figure within a number of real estate industry bodies. Our management team consists of experienced professionals, some of whom have received internationally recognized qualifications, and have extensive experience in the development, sales and management of real estate projects not only in major Chinese cities such as Shanghai and Beijing but also overseas.

We believe that by employing and retaining individuals from domestic as well as overseas backgrounds, we have been able to capitalize on their collective expertise in both the local and international property markets, and selectively apply different ideas, concepts and practices such that we can develop and sell properties that appeal to both domestic as well as overseas customers.

We adopt a flat management structure, which enables our management team to make decisions quickly and efficiently. This in turn leads to effective project management which enables us to shorten our project development timeframe, improve capital efficiency and manage our financial risks at the same time.

Our Strategies

We aim to continue to grow as a leading property developer and investor with a strong presence in key cities and economic regions in China. We have developed the following business strategies to pursue our growth objectives:

Continue to enhance our “Shimao” brand name

We intend to continue to promote the “Shimao” brand by continuing to focus on quality and innovation in our property projects and providing the purchasers of our properties with strong after-sale support and property management services. We will continue to pursue innovation within each of the residential, hotel, retail and office property sectors. For example, we plan to develop hotels and shopping complexes with themed gardens, low-density commercial zones and office buildings in a landscaped environment, as well as scenic residential, leisure and tourism zones. In this respect, we will continue to collaborate with international architects and designers to create market-leading projects that are unique and distinctive. We believe that innovation will provide us with a competitive advantage by differentiating our products and services from those of our competitors, and by providing a unique experience to our customers.

We will also continue to develop attractive and well-located hotels, retail and office properties that create value for our hotel management partners, business partners, tenants and end-customers. We believe that delivering value to our customers and enhancing their overall satisfaction with our products will enable us to strengthen our “Shimao” brand further, and reinforce its association with prestige and quality. At the same time, we intend to continue to build market recognition of the “Shimao” brand through marketing initiatives such as advertising campaigns, participation in international property exhibitions and the establishment of customer loyalty clubs that aim to generate incremental sales through customer referrals.

Continue to pursue product diversification and refine asset portfolio to achieve a balanced revenue profile

We intend to continue to expand into the hotel, retail and office property sectors in the PRC and Hong Kong to diversify our sources of future revenue. At the same time, we aim to continue to refine our asset portfolio by increasing our proportion of properties held for investment to achieve greater revenue stability through recurrent hotel and rental income. We believe that such diversification measures will increase the breadth and stability of our revenue by reducing our overall exposure to volatility within any one property segment, in particular the volatile residential property segment.

With regard to hotels, we plan to focus on developing luxury hotels to be operated by renowned international hotel management groups. We have entered into management contracts with the InterContinental and Hilton Groups with respect to a number of our hotels and we plan to enter into similar management contracts for some of our other hotels that are under development or for future development. In addition, we have established our own hotel management company to manage some of our other hotels under development or currently being planned. See “Business—Our Hotels and Investment Properties—Hotels.”

With regard to retail and commercial properties, we intend to focus on developing high-quality properties in central commercial areas in major cities. Due to the continuing economic growth in China, rental prices for retail and commercial properties have increased significantly in recent years and we believe this trend will continue. We intend to enter into long-term tenancy agreements with reputable anchor retail tenants to secure stable and recurring rental income.

Continue to expand our business operations and land bank in a disciplined manner

We intend to leverage our strong brand name and extensive experience to continue developing high-quality properties in our chosen markets in China. In addition to the markets in which we already have a presence, we have identified the Yangtze River Delta, Bohai Rim, West Coast of the Taiwan Strait, Northeastern, Central and Southern and Western Regions as the regions where we intend to continue to expand our operations. We believe that our brand and expertise in developing high-quality properties, coupled with high economic growth and government incentives in these regions, will allow us to increase our profitability and brand recognition. As part of our expansion strategy, we intend to also increase our presence in second- and third-tier cities which we believe have great growth potential. We will continue our strategy of conducting in-depth market research and analysis with the aim of identifying property trends and potential development opportunities as early as possible in a locality's potential development cycle. We will also continue to pursue opportunities that are large scale in nature, so as to continue to achieve economies of scale in land acquisition and construction costs.

We intend to continue to adopt a disciplined approach to land acquisition. We believe that purchasing land at prices that are low relative to the expected selling prices or capital values of the finished projects is a critical factor in managing financial risk and achieving superior profitability. We will make all decisions relating to land acquisitions based on thorough research and analysis of a project's expected returns in the context of future property and economic trends in cities in China. By implementing these procedures, we seek to expand our land bank while maintaining a system of financial controls and managing our costs through a detailed budget-planning process. Overall, we intend to continue to pursue a prudent and disciplined corporate strategy of steady and sustainable growth.

Promote environmental protection, energy-saving and low carbon emission in planning and design work

We believe that a low-carbon development strategy and construction of low-carbon communities are the social responsibility of the real estate industry, which will not only allow us to distinguish ourselves from our competitors and enhance our brand name and corporate image in the PRC, but also lead to sustainable development of our business.

We adhere to a "harmony in architecture and environment" development philosophy and are actively involved in developing and constructing environmentally friendly buildings. We have made this one of our corporate development directions. For example, we are designing and developing the Tianjin Shimao Ecology City with an aim of making it our first ecological city and model project. We plan to apply advanced and innovative ecological technologies to this project with an aim of making it a role model for ecological architecture and zero-carbon life development in China. Going forward, we plan to incorporate such environmentally friendly concepts into our other projects to strengthen our public recognition. We believe such efforts will enable us to differentiate ourselves from our competitors, increase our product appeal and enhance the competitiveness of our business.

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

We plan to continue to closely monitor our capital and cash positions and carefully manage our land costs, construction costs, operating expenses and fixed charge coverage. For example, we strive to acquire our land reserves at relatively low costs and keep the average land costs for our properties for sale at no more than 30% of the then-prevailing market prices of comparable properties. We believe that by adhering to prudent cost management, we will be able to utilize our working capital more efficiently and maintain healthy profit margins.

We monitor our capital and indebtedness level by reviewing our net gearing ratio, which is equal to net borrowings (total borrowings subtracting cash and cash equivalents and restricted cash for our borrowings) divided by total equity. Our net gearing ratio as of June 30, 2014 was approximately 58.4%. Going forward, we plan to maintain a net gearing ratio of below 60%.

We intend to continue to closely monitor the maturity profiles of our borrowings and manage the level of liquidity to ensure sufficient cash flows to service our indebtedness and meet cash requirements arising from our business. We will remain disciplined in our capital commitment and proactive in managing our capital structure to meet our ongoing capital requirements.

Recent Developments

Hefei Jade Mansion

In July 2014, we entered into a land grant contract with the relevant PRC land authority to acquire a parcel of land situated in Hefei, Anhui Province for a consideration of approximately RMB1,546.2 million (US\$249.2 million). This parcel of land comprises an aggregate site area of approximately 184,070 sq.m. and a planned GFA of approximately 555,044 sq.m. The development on this parcel of land is expected to feature high-rise residential buildings.

Xiamen Xiang'an Project

In July 2014, we entered into a land grant confirmation letter with the relevant PRC land authority to acquire a parcel of land situated in Xiamen, Fujian Province for a consideration of approximately RMB2,000.0 million (US\$322.4 million). This parcel of land comprises an aggregate site area of approximately 90,981 sq.m. and a planned GFA of approximately 225,100 sq.m. The development on this parcel of land is expected to feature high-rise residential buildings. We hold a 51% equity interest in the project.

Shanghai Zhoupu Project

In September 2014, we entered into a land grant contract with the relevant PRC land authority to acquire a parcel of land situated in Shanghai for a consideration of approximately RMB1,535.0 million (US\$247.4 million). This parcel of land comprises an aggregate site area of approximately 49,369 sq.m. and a planned GFA of approximately 83,927 sq.m. The development on this parcel of land is expected to feature high-rise residential buildings.

Beijing Tongzhou Project

In October 2014, we entered into a joint venture agreement with an independent third party to develop the Beijing Tongzhou Project. The project is situated in Tongzhou, Beijing and expected to comprise high-rise commercial and office properties, with an aggregate site area of approximately 49,759 sq.m. and a planned GFA of approximately 206,600 sq.m. We hold a 50% equity interest in the joint venture.

Chengdu Chenghua Project

In October 2014, we entered into a land grant confirmation letter with the relevant PRC land authority to acquire a parcel of land situated in Chengdu, Sichuan Province for a consideration of approximately RMB248.1 million (US\$40.0 million). This parcel of land comprises an aggregate site area of approximately 18,799 sq.m. and a planned GFA of approximately 93,994 sq.m. The development on this parcel of land is expected to feature commercial properties.

Hong Kong Tung Chung Commercial Project

In November 2014, we entered into a land grant contract with Hong Kong Lands Department to acquire a parcel of land situated in Tung Chung, Hong Kong Special Administrative Region for a consideration of approximately HK\$1,830.0 million (US\$236.1 million). This parcel of land comprises an aggregate site area of approximately 12,902 sq.m. and a planned GFA of approximately 56,715 sq.m. The development on this parcel of land is expected to feature a hotel. We hold a 80% equity interest in the joint venture.

Jianyang Sancha Lake Project

In December 2014, we entered into a land grant contract with the relevant PRC land authority to acquire a parcel of land situated in Jianyang, Sichuan Province for a consideration of approximately RMB80.0 million (US\$12.9 million). This parcel of land comprises a site area of approximately 93,739 sq.m. and a planned GFA of approximately 112,486 sq.m. The development on this parcel of land is expected to feature low-rise and high-rise residential buildings.

Nanjing Qixia Project

In December 2014, we entered into a land grant confirmation letter with the relevant PRC land authority to acquire a parcel of land situated in Qixia, Nanjing for a consideration of approximately RMB740.0 million (US\$ 119.3 million) and expected to comprise low-rise and high-rise residential properties, with an aggregate site area of approximately 56,357 sq.m. and a planned GFA of approximately 67,628 sq.m. We hold a 51% equity interest in the project.

Nanjing Pukou Project

In December 2014, we entered into a joint venture agreement with an independent third party to acquire a parcel of land situated in Pukou, Nanjing for a consideration of approximately RMB1,640.0 million (US\$264.4 million) and expected to comprise low-rise and high-rise residential properties, with an aggregate site area of approximately 137,437 sq.m. and a planned GFA of approximately 264,552 sq.m. Pursuant to the joint venture agreement, we will hold a 49% equity interest in the joint venture.

Change in Borrowings

Subsequent to June 30, 2014, we fully redeemed the 2010 Notes and drew down the 2014 Syndicated Loan Facilities in full and have from time to time entered into additional loan agreements to finance our property developments or for general corporate purposes in the ordinary course of business. See “Description of Other Material Indebtedness.”

Overview of Our Projects

As of June 30, 2014, our portfolio of property development projects consisted of 112 projects (including projects we develop with our joint venture partners) under various stages of development in 42 cities across China, including Shanghai, Beijing, Nanjing, Kunshan, Changshu, Suzhou, Wuxi, Changzhou, Xuzhou, Taizhou, Hangzhou, Shaoxing, Jiaxing, Yuyao, Xiangshan, Nantong, Ningbo, Yantai, Qingdao, Tianjin, Dalian, Wuhan, Wuhu, Xianyang, Harbin, Shenyang, Chengdu, Mudanjiang, Fuzhou, Xiamen, Changsha, Nanchang, Wenchang, Changchun, Jinjiang, Jinan and Huizhou. We divide our property developments into three categories: (i) completed property developments; (ii) properties under development; and (iii) properties held for future development. As our projects typically comprise multiple-phase developments on a rolling basis, one project may include different phases at various stages, including completion, under development or held for future development. As of June 30, 2014, we had, in terms of GFA attributable to us in our 112 projects, completed properties unsold or held for investment or hotel management of approximately 1.4 million sq.m., properties under development of approximately 16.5 million sq.m. and properties held for future development of approximately 20.4 million sq.m., which included an aggregate planned GFA attributable to us of approximately 3.8 million sq.m. for which we have not obtained land use rights certificates but have entered into land grant contracts or obtained land grant confirmation letters and are in the process of applying for the relevant land use rights. In addition, we have acquired certain parcels of land, including those for projects we develop with our joint venture partners with an aggregate planned GFA of approximately 1.7 million sq.m. subsequent to June 30, 2014, of which approximately 1.3 million sq.m. are attributable to us and for which we have not obtained land use rights certificates but have entered into land grant contracts or obtained land grant confirmation letters and are in the process of applying for the relevant land use rights. See “—Recent Developments.”

The following table sets forth project-by-project information for our interest in our 112 property development projects⁽¹⁾ as of June 30, 2014:

No.	Project Name	Location	Site Area (sq.m.)	Aggregate GFA for Entire Project ⁽²⁾ (sq.m.)	GFA Completed but Unsold / Held for Investment or Hotel Management (sq.m.)	GFA Under Development (sq.m.)	GFA Held for Future Development		Interest Attributable to us
							Planned GFA ⁽³⁾ (sq.m.)	Land Use Rights Not Yet Obtained ⁽³⁾ (sq.m.)	
PROJECTS HELD BY US NOT THROUGH SHANGHAI SHIMAO									
SHIMAO									
Yangtze River Delta Region									
Jiangsu and Shanghai District									
1	Xuzhou Shimao Dongdu (Residential).....	Xuzhou	564,873	1,073,371	14,035	95,225	609,287	389,287	100.0%
2	Xuzhou Shimao Dongdu (Commercial) ⁽⁴⁾	Xuzhou	120,726	229,676	59,471	69,549	—	—	64.2%
3	Taizhou Shimao Riverside Garden.....	Taizhou	283,510	352,724	4,311	49,064	—	—	100.0%
4	Nanjing Shimao Bund New City	Nanjing	474,330	1,657,000	84,501	564,864	544,301	283,334	82.1%
5	Nanjing Shimao Bund New City (Commercial) ⁽⁴⁾	Nanjing	85,747	717,009	—	431,801	285,207	—	82.1%
6	Wuhu Shimao Riviera Garden (Residential).....	Wuhu	107,246	350,422	53,653	104,199	36,116	—	100.0%
7	Wuhu Shimao Riviera Garden (Commercial) ⁽⁴⁾	Wuhu	80,310	121,216	85,320	—	—	—	64.2%
8	Wuxi Shimao The Capital (Residential)	Wuxi	230,424	1,194,456	16,034	348,229	133,181	—	49.0%
9	Wuxi Shimao The Capital (Commercial) ⁽⁴⁾	Wuxi	68,505	647,231	—	167,515	479,716	—	77.8%
10	Changzhou Shimao Champagne Lake (Residential)	Changzhou	857,502	1,408,000	10,519	544,066	159,353	—	100.0%
11	Changzhou Shimao Champagne Lake (Commercial) ⁽⁴⁾	Changzhou	63,276	242,344	—	127,418	72,462	—	64.2%
12	Suzhou Shimao Canal Scene (Residential)	Suzhou	397,888	1,055,603	10,334	236,515	23,328	—	100.0%
13	Suzhou Shimao Canal Scene (Commercial) ⁽⁴⁾	Suzhou	92,451	472,720	49,993	242,425	—	—	64.2%
14	Kunshan Shimao East Bund ⁽⁵⁾	Kunshan	99,830	415,243	—	—	—	—	100.0%
15	Kunshan Shimao Butterfly Bay	Kunshan	717,821	1,183,472	148,029	—	—	—	100.0%
16	Kunshan Shimao East No.1 (Residential)	Kunshan	499,176	816,724	84,145	—	—	—	100.0%
17	Kunshan Shimao International City (Commercial) ⁽⁴⁾	Kunshan	126,802	303,648	88,541	—	64,467	—	64.2%
18	Shanghai Shimao Riviera Garden	Shanghai	220,955	1,062,489	—	—	65,864	40,000	100.0%
19	Shanghai Shimao Emme County	Shanghai	241,643	270,372	16,900	32,027	—	—	100.0%
20	Shanghai Shimao Sheville	Shanghai	94,510	157,920	—	157,920	—	—	60.0%
21	Nanjing Shimao Glory Villa	Nanjing	147,673	405,996	—	362,880	43,116	—	51.0%
22	Nantong Wetland Century	Nantong	130,436	347,094	—	347,094	—	—	100.0%
23	Nantong Lohas City	Nantong	375,463	850,000	—	322,587	527,413	—	95.0%
24	Suzhou Millennium Bay	Suzhou	290,951	392,598	—	68,717	323,881	—	70.0%
25	Zhangjiagang Shimao Lake Palace	Zhangjiagang	950,263	1,140,315	—	351,866	788,449	—	51.0%
Zhejiang District									
26	Hangzhou Shimao Imperial Landscape.....	Hangzhou	87,915	1,182,367	23,296	408,172	—	—	50.0%
27	Hangzhou Shimao New City	Hangzhou	102,938	276,595	4,566	—	—	—	100.0%
28	Hangzhou Shimao Riviera Garden ⁽⁵⁾	Hangzhou	276,704	749,773	—	—	—	—	100.0%

No.	Project Name	Location	Site Area (sq.m.)	Aggregate GFA for Entire Project ⁽²⁾ (sq.m.)	GFA Completed but Unsold / Held for Investment or Hotel Management (sq.m.)	GFA Under Development (sq.m.)	GFA Held for Future Development			Interest Attributable to us
							Planned GFA ⁽³⁾ (sq.m.)	Land Use Rights		
								Not Yet Obtained ⁽³⁾ (sq.m.)		
29	Hangzhou Shimao New West Lake.....	Hangzhou	184,741	490,967	13,007	124,010	—	—	—	70.0%
30	Jiaxing Shimao Century Park (Residential)	Jiaxing	112,634	409,187	10,693	—	—	—	—	100.0%
31	Jiaxing Shimao Century Park (Commercial) ⁽⁴⁾	Jiaxing	135,594	342,649	—	—	342,649	—	—	19.26%
32	Hangzhou Shimao Above The Lake	Hangzhou	58,184	260,415	—	190,923	69,492	—	—	51.0%
33	Hangzhou East No.1	Hangzhou	37,387	123,488	—	123,488	—	—	—	51.0%
34	Hangzhou Born with Legend.....	Hangzhou	29,262	143,975	—	—	—	143,975	—	52.0%
35	Hangzhou Gate of Zhejiang.....	Hangzhou	33,857	389,721	—	—	—	389,721	—	100.0%
36	Shaoxing Shimao Dear Town	Shaoxing	358,861	1,156,612	124,234	416,277	52,263	—	—	100.0%
37	Ningbo Shimao World Gulf	Ningbo	234,046	790,537	42,197	154,653	—	—	—	100.0%
38	Ningbo Shimao Sea Dawn	Ningbo	507,771	712,201	31,537	448,086	—	—	—	100.0%
39	Ningbo World Gulf Damuwan	Ningbo	515,958	759,368	236	311,118	208,650	74,552	—	100.0%
40	Ningbo Yuyao Shimao Moushan Lake.....	Ningbo	328,360	320,083	—	100,332	220,678	—	—	70.0%
41	Ningbo Chief Mansion	Ningbo	41,074	110,070	—	110,070	—	—	—	100.0%
42	Ningbo Shimao City	Ningbo	124,061	300,553	—	298,458	2,095	—	—	51.0%
43	Ningbo Shimao Fenghua Peach Garden	Ningbo	163,258	125,825	—	125,825	—	—	—	100.0%
Northeastern Region										
44	Harbin Shimao Riviera New City.....	Harbin	985,464	1,946,625	19,568	311,383	84,505	—	—	100.0%
45	Mudanjiang Shimao Holiday Landscape.....	Mudanjiang	253,611	646,666	—	195,848	450,819	—	—	100.0%
46	Mudanjiang Shimao South Bund	Mudanjiang	432,373	1,073,145	2,700	210,219	682,552	382,132	—	100.0%
47	Shenyang Shimao Notting Hill	Shenyang	521,256	578,146	13,079	107,967	333,131	309,781	—	100.0%
48	Shenyang Shimao Wulihe (Residential).....	Shenyang	119,809	744,716	7,001	187,372	140,028	—	—	100.0%
49	Shenyang Shimao Wulihe (Commercial) ⁽⁴⁾	Shenyang	60,001	882,910	—	376,646	412,872	—	—	64.2%
50	Dalian Shimao Glory City	Dalian	802,507	2,064,262	24,597	260,974	1,573,137	—	—	96.0%
Bohai Rim Region										
51	Beijing Shimao Alhambra Palace ⁽⁵⁾	Beijing	5,462	45,636	—	—	—	—	—	100.0%
52	Beijing Shimao Salamanca	Beijing	461,630	988,219	—	362,525	625,694	260,080	—	65.0%
53	Tianjin Shimao Ecology City.....	Tianjin	1,060,000	1,283,541	64,464	155,659	458,636	358,622	—	75.0%
54	Qingdao Shimao Century Land.....	Qingdao	931,584	1,703,510	51,902	435,919	718,864	22,690	—	100.0%
55	Yantai Shimao No.1 The Harbour.....	Yantai	33,657	352,265	1,130	116,100	—	—	—	100.0%
56	Jinan Pride of The City	Jinan	160,038	568,000	—	—	568,000	—	—	51.0%
57	Beijing La Villa.....	Beijing	97,861	247,215	—	179,594	67,621	—	—	50.0%
58	Beijing Changyang	Beijing	111,062	209,548	—	135,547	74,001	—	—	50.0%
Western Region										
59	Xianyang Shimao The Centre ⁽⁵⁾	Xianyang	52,956	117,681	—	—	—	—	—	100.0%
60	Chengdu Shimao City	Chengdu	568,356	2,055,283	19,860	345,392	928,000	215,020	—	79.0%

No.	Project Name	Location	Site Area (sq.m.)	Aggregate GFA for Entire Project ⁽²⁾ (sq.m.)	GFA Completed but Unsold / Held for Investment or Hotel Management (sq.m.)	GFA Under Development (sq.m.)	GFA Held for Future Development			Interest Attributable to us
							Planned GFA ⁽³⁾ (sq.m.)	Land Use Rights		
								Not Yet Obtained ⁽³⁾ (sq.m.)		
61	Chengdu Shimao Royal Bay	Chengdu	51,560	507,642	—	195,567	117,957	—	—	100.0%
62	Yinchuan Shimao City	Yinchuan	123,814	309,535	—	146,086	163,448	—	—	100.0%
63	Xi'an Shimao Metropolis	Xi'an	79,405	504,163	—	—	504,163	—	—	70.0%
Central and Southern Region										
64	Wuhan Shimao Splendid River	Wuhan	243,831	2,030,675	16,004	482,103	1,445,233	—	—	96.0%
65	Changsha Shimao Brilliantate Bay (Residential)	Changsha	156,621	663,755	848	412,864	90,783	—	—	50.0%
66	Changsha Shimao Brilliantate Bay (Commercial) ⁽⁴⁾	Changsha	13,827	230,299	—	230,299	—	—	—	64.2%
67	Nanchang Shimao The Centre	Nanchang	76,999	403,815	—	62,492	101,773	—	—	50.0%
68	Wuhan Shimao Dragon Bay (Residential)	Wuhan	431,814	469,346	85,967	49,813	156,753	12,967	—	100.0%
69	Wuhan Shimao Carnival (Commercial) ⁽⁴⁾	Wuhan	1,378,096	854,779	2,714	656,028	113,152	—	—	81.6%
70	Nanchang Water City	Nanchang	147,087	294,500	—	—	294,500	—	—	100.0%
71	Wuhan K11	Wuhan	153,927	428,186	—	333,541	67,370	—	—	49.0%
72	Nanchang City Holiday	Nanchang	129,921	411,519	—	—	411,519	—	—	51.0%
73	Chongqing Shimao Château De La Ville.....	Chongqing	265,313	956,390	—	—	956,390	—	—	100.0%
Tourism Property										
74	Xiamen Shimao Lakeside Garden.....	Xiamen	137,170	563,097	6,213	367,899	—	—	—	100.0%
75	Hainan Wenchang Moonriver.....	Hainan	604,953	501,030	—	386,493	79,553	38,311	—	100.0%
76	Dalian Shimao Dragon Bay	Dalian	1,846,024	2,504,420	48,566	229,809	1,843,024	1,061,344	—	100.0%
77	Shanghai Shimao Sheshan Villa	Shanghai	584,811	30,791	—	—	10,197	—	—	100.0%
78	Fuzhou Shimao Skyscrapers ⁽⁵⁾	Fuzhou	94,305	503,202	—	—	—	—	—	100.0%
79	Fuzhou Minhou Shimao Dragon Bay	Fuzhou	352,239	1,138,438	81,494	617,149	—	—	—	100.0%
80	Fujian Jinjiang Shimao Dragon Bay	Quanzhou	633,333	2,225,367	2,776	871,194	100,102	—	—	100.0%
81	Shishi Skyscrapers City	Quanzhou	329,101	1,536,493	—	789,740	746,753	—	—	63.8%
82	Shishi Skyscrapers City (Commercial) ⁽⁴⁾	Quanzhou	129,357	530,000	—	—	530,000	—	—	63.8%
83	Fuzhou Nantong Village Project	Fuzhou	60,150	180,449	—	—	180,449	—	—	100.0%
84	Shenzhen Qianhai Project	Shenzhen	30,600	190,000	—	—	190,000	—	—	51.0%
85	Jiangyin Shimao Dragon Bay	Wuxi	479,213	575,056	—	188,416	386,640	—	—	68.5%
86	Jinjiang Shimao Hi Dream.....	Quanzhou	395,223	869,491	—	230,615	638,876	—	—	56.2%
87	Jinjiang Zimaoshan	Quanzhou	376,914	486,219	—	65,323	420,896	—	—	53.2%
88	Nanning Shimao Longgang Garden	Nanning	86,515	479,384	—	—	479,384	—	—	100.0%
89	Shanghai North Bund.....	Shanghai	4,993	22,968	—	—	22,968	—	—	100.0%
PROJECTS HELD BY SHANGHAI SHIMAO ⁽⁶⁾										
90	Beijing Shimao International Plaza	Beijing	29,411	212,000	77,817	—	—	—	—	64.2%
91	Tianjin Wuqing Project	Tianjin	200,448	340,505	—	92,927	174,663	—	—	64.2%
92	Jinan Shimao International Plaza.....	Jinan	112,309	361,979	—	361,979	—	—	—	64.2%
93	Jinan Shimao Skyscrapers City	Jinan	259,412	907,941	—	104,918	803,023	—	—	31.5%

No.	Project Name	Location	Site Area (sq.m.)	Aggregate GFA for Entire Project ⁽²⁾ (sq.m.)	GFA Completed but Unsold / Held for Investment or Hotel Management (sq.m.)	GFA Under Development (sq.m.)	GFA Held for Future Development		Interest Attributable to us
							Planned GFA ⁽³⁾ (sq.m.)	Land Use Rights Not Yet Obtained ⁽³⁾ (sq.m.)	
94	Changshu Shimao The Center.....	Changshu	318,809	1,102,852	47,949	330,885	46,126	—	64.2%
95	Changshu Huanghe Road.....	Changshu	33,452	167,258	—	167,258	—	—	24.4%
96	Hangzhou Shimao Riviera COSMO ⁽⁷⁾	Hangzhou	62,547	333,980	—	—	—	—	6.42%
97	Qingdao Jiaonan Shimao International Plaza.....	Qingdao	86,940	235,255	—	—	219,518	—	64.2%
98	Qingdao Jiaonan Project.....	Qingdao	316,032	676,884	—	211,747	334,360	—	64.2%
99	Qingdao Shier House (Residential).....	Qingdao	41,072	109,600	—	87,547	—	—	48.2%
100	Qingdao Shi'ao Tower (Commercial) ⁽⁴⁾	Qingdao	10,723	137,119	—	—	137,119	—	48.2%
101	Shanghai Shimao Nano Magic City.....	Shanghai	428,213	382,076	—	140,494	46,355	—	64.2%
102	Xiamen Shimao MO Sky Mansion.....	Xiamen	30,543	349,831	—	349,831	—	—	81.3%
103	Suzhou Mudu Project.....	Suzhou	81,237	114,518	—	107,962	6,556	—	25.7%
104	Ningbo Baojiacao Project.....	Ningbo	21,798	95,049	—	95,049	—	—	64.2%
105	Ningbo Binjiang Project.....	Ningbo	63,312	169,943	—	105,446	64,497	59,336	64.2%
106	Suzhou Bronze Swallow Terrace.....	Suzhou	131,123	219,701	—	219,701	—	—	25.7%
107	Ningbo Sunjia.....	Ningbo	85,914	189,010	—	—	189,010	—	25.7%
JOINT VENTURE PROJECTS									
108	Nanjing Straits City.....	Nanjing	314,992	1,035,990	—	595,230	440,760	—	49.0%
109	Fuzhou Pingtan Future City.....	Fuzhou	764,090	1,962,806	—	938,348	677,290	347,168	49.0%
110	Guangzhou Asian Games City.....	Guangzhou	2,600,000	4,380,000	414,782	864,308	2,186,300	1,268,000	20.0%
111	Tianjin Jinan New City.....	Tianjin	1,289,200	3,010,901	—	864,000	1,694,901	—	25.0%
112	Guangzhou FCC.....	Guangzhou	32,483	389,800	—	389,800	—	—	33.3%
Total.....				<u>78,305,408</u>	<u>1,964,981</u>	<u>23,141,381</u>	<u>29,775,889</u>	<u>5,122,624</u>	
Attributable GFA ⁽⁸⁾					1,425,014	16,521,130	20,375,469	3,780,458	

Notes:

- (1) We combine the residential portion and the commercial portion of various projects, i.e. we treat them as one project instead of two, and we may have different calculations for different purposes.
- (2) "Aggregate GFA for Entire Project" includes completed properties sold.
- (3) "Planned GFA" includes "Land Use Rights Not Yet obtained."
- (4) Project held by Shanghai Shimao.
- (5) There is no GFA under this project as of June 30, 2014 as only underground car parks, which are measured in units instead, have remained unsold.
- (6) Shanghai Shimao also holds the commercial portion of Xuzhou Shimao Donglu, Nanjing Shimao Bund New City, Wuhu Shimao Riviera Garden, Wuxi Shimao The Capital, Changzhou Shimao Champagne Lake, Suzhou Shimao Canal Scene, Kunshan Shimao International City, Jiaxing Shimao Century Park, Shenyang Shimao Wulithe, Changsha Shimao Brilliant Bay and Wuhan Shimao Carnival.
- (7) All GFA under this project has been sold but certain properties have yet to be delivered as of June 30, 2014.
- (8) "Attributable GFA" represents the portion of the GFA which is attributable to us, based on our interest in the relevant project.

As of June 30, 2014, there were 16 projects for which our project companies had entered into land grant contracts or obtained land grant confirmation letters but for which we had not obtained the relevant land use rights certificates.

We set out below certain key information relating to our business segments in terms of GFA attributable to us as of June 30, 2014:

	GFA completed but unsold/held for investment or hotel management	GFA under development	GFA held for future development
	(sq.m.)	(sq.m.)	(sq.m.)
Residential	946,439	14,726,000	17,135,844
Retail/Office.....	432,134	958,806	2,646,343
Hotel	<u>46,441</u>	<u>836,324</u>	<u>593,282</u>
Total.....	<u>1,425,014</u>	<u>16,521,130</u>	<u>20,375,469</u>

In general, land use rights in the PRC are granted for a term of 70 years for residential properties, 40 years for commercial properties and 50 years for comprehensive use properties. The relevant authorities will not issue a formal land use rights certificate in respect of a piece of land until we (i) pay the land premium in full; (ii) satisfy all conditions under the land grant contract according to applicable laws and regulations, and (iii) pay in full the relevant taxes and fees. As a result, according to the pace of development, the land for a property development may be divided into one or more parcels for which multiple land use rights certificates were granted at different stages of development.

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

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

Properties are sold when the purchase contract with a customer has been executed and the properties have been delivered to the customer. Properties are pre-sold when the purchase contract has been executed but the properties have not yet been delivered to the customer.

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

Geographic Locations of Our Projects

The following map shows the geographic locations of our 112 property development projects as of June 30, 2014:



Our Property Development Projects

Yangtze River Delta Region

Jiangsu and Shanghai District

Xuzhou Shimao Dongdu

Xuzhou Shimao Dongdu is an integrated development project situated in Yunlong District, Xuzhou City. It aims to integrate facilities for cultural, tourism, leisure and entertainment, business and residential purposes. The project is adjacent to the Han Dynasty Cultural and Scenic Park and ruins of the Old Course of Yellow River. The project occupies a total site area of approximately 685,599 sq.m. with a total GFA of approximately 1,303,047 sq.m. The project features a high quality residential community, a hotel and a theme park combining historical, cultural, leisure, amusement and scenic features. The commercial portion of the project had a total GFA of approximately 229,676 sq.m. and we hold a 64.2% equity interest in the commercial portion of the project.

Xuzhou Shimao Dongdu is being jointly developed by Xuzhou Shimao New City Real Estate Development Co., Ltd., Xuzhou Shimao New Era Real Estate Development Co., Ltd. and Xuzhou Shimao Property Co., Ltd.

Taizhou Shimao Riverside Garden

Taizhou Shimao Riverside Garden is a residential and hotel development situated at the northern part of the Taizhou Economic Development Zone in Taizhou City, Jiangsu. It is bounded by the Xiangyang River to its north, the Zhoushan River to its south, the Nanguan River to its west and Taigao Road to its east. The project occupies a total site area of approximately 283,510 sq.m. with a total GFA of approximately 352,724 sq.m. The project features riverside residential buildings and townhouses.

Taizhou Shimao Riverside Garden is being jointly developed by Taizhou Shimao New City Real Estate Development Co., Ltd. and Taizhou Shimao New Development Property Co., Ltd.

Nanjing Shimao Bund New City

Nanjing Shimao Bund New City is a large-scale residential, hotel and retail development at the intersection of the Yangtze River and the Qinhuai River in Nanjing. The project stretches for approximately three kilometers along the Yangtze River. The project occupies a total site area of approximately 560,077 sq.m. with a total GFA of 2,374,009 sq.m. The project features 17 high-rise river view residential buildings of 24 to 53 floors, a five-star hotel, eight exotic theme gardens, riverside commercial street, a kindergarten, primary and secondary schools, a luxury club and a supermarket. We hold a 82.1% equity interest in the project.

Nanjing Shimao Bund New City is being jointly developed by Nanjing Shimao Real Estate Development Co., Ltd.

Wuhu Shimao Riviera Garden

Wuhu Shimao Riviera Garden is a large-scale residential, hotel, retail, cultural and art center development at Binjiang Park, Wuhu. The project occupies a site area of approximately 187,556 sq.m., with a total GFA of approximately 471,638 sq.m. The project features residential buildings, a five-star hotel, a commercial street, a cultural and art center and various amenities. The commercial portion of the project had a total GFA of approximately 121,216 sq.m. and we hold a 64.2% equity interest in the commercial portion of the project.

Wuhu Shimao Riviera Garden is being jointly developed by Wuhu Shimao Real Estate Development Co., Ltd., Wuhu Shimao New Century Property Co., Ltd. and Wuhu Shimao New Development Property Co., Ltd.

Wuxi Shimao The Capital

Wuxi Shimao The Capital is an integrated development spanning across both Chong'an district and Beitang district in Wuxi. The project occupies a site area of approximately 298,929 sq.m. with a total GFA of approximately 1,841,687 sq.m. The project features residential buildings, five-star hotels and offices. We hold a 49% equity interest in the residential portion of the project. The commercial portion of the project had a total GFA of approximately 647,231 sq.m. and we hold a 77.8% equity interest in the commercial portion of the project.

Wuxi Shimao The Capital is being jointly developed by Wuxi Shimao Real Estate Development and Construction Co., Ltd. and Wuxi Shimao New Development Property Co., Ltd.

Changzhou Shimao Champagne Lake

Changzhou Shimao Champagne Lake is a large-scale integrated development project situated on Tai Hu East Road in Changzhou, Jiangsu. The project occupies a total site area of approximately 920,778 sq.m. with a planned total GFA of approximately 1,650,344 sq.m. The project features residential buildings, townhouses, shopping malls, offices and various amenities. The commercial portion of the project had a total GFA of approximately 242,344 sq.m. and we hold a 64.2% equity interest in the commercial portion of the project.

The residential portion of Changzhou Shimao Champagne Lake is being developed by Changzhou Shimao Real Estate Development Co., Ltd. and the commercial portion is being jointly developed by Changzhou Shimao Real Estate Development Co., Ltd. and Changzhou Shimao New City Real Estate Development Co., Ltd.

Suzhou Shimao Canal Scene

Suzhou Shimao Canal Scene is an integrated development situated in Canglang district in Suzhou City. The project occupies a total site area of approximately 490,339 sq.m. with a total GFA of approximately 1,528,323 sq.m. The project features residential buildings, stores, offices, hotels, cinemas and a commercial street. The commercial portion of the project had a total GFA of approximately 472,720 sq.m. and we hold a 64.2% equity interest in the commercial portion of the project.

Suzhou Shimao Canal Scene is being jointly developed by Suzhou Shimao Property Co., Ltd. and Suzhou Shimao Investment and Development Co., Ltd.

Kunshan Shimao East Bund

Kunshan Shimao East Bund is a residential development situated in Kunshan City. The project occupies a total site area of approximately 99,830 sq.m. with a total GFA of approximately 415,243 sq.m. The project features residential buildings and townhouses. As of June 30, 2014, all GFA under this project has been sold and only underground car parks, which are measured in units instead, have remained unsold.

Kunshan Shimao East Bund is being developed by Kunshan Shimao New Development Property Co., Ltd.

Kunshan Shimao Butterfly Bay

Kunshan Shimao Butterfly Bay is a large-scale residential and retail development situated in the Kunshan Economic and Technology Development Area in Kunshan City. The project occupies a total site area of approximately 717,821 sq.m. with a total GFA of approximately 1,183,472 sq.m. The project features residential buildings, townhouses, villas and shopping malls together with amenities such as clubhouses, an open outdoor square, a promenade and parks.

Kunshan Shimao Butterfly Bay was developed by Kunshan Shimao Butterfly Bay Development and Construction Co., Ltd.

Kunshan Shimao East No.1 and Kunshan Shimao International City

Kunshan Shimao East No.1 and Kunshan Shimao International City are large-scale integrated developments situated at Kunshan Economic and Technology Development Zone in Kunshan City. The projects occupy a total site area of approximately 625,978 sq.m. with a total GFA of approximately 1,120,372 sq.m. The projects feature residential buildings, townhouses, offices and a shopping mall. Kunshan Shimao International City is the commercial portion of the project with a total GFA of approximately 303,648 sq.m. and we hold a 64.2% equity interest in the commercial portion of the project.

Kunshan Shimao East No.1 and Kunshan Shimao International City are being jointly developed by Kunshan Shimao New Development Property Co., Ltd. and Kunshan Shimao Real Estate Development Co., Ltd.

Shanghai Shimao Riviera Garden

Shanghai Shimao Riviera Garden is a large-scale residential and retail development situated in Lujiazui, Pudong district which is a financial center of Shanghai. The project occupies a total site area of approximately 220,955 sq.m. with a total GFA of approximately 1,062,489 sq.m. The project is expected to feature seven residential buildings of 45 to 55 floors.

Shanghai Shimao Riviera Garden is being developed by Shanghai Shimao Real Estate Co., Ltd.

Shanghai Shimao Emme County

Shanghai Shimao Emme County is a residential development situated in the Xinghuo Development Zone, Fengxian district, Shanghai, spanning from Nong Gong Shang Avenue to the east to Ming Cheng

Garden, Ming Cheng Road to the west. It is bounded by Min Le Road to its north and crossed by Lian Tang Road and is adjacent to a 480,000 sq.m. theme park to its south. The project occupies a total site area of approximately 241,643 sq.m. with a total GFA of approximately 270,372 sq.m. The project features villas, townhouses and duplex houses, garden houses, multi-storey apartments and high-rise buildings.

Shanghai Shimao Emme County is being jointly developed by Shanghai Bicheng Real Estate Co., Ltd. and Shanghai Xingcheng Real Estate Co., Ltd.

Shanghai Shimao Sheville

Shanghai Shimao Sheville is a residential development situated in Shanghai. The project occupies a total site area of approximately 94,510 sq.m. with a total GFA of approximately 157,920 sq.m. The project is expected to feature high-rise residential building and townhouses. We hold a 60% equity interest in the project.

Shanghai Shimao Sheville is being developed by Shanghai Shimao Shenshan Huiying Property Co., Ltd.

Nanjing Shimao Glory Villa

Nanjing Shimao Glory Villa is a residential development situated in Nanjing. The project occupies a total site area of approximately 147,673 sq.m. with a total GFA of approximately 405,996 sq.m. The project is expected to feature high-rise residential buildings. We hold a 51% equity interest in the project.

Nanjing Shimao Glory Villa is being developed by Nanjing Shuotian Investment and Management Co., Ltd.

Nantong Wetland Century

Nantong Wetland Century is a residential development situated in Nantong. The project occupies a total site area of approximately 130,436 sq.m. with a total GFA of approximately 347,094 sq.m. The project is expected to feature high-rise residential building and townhouses.

Nantong Wetland Century is being developed by Nantong Shimao Real Estate Development Co., Ltd.

Nantong Lohas City

Nantong Lohas City is a large-scale integrated development situated in Nantong. The project occupies a total site area of approximately 375,463 sq.m. with a total GFA of approximately 850,000 sq.m. The project is expected to feature a SOHO area, hotel, shopping mall and various amenities. We hold a 95% equity interest in the project.

Nantong Lohas City is being jointly developed by Nantong Shimao New Era Real Estate Development Co., Ltd. and Nantong Shimao New Way Real Estate Development Co., Ltd.

Suzhou Millennium Bay

Suzhou Millennium Bay is a residential development situated in Suzhou. The project occupies a total site area of approximately 290,951 sq.m. with a total GFA of approximately 392,598 sq.m. The project is expected to feature high-rise residential building, townhouse and low-density villas. We hold a 70% equity interest in the project.

Suzhou Millennium Bay is being jointly developed by Suzhou Shimao New Development Property Co., Ltd. and Suzhou Shimao New Century Real Estate Development Co., Ltd.

Zhangjiagang Shimao Lake Palace

Zhangjiagang Shimao Lake Palace is a residential development situated in Zhangjiagang, Suzhou, Jiangsu Province. The project occupies a site area of approximately 950,263 sq.m. with a total GFA of approximately 1,140,315 sq.m. The project is expected to feature high-rise residential buildings. We hold a 51% equity interest in the project.

Zhangjiagang Shimao Lake Palace is being developed by Zhangjiagang Shimao Real Estate Development Co., Ltd.

Zhejiang District

Hangzhou Shimao Imperial Landscape

Hangzhou Shimao Imperial Landscape is an integrated development situated on the south bank of Qiantang River in the Riviera District of Hangzhou City. The project is bounded by Jiangling Road and Binsheng Road. The project faces the CBD of Qianjiang New City across Qiantang River. The project occupies a site area of approximately 87,915 sq.m. with a total GFA of approximately 1,182,367 sq.m. The project features high-rise residential buildings, townhouses and commercial and office property. We hold a 50% equity interest in the project.

Hangzhou Shimao Imperial Landscape is being jointly developed by Hangzhou Shimao Shiyang Property Development Co., Ltd. and Hai Shu Property Development (Hangzhou) Co., Ltd.

Hangzhou Shimao New City

Hangzhou Shimao New City is an integrated development situated in Hangzhou City. The project occupies a site area of approximately 102,938 sq.m. with a total GFA of approximately 276,595 sq.m. The project features high-rise residential buildings and commercial properties and offices. As of June 30, 2014, all GFA under this project has been sold and only underground car parks, which are measured in units instead, have remained unsold.

Hangzhou Shimao New City is being developed by Hangzhou Shimao Property Co., Ltd.

Hangzhou Shimao Riviera Garden

Hangzhou Shimao Riviera Garden is a residential development situated on the waterfront of Qiantang River in Xiasha Area, within the Xiasha Economic Development Zone in Hangzhou City. It is bounded by Avenue 20 to the south, the Riverside Avenue to the east, and Avenue 14 to its north. The project occupies a site area of approximately 276,704 sq.m. with a total GFA of approximately 749,773 sq.m. The project features a large-scale riverside residential community, service apartments, hotels, shopping malls and retail spaces. As of June 30, 2014, all GFA under this project has been sold and only underground car parks, which are measured in units instead, have remained unsold.

Hangzhou Shimao Riviera Garden was developed by Hangzhou Shimao Property Co., Ltd.

Hangzhou Shimao New West Lake

Hangzhou Shimao New West Lake is a residential and commercial development situated in the Yuhang District of Hangzhou City. It is bounded by Nanhu East Road to the west. The project occupies a site area of approximately 184,741 sq.m. with a total GFA of approximately 490,967 sq.m. The project features high-rise residential buildings, low-density villas, townhouses and commercial property. We hold a 70% equity interest in the project.

Hangzhou Shimao New West Lake is being developed by Hangzhou Shimao New Way Property Co., Ltd.

Jiaxing Shimao Century Park

Jiaxing Shimao Century Park is a large-scale integrated development located at the south of Jiaxing City and is next to the designated site for the Jiaxing Station of the Maglev train system which is currently proposed to be built between Shanghai and Hangzhou. The project occupies a site area of approximately 248,228 sq.m., with a total GFA of approximately 751,836 sq.m. The project features residential buildings, a hotel, a shopping mall, offices and various amenities. The commercial portion of the project had a total GFA of approximately 421,029 sq.m. and we hold a 100% equity interest in the commercial portion of the project.

Jiaxing Shimao Century Park is being jointly developed by Jiaxing Shimao New City Real Estate Development Co., Ltd. and Jiaxing Shimao New Prospect Property Co., Ltd.

Hangzhou Above The Lake

Hangzhou Above The Lake is a large-scale integrated development situated in Hangzhou. The project occupies a total site area of approximately 58,184 sq.m. with a total GFA of approximately 260,415 sq.m. The project is expected to feature residential buildings, a hotel, a shopping mall, offices and various amenities. We hold a 51% equity interest in the project.

Hangzhou Above The Lake is being developed by Hangzhou Shirong Huiying Property Co., Ltd.

Hangzhou East No.1

Hangzhou East No.1 is a residential development situated in Hangzhou. The project occupies a total site area of approximately 37,387 sq.m. with a total GFA of approximately 123,488 sq.m. The project is expected to feature high-rise residential buildings. We hold a 51% equity interest in the project.

Hangzhou East No.1 is being developed by Hangzhou Shimao New Domain Real Estate Development Co., Ltd.

Hangzhou Born with Legend

Hangzhou Born with Legend is an integrated development situated in Hangzhou. The project occupies a site area of approximately 29,262 sq.m. with a total GFA of approximately 143,975 sq.m. The project is expected to feature high-rise residential buildings and commercial property. We hold a 52% equity interest in the project.

Hangzhou Born with Legend is being developed by Hangzhou Shimao Carnival Property Co., Ltd.

Hangzhou Gate of Zhejiang

Hangzhou Gate of Zhejiang is an office and commercial development situated in Hangzhou. The project occupies a site area of approximately 33,857 sq.m. with a total GFA of approximately 389,721 sq.m. The project is expected to feature high-rise office and commercial property.

Hangzhou Gate of Zhejiang is being developed by Hangzhou Shimao Ruiying Property Co., Ltd.

Shaoxing Shimao Dear Town

Shaoxing Shimao Dear Town is an integrated development project at Didang New Town, Shaoxing City. The project occupies a site area of approximately 358,861 sq.m., with a total GFA of approximately 1,156,612 sq.m. The project features residential buildings, a five-star hotel, shopping mall, cinemas, offices, car parking spaces and various amenities.

Shaoxing Shimao Dear Town is being jointly developed by Shaoxing Shimao New City Real Estate Development Co., Ltd., Shaoxing Shimao New Property Development Co., Ltd., Shaoxing Shimao Property Co., Ltd., Shaoxing Shimao Investment and Development Co., Ltd. and Shaoxing Shimao New Era Property Co., Ltd.

Ningbo Shimao World Gulf

Ningbo Shimao World Gulf is an integrated development project situated at the center of Beilun District in Ningbo City. It is bounded by Huangshan Road to its north, Taishan Road to its south, Taihe Road to its west and Guihua Road to its east. The project occupies a site area of approximately 234,046 sq.m. with a total GFA of approximately 790,537 sq.m. The project features residential buildings, hotels, offices and various amenities.

Ningbo Shimao World Gulf is being jointly developed by Ningbo Shimao Real Estate Development Co., Ltd. and Ningbo Shimao New Development Property Co., Ltd.

Ningbo Shimao Sea Dawn

Ningbo Shimao Sea Dawn is a residential and commercial development situated on Chunxiao Road in Beilun District, Ningbo City. The project occupies a total site area of approximately 507,771 sq.m. with a total GFA of approximately 712,201 sq.m. The project features residential and commercial buildings, a hotel and various amenities.

Ningbo Shimao Sea Dawn is being jointly developed by Ningbo Shimao New City Real Estate Development Co., Ltd. and Ningbo Shimao New Era Property Co., Ltd.

Ningbo World Gulf Damuwan

Ningbo World Gulf Damuwan is an integrated development situated in Damu Bay, Xiangshan. The project occupies a site area of approximately 515,958 sq.m. with a total GFA of approximately 759,368 sq.m. The project is expected to feature villas, apartments, a commercial area and a five-star resort hotel.

Ningbo World Gulf Damuwan is being jointly developed by Ningbo Shimao New Way Property Co., Ltd. and Ningbo Shimao Xintiyan Property Co., Ltd.

Ningbo Yuyao Shimao Moushan Lake

Ningbo Yuyao Shimao Moushan Lake is a residential development situated in Mushanzhen, Yuyao. The project occupies a site area of approximately 328,360 sq.m. with a total GFA of approximately 320,083 sq.m. The project is expected to feature villas and various amenities. We hold a 70% equity interest in the project.

Ningbo Yuyao Shimao Moushan Lake is being jointly developed by Yuyao Shimao Moushan Lake Leisure Resort Development Co., Ltd. and Yuyao Shimao Property Co., Ltd.

Ningbo Chief Mansion

Ningbo Chief Mansion is a residential and commercial development situated in Ningbo. The project occupies a total site area of approximately 41,074 sq.m. with a total GFA of approximately 110,070 sq.m. The project is expected to feature residential and commercial buildings.

Ningbo Chief Mansion is being developed by Ningbo Shimao New Domain Property Co., Ltd.

Ningbo Shimao City

Ningbo Shimao City is a residential development situated in Ningbo. The project occupies a total site area of approximately 124,061 sq.m. with a total GFA of approximately 300,553 sq.m. The project is expected to feature high-rise residential buildings. We hold a 51% equity interest in the project.

Ningbo Shimao City is being developed by Ningbo Shimao New Century Real Estate Development Co., Ltd.

Ningbo Shimao Fenghua Peach Garden

Ningbo Shimao Fenghua Peach Garden is a residential development situated in Ningbo. The project occupies a site area of approximately 163,258 sq.m. with a total GFA of approximately 125,825 sq.m. The project is expected to feature villas and various amenities.

Ningbo Shimao Fenghua Peach Garden is being developed by Ningbo Shimao Carnival Property Co., Ltd.

Northeastern Region

Harbin Shimao Riviera New City

Harbin Shimao Riviera New City is a large-scale residential and retail development on the waterfront in Songbei District in Harbin City. The project occupies a total site area of approximately 985,464 sq.m. with a total GFA of approximately 1,946,625 sq.m. The project features residential units, villas, offices, convention center, a five-star hotel, service apartments, schools, kindergarten and retail shops, together with various amenities such as clubhouses, an open square, a promenade and parks.

Harbin Shimao Riviera New City is being developed by Harbin Shimao Riviera New City Development and Construction Co., Ltd.

Mudanjiang Shimao Holiday Landscape

Mudanjiang Shimao Holiday Landscape is a residential development situated between the northern center of Mudanjiang City and Beishan Park Scenic Area. The project occupies a total site area of approximately 253,611 sq.m. with a total GFA of approximately 646,666 sq.m. The project is expected to feature various residential buildings.

Mudanjiang Shimao Holiday Landscape is being developed by Mudanjiang Shimao New City Real Estate Development Co., Ltd.

Mudanjiang Shimao South Bund

Mudanjiang Shimao South Bund is a residential and commercial development situated in Jiangnan New district, Mudanjiang. It is adjacent to the Mudanjiang River. The project occupies a total site area of approximately 432,373 sq.m. with a planned total GFA of approximately 1,073,145 sq.m. The project features residential buildings and villas.

Mudanjiang Shimao South Bund is being developed by Mudanjiang Shimao New City Real Estate Development Co., Ltd.

Shenyang Shimao Notting Hill

Shenyang Shimao Notting Hill is a residential development situated in Qipanshan Tourism Development Zone, Shenyang. The project occupies a site area of approximately 521,256 sq.m. with a total GFA of approximately 578,146 sq.m. The project features villas and townhouses.

Shenyang Shimao Notting Hill is being developed by Shenyang Zhaolong Real Estate Development Co., Ltd.

Shenyang Shimao Wulihe

Shenyang Shimao Wulihe is an integrated development project situated on Wenti Road West, Heping Area, Shenyang. It lies within the downtown area and at the key area of the urban development area named the “Golden Corridor.” The project occupies a site area of approximately 179,810 sq.m. with a total GFA of

approximately 1,627,626 sq.m. The project features residential buildings, a shopping mall, business and office buildings, a five-star hotel and other ancillary facilities. The commercial portion of the project had a total GFA of approximately 882,910 sq.m. and we hold a 64.2% equity interest in the commercial portion of the project.

Shenyang Shimao Wulihe is being jointly developed by Shenyang Shimao New Development Property Co., Ltd., Shenyang Shimao New Era Property Co., Ltd. and Shenyang Shimao New Century Real Estate Development Co., Ltd.

Dalian Shimao Glory City

Dalian Shimao Glory City is an integrated development projects situated alongside Longhe River in Lvshunkou district, Dalian. Dalian Shimao Glory City occupies a site area of approximately 802,507 sq.m. with a total GFA of approximately 2,064,262 sq.m. The projects feature international conference centers, five-star hotels, shopping malls, commercial streets and high-end residential buildings. We hold a 96% equity interest in the project.

Dalian Shimao Glory City are being developed by Dalian Shimao Longhe Development Co., Ltd.

Bohai Rim Region

Beijing Shimao Alhambra Palace

Beijing Shimao Alhambra Palace is a residential development situated in Dongsanhuan district, Beijing. The project occupies a site area of approximately 5,462 sq.m. with a total GFA of approximately 45,636 sq.m. The project features 202 luxury residences and duplexes. As of June 30, 2014, all GFA under this project has been sold and only underground car parks, which are measured in units instead, have remained unsold.

Beijing Shimao Alhambra Palace was developed by Beijing Pengli Garden Real Estate Development Co., Ltd.

Beijing Shimao Salamanca

Beijing Shimao Salamanca is a residential development situated in Dachang Industrial Park Area, Beijing, with Shouchuang Street on its east, Dafu Road on its south, Fuxi Road on its west and Xinkai Street on its north. The project occupies a site area of approximately 461,630 sq.m. with a total GFA of approximately 988,219 sq.m. The project is expected to feature residential buildings, villas and a clubhouse. We hold a 65.0% equity interest in the project.

Beijing Shimao Salamanca is being developed by Dachang Hui Autonomous County Zhongji Taiye Real Estate Development Co., Ltd.

Tianjin Shimao Ecology City

Tianjin Shimao Ecology City is a residential development situated in the Sino-Singapore Tianjin Eco-city, Binhai New Town, Tianjin. The project occupies a site area of approximately 1,060,000 sq.m. with a total GFA of approximately 1,283,541 sq.m. The project features villas, townhouses and residential buildings. We hold a 75% equity interest in the project.

Tianjin Shimao Ecology City is being jointly developed by Tianjin Shimao New Prospect Property Co., Ltd., Tianjin Eco City Shimao New Era Investment and Development Co., Ltd., Tianjin Eco-City Shimao Investment and Development Co., Ltd. and Tianjin Sino-Singapore Eco-City Shimao Zhihe Investment Co., Ltd.

Qingdao Shimao Century Land

Qingdao Shimao Century Land is a residential and commercial development situated in Qingdao. The project occupies a total site area of approximately 931,584 sq.m. with a total GFA of approximately 1,703,510 sq.m. The project features residential and commercial buildings.

Qingdao Shimao Century Land is being developed by Qingdao Shimao New City Real Estate Development Co., Ltd.

Yantai Shimao No.1 The Harbour

Yantai Shimao No.1 The Harbour is an integrated development project located in Zhifu district, Yantai City. The project occupies a site area of approximately 33,657 sq.m., with a total GFA of approximately 352,265 sq.m. The project features residential buildings, five-star hotels, shopping malls, offices and various amenities.

Yantai Shimao No.1 The Harbour was developed by Yantai Shimao Property Co., Ltd.

Jinan Pride of The City

Jinan Pride of The City is a residential development situated in Jinan. The project occupies a total site area of approximately 160,038 sq.m. with a total GFA of approximately 568,000 sq.m. The project is expected to feature high-rise residential buildings and townhouses. We hold a 51% equity interest in the project.

Jinan Pride of The City is being developed by Shandong Shiying Property Co., Ltd.

Beijing La Villa

Beijing La Villa is a residential development situated in Beijing. The project occupies a total site area of approximately 97,861 sq.m. with a total GFA of approximately 247,215 sq.m. The project is expected to feature low-density villas and townhouses. We hold a 50% equity interest in the project.

Beijing La Villa is being developed by Beijing Liangyu Real Estate Development Co., Ltd.

Beijing Changyang

Beijing Changyang is a residential development situated in Beijing. The project occupies a total site area of approximately 111,062 sq.m. with a total GFA of approximately 209,548 sq.m. The project is expected to feature high-rise residential buildings. We hold a 50% equity interest in the project.

Beijing Changyang is being developed by Beijing Chuangyu Real Estate Development Co., Ltd.

Western Region

Xianyang Shimao The Centre

Xianyang Shimao The Centre is an integrated development project situated at People's Square, in the city center of area Xianyang. The project occupies a site area of approximately 52,956 sq.m. with a total GFA of approximately 117,681 sq.m. The project features a four star hotel, two residential buildings and a large commercial area. As of June 30, 2014, all GFA under this project has been sold and only underground car parks, which are measured in units instead, have remained unsold.

Xianyang Shimao The Centre was developed by Xianyang Shimao Real Estate Development Co., Ltd.

Chengdu Shimao City

Chengdu Shimao City is a residential development situated in the Tian'e Hu Community of Longquanyi district, Chengdu. It is close to San Sheng Xiang, a popular tourist spot. The Tian'e Hu Community includes

a sports park (including a PGA-standard 18-hole golf course), a culture park, a commercial center as well as other community amenities such as schools and hospitals. The project occupies a site area of approximately 568,356 sq.m. with a total GFA of approximately 2,055,283 sq.m. The project features an integrated residential complex and large shopping malls. We hold a 79% equity interest in the project.

Chengdu Shimao City is being jointly developed by Chengdu Shimao Investment Co., Ltd., Chengdu Shimao Property Co., Ltd. and Chengdu Shimao New City Real Estate Development Co., Ltd.

Chengdu Shimao Royal Bay

Chengdu Shimao Royal Bay is a residential development situated in Meng Zhui Bay Recreational Business district, Chengdu. The project occupies a site area of approximately 51,560 sq.m. with a total GFA of approximately 507,642 sq.m. The project is expected to feature a multi-functional urban complex with high-end residential buildings and a five star hotel.

Chengdu Shimao Royal Bay is being developed by Chengdu Shimao Property Development Co., Ltd.

Yinchuan Shimao City

Yinchuan Shimao City is a residential development situated in Yinchuan. The project occupies a site area of approximately 123,814 sq.m. with a total GFA of approximately 309,535 sq.m. The project is expected to feature high-rise residential buildings.

Yinchuan Shimao City is being jointly developed by Yinchuan Shimao Real Estate Development Co., Ltd. and Yinchuan Shimao Investment Co., Ltd.

Xi'an Shimao Metropolis

Xi'an Shimao Metropolis is a residential development situated in Xi'an. The project occupies a site area of approximately 79,405 sq.m. with a total GFA of approximately 504,163 sq.m. The project is expected to feature high-rise residential buildings.

Xi'an Shimao Metropolis is being developed by Shanxi Chuangxin Real Estate Development Co., Ltd.

Central and Southern Region

Wuhan Shimao Splendid River

Wuhan Shimao Splendid River is a large-scale residential, hotel, retail and office development at Yingwuzhou Area, Hanyang District, Wuhan City. The project occupies a site area of approximately 243,831 sq.m., with a total GFA of approximately 2,030,675 sq.m. The project features residential buildings, a five-star hotel, a shopping mall, offices and various amenities. We hold a 79% equity interest in the project.

Wuhan Shimao Splendid River is being developed by Wuhan Shimao Splendid River Estate Development Co., Ltd.

Changsha Shimao Brilliant Bay

Changsha Shimao Brilliant Bay is an integrated development situated in Dahexi Pilot Zone, Binjiang New City, Changsha. The project occupies a total site area of approximately 170,448 sq.m. with a total GFA of approximately 894,054 sq.m. The project features residential buildings, a five-star hotel, a shopping mall, offices and various amenities. We hold a 50% equity interest in the residential portion of the project. The commercial portion of the project had a total GFA of approximately 230,299 sq.m. and we hold a 64.2% equity interest in it.

Changsha Shimao Brilliant Bay is being developed by Changsha Shimao Property Co., Ltd.

Nanchang Shimao The Centre

Nanchang Shimao The Centre is a residential and commercial development situated in Nanchang. The project occupies a total site area of approximately 76,999 sq.m. with a total GFA of approximately 403,815 sq.m. The project is expected to feature residential buildings and a shopping mall. We hold a 50% equity interest in the project.

Nanchang Shimao The Centre is being developed by Nanchang Shimao New Development Property Co., Ltd.

Wuhan Shimao Dragon Bay and Wuhan Shimao Carnival

Wuhan Shimao Dragon Bay and Wuhan Shimao Carnival are integrated developments situated in Wuhan. The projects occupy a total site area of approximately 1,809,910 sq.m. with a total GFA of approximately 1,224,125 sq.m. The projects feature high-rise residential buildings, townhouses and two shopping malls. Wuhan Shimao Carnival is the commercial portion of the project with a total GFA of approximately 854,779 sq.m. and we hold a 81.6% equity interest in Wuhan Shimao Carnival.

Wuhan Shimao Dragon Bay is being developed by Wuhan Shimao New City Real Estate Development Co., Ltd. and Wuhan Shimao Carnival is being developed by Wuhan Shimao Carnival Property Co., Ltd.

Nanchang Water City

Nanchang Water City is a residential development situated in Nanchang. The project occupies a total site area of approximately 147,087 sq.m. with a total GFA of approximately 294,500 sq.m. The project is expected to feature low-rise and high-rise residential buildings.

Nanchang Water City is being developed by Nanchang Water City Investment Holding Co., Ltd.

Wuhan K11

Wuhan K11 is a residential development situated in Wuhan. The project occupies a total site area of approximately 153,927 sq.m. with a total GFA of approximately 428,186 sq.m. The project is expected to feature high-rise residential buildings. We hold a 49% equity interest in the project.

Wuhan K11 is being developed by Wuhan Hongyu Property Co., Ltd.

Nanchang City Holiday

Nanchang City Holiday is an office and commercial development situated in Nanchang. The project occupies a site area of approximately 129,921 sq.m. with a total GFA of approximately 411,519 sq.m. The project is expected to feature high-rise office and commercial property.

Nanchang City Holiday is being developed by Nanchang Shimao New Era Property Co., Ltd.

Chongqing Shimao Château De La Ville

Chongqing Shimao Château De La Ville is a residential development situated in Chongqing. The project occupies a site area of approximately 265,313 sq.m. with a total GFA of approximately 956,390 sq.m. The project is expected to feature both low-rise and high-rise residential buildings.

Chongqing Shimao Château De La Ville is being developed by Chongqing Victory Shiny Real Estate Development Co., Ltd.

Tourism Property

Xiamen Shimao Lakeside Garden

Xiamen Shimao Lakeside Garden is a residential and commercial development situated in Xiamen. The project occupies a total site area of approximately 137,170 sq.m. with a total GFA of approximately 563,097 sq.m. The project features high-rise residential buildings, retail and office.

Xiamen Shimao Lakeside Garden is being jointly developed by Fujian Shimao Property Co., Ltd. and Xiamen Shimao New Era Property Co., Ltd.

Hainan Wenchang Moonriver

Hainan Wenchang Moonriver is a tourism and resort development situated on the east coast of Wenchang, Hainan. The project occupies a site area of approximately 604,953 sq.m. with a total GFA of approximately 501,030 sq.m. The project is expected to feature a hotel, a resort, a park and various amenities.

Hainan Wenchang Moonriver is being jointly developed by Wenchang Shimao Property Co., Ltd., Wenchang Shimao New Way Property Co., Ltd. and Wenchang Shimao New Era Property Co., Ltd.

Dalian Shimao Dragon Bay

Dalian Shimao Dragon Bay are integrated development projects situated in Shihou Village, Jinzhou district, Dalian. Dalian Shimao Dragon Bay occupies a site area of approximately 1,846,024 sq.m. with a total GFA of approximately 2,504,420 sq.m. The project is expected to feature a coastal tourist resort comprising hotels, tourist facilities, international conference centers, a cruise terminal, a waterfront amusement park, an indoor theme park, a large-scale commercial and entertainment complex, premium commercial facilities, offices and a riverside residential development.

Dalian Shimao Dragon Bay are being jointly developed by Dalian Shimao Carnival Property Co., Ltd., Dalian Shimao New Era Property Co., Ltd., Dalian Shimao New Domain Property Co. Ltd. and Dalian Shimao Xintiyuan Property Co., Ltd.

Shanghai Shimao Sheshan Villa

Shanghai Shimao Sheshan Villa is a residential development in the Sheshan National Forest Resort Area in Shanghai. The project enjoys the scenic view of Yuehu Lake to its north, and the scenic view of Mount Sheshan to its south. The project occupies a total site area of approximately 584,811 sq.m. with a total GFA of approximately 30,791 sq.m. The project is expected to feature 72 low-density residential villas.

Shanghai Shimao Sheshan Villa is being developed by Shanghai Shimao Manor Real Estate Co., Ltd.

Fuzhou Shimao Skyscrapers

Fuzhou Shimao Skyscrapers is an integrated development situated in the Taijiang district, Fuzhou City. It lies to the southwest of the intersection of Qunzhong Road and Guangda Road, in the heart of the CBD. The project is adjacent to the Shangri-la Hotel on the Wuyi Plaza in the downtown area, and is north of the business circle of Taijiang District and south of the business circle of East Avenue. The project occupies a total site area of approximately 94,305 sq.m. with a total GFA of approximately 503,202 sq.m. The project features a five-star hotel and high-quality office and residential buildings.

Fuzhou Shimao Skyscrapers was jointly developed by Fuzhou Shimao New City Real Estate Development Co., Ltd. and Fuzhou Shimao Industrial Co., Ltd.

Fuzhou Minhou Shimao Dragon Bay

Fuzhou Minhou Shimao Dragon Bay is an integrated development situated in Minhou, Fuzhou. The project occupies a site area of approximately 352,239 sq.m. with a total GFA of approximately 1,138,438 sq.m. The project features commercial streets, offices, residential buildings and hotels.

Fuzhou Minhou Shimao Dragon Bay is being jointly developed by Fuzhou Shimao New Century Real Estate Development Co., Ltd., Fuzhou Shimao New Era Property Co., Ltd. and Fuzhou Shimao New Development Property Co., Ltd.

Fujian Jinjiang Shimao Dragon Bay

Fujian Jinjiang Shimao Dragon Bay is an integrated development situated in Jinjiang, Quanzhou. The project occupies a site area of approximately 633,333 sq.m. with a total GFA of approximately 2,225,367 sq.m. The project is expected to feature residential buildings, offices, a five-star hotel and a shopping mall.

Fujian Jinjiang Shimao Dragon Bay is being jointly developed by Quanzhou Shimao New Development Property Co., Ltd. and Quanzhou Shimao New Domain Property Co., Ltd.

Shishi Shimao Skyscrapers City

Shishi Shimao Skyscrapers City is an integrated development situated in Quanzhou. The project occupies a total site area of approximately 458,458 sq.m. with a total GFA of approximately 2,066,493 sq.m. The project is expected to feature residential buildings, offices, hotels and a shopping mall. We hold a 63.8% equity interest in the project.

Shishi Shimao Skyscrapers City is being jointly developed by Shishi Shimao Real Estate Development Co., Ltd., Shishi Shimao New City Real Estate Development Co., Ltd. and Shishi Shimao New Way Real Estate Development Co., Ltd.

Fuzhou Nantong Village Project

Fuzhou Nantong Village Project is a residential development situated in Fuzhou. The project occupies a site area of approximately 60,150 sq.m. with a total GFA of approximately 180,449 sq.m. The project is expected to feature high-rise residential buildings.

Fuzhou Nantong Village Project is being developed by Fuzhou Shimao Carnival Property Co., Ltd.

Shenzhen Qianhai Project

Shenzhen Qianhai Project is a commercial development situated in Shenzhen. The project occupies a site area of approximately 30,600 sq.m. with a total GFA of approximately 190,000 sq.m. The project is expected to feature commercial and office properties.

Shenzhen Qianhai Project is being developed by Qianhai Shimao Development (Shenzhen) Co., Ltd.

Jiangyin Shimao Dragon Bay

Jiangyin Shimao Dragon Bay is an integrated development situated in Wuxi. The project occupies a site area of approximately 479,213 sq.m. with a total GFA of approximately 575,056 sq.m. The project is expected to feature residential buildings, offices, hotels and a shopping mall.

Jiangyin Shimao Dragon Bay is being jointly developed by Jiangyin Shimao New City Real Estate Development Co., Ltd. and Jiangyin Shimao Property Co., Ltd.

Jinjiang Shimao Hi Dream

Jinjiang Shimao Hi Dream is an integrated development situated in Quanzhou. The project occupies a site area of approximately 395,223 sq.m. with a total GFA of approximately 869,491 sq.m. The project is expected to feature residential buildings, offices, hotels and a shopping mall.

Jinjiang Shimao Hi Dream is being jointly developed by Quanzhou Taiwanese Investment Zone Shimao Huiying Property Co., Ltd., Quanzhou Taiwanese Investment Zone Shimao Yueying Property Co., Ltd., Quanzhou Taiwanese Investment Zone Shimao New Era Property Co., Ltd. and Quanzhou Taiwanese Investment Zone Shimao Xintian Property Co., Ltd.

Jinjiang Zimaoshan

Jinjiang Zimaoshan is a residential development situated in Quanzhou. The project occupies a site area of approximately 376,914 sq.m. with a total GFA of approximately 486,219 sq.m. The project is expected to feature high-rise residential buildings.

Jinjiang Zimaoshan is being jointly developed by Quanzhou Shimao Ruiying Property Co., Ltd., Quanzhou Shimao Xintian Property Co., Ltd. and Quanzhou Shimao Carnival Property Co., Ltd.

Nanning Shimao Longgang Garden

Nanning Shimao Longgang Garden is a residential and commercial development situated in Nanning. The project occupies a site area of approximately 86,515 sq.m. with a total GFA of approximately 479,384 sq.m. The project is expected to feature high-rise and low-rise residential buildings.

Nanning Shimao Longgang Garden is being developed by Nanning Shimao New Era Real Estate Development Co., Ltd.

Shanghai North Bund

Shanghai North Bund is an office and commercial development situated in Shanghai. The project occupies a site area of approximately 4,993 sq.m. with a total GFA of approximately 22,968 sq.m. The project is expected to feature commercial properties and offices.

Shanghai North Bund is being developed by Shanghai Shimao Property Development Co., Ltd.

Projects Held By Shanghai Shimao

Beijing Shimao International Plaza

Beijing Shimao International Plaza is an integrated development situated between the North Gate of Beijing Workers' Stadium and Xingdong Road in Sanlitun district. The project occupies a site area of approximately 29,411 sq.m. with a total GFA of approximately 212,000 sq.m. The project is expected to feature offices, service apartments and shopping malls. We hold a 64.2% equity interest in the project.

Beijing Shimao International Plaza is developed by Beijing Fortune Times Property Co., Ltd.

Tianjin Wuqing Project

Tianjin Wuqing Project is a residential development situated in Wuqing district, Tianjin, close to Wuqing station of the Jingjin Chengji Railway. The project occupies a site area of approximately 200,448 sq.m. with a total GFA of approximately 345,505 sq.m. The project is expected to feature villas, townhouses and other types of residential buildings. We hold a 64.2% equity interest in the project.

Tianjin Wuqing Project is being developed by Tianjin Maoyue Investments Co., Ltd.

Jinan Shimao International Plaza

Jinan Shimao International Plaza is an integrated development situated in Lixia district, Jinan, with Quancheng Road on its east, Heihuquan Xi Road on its south and Heihuquan Bei Road on its north. The project occupies a site area of approximately 112,309 sq.m. with a total GFA of approximately 361,979 sq.m. The project is expected to feature offices, hotels, shopping malls and various amenities. We hold a 64.2% equity interest in the project.

Jinan Shimao International Plaza is being developed by Jinan Shimao Property Co., Ltd.

Jinan Shimao Skyscrapers City

Jinan Shimao Skyscrapers City is a residential development situated in Jinan. The project occupies a site area of approximately 259,412 sq.m. with a total GFA of approximately 907,941 sq.m. The project is expected to feature residential buildings and commercial properties. We hold a 31.5% equity interest in the project.

Jinan Shimao Skyscrapers City is being developed by Jinan Shimao Sky City Property Co., Ltd.

Changshu Shimao The Center

Changshu Shimao The Center is a large-scale integrated development project situated to the west of Xiangshan North Road, to the north of Zhaowen Road, to the south of Changjiang Road and to the east of Taishan Road. The project occupies a total site area of approximately 318,809 sq.m. with a total GFA of approximately 1,102,852 sq.m. The project is expected to feature residential buildings, service apartments, a five-star hotel, a shopping mall, a commercial street, offices and various amenities. We hold a 64.2% equity interest in the project.

Changshu Shimao The Center is being developed by Changshu Shimao New Development Property Co., Ltd.

Changshu Huanghe Road

Changshu Huanghe Road is a residential development situated in Changshu. The project occupies a site area of approximately 259,412 sq.m. with a total GFA of approximately 907,941 sq.m. The project is expected to feature residential buildings. We hold a 24.4% equity interest in the project.

Changshu Huanghe Road is being developed by Changshu Shimao New Era Property Co., Ltd.

Hangzhou Shimao Riviera COSMO

Hangzhou Shimao Riviera COSMO is an integrated development situated in Hangzhou Economic and Technological Development Area, Hangzhou, with No.14 Street on its north, No.25 Street on its east and No.23 Street on its west. The project occupies a site area of approximately 62,547 sq.m. with a total GFA of approximately 333,980 sq.m. The project features commercial streets, shopping malls, a cinema, shops and service apartments. We hold a 6.42% equity interest in the project.

Hangzhou Shimao Riviera COSMO was developed by Hangzhou Shimao Century Property Co., Ltd.

Qingdao Jiaonan Shimao International Plaza

Qingdao Jiaonan Shimao International Plaza is an integrated development situated in the east of Binhai Avenue, Jiaonan, Qingdao, north of Haiwang Road, south of Shenzhen Road and west of Shuicheng Central Road. The project occupies a site area of approximately 86,940 sq.m. with a total GFA of approximately 235,255 sq.m. The project is expected to feature service apartments, commercial streets and offices. We hold a 64.2% equity interest in the project.

Qingdao Jiaonan Shimao International Plaza is being developed by Qingdao Shimao Investment and Development Co., Ltd.

Qingdao Jiaonan Project

Qingdao Jiaonan Project is an integrated development situated in Jiaonan city, Qingdao. The project occupies a site area of approximately 316,032 sq.m. with a total GFA of approximately 676,884 sq.m. The project is expected to feature residential buildings and commercial facilities. We hold a 64.2% equity interest in the project.

Qingdao Jiaonan Project is being developed by Qingdao Shimao Coastal Property Co., Ltd.

Qingdao Shier House and Qingdao Shi'ao Tower

Qingdao Shier House and Qingdao Shi'ao Tower are integrated developments situated on Donghai Xi Road of Peninsula Commercial Center Area in Qingdao. The projects occupy a total site area of approximately 51,795 sq.m. with a total GFA of approximately 246,719 sq.m. The projects are expected to feature residential buildings, offices and hotels. Qingdao Shi'ao Tower is the commercial portion of the project with a total GFA of approximately 137,119 sq.m. We hold a 48.2% equity interest in the projects.

Qingdao Shier House and Qingdao Shi'ao Tower are being developed by Qingdao Shiao Investment and Development Co., Ltd.

Shanghai Shimao Nano Magic City

Shanghai Shimao Nano Magic City is a large-scale integrated development at the Sheshan National Forest Resort Area, Songjiang District, Shanghai. The project occupies a total site area of approximately 428,213 sq.m. with a total GFA of approximately 382,076 sq.m. The project features a hotel and a shopping mall. We hold a 64.2% equity interest in the project.

Shanghai Shimao Nano Magic City was developed by Shanghai Shimao Wonderland Property Co., Ltd.

Xiamen Shimao MO Sky Mansion

Xiamen Shimao MO Sky Mansion is an integrated development situated in Xiangang Street, Siming district, Xiamen. The project occupies a site area of approximately 30,543 sq.m. with a total GFA of approximately 349,831 sq.m. The project is expected to feature a five-star hotel, offices, apartments and various amenities. We hold a 81.3% equity interest in the project.

Xiamen Shimao MO Sky Mansion is being developed by Fujian Shimao New Way Investment and Development Co., Ltd.

Suzhou Mudu Project

Suzhou Mudu Project is a residential development situated in Suzhou. The project occupies a total site area of approximately 81,237 sq.m. with a total GFA of approximately 114,518 sq.m. The project is expected to feature residential buildings. We hold a 25.7% equity interest in the project.

Suzhou Mudu Project is being developed by Suzhou Shimao New Way Property Co., Ltd.

Ningbo Baojiacao Project

Ningbo Baojiacao Project is an integrated development situated in Ningbo. The project occupies a total site area of approximately 21,798 sq.m. with a total GFA of approximately 95,049 sq.m. The project is expected to feature offices and commercial streets. We hold a 64.2% equity interest in the project.

Ningbo Baojiacao Project is being developed by Ningbo Shimao Lixiang Property Co., Ltd.

Ningbo Binjiang Project

Ningbo Binjiang Project is an integrated development situated in Ningbo. The project occupies a total site area of approximately 63,312 sq.m. with a total GFA of approximately 169,943 sq.m. The project is expected to feature residential buildings, offices and commercial streets. We hold a 64.2% equity interest in the project.

Ningbo Binjiang Project is being developed by Ningbo Shimao Xintengfei Property Co., Ltd.

Suzhou Bronze Swallow Terrace

Suzhou Bronze Swallow Terrace is a residential development situated in Suzhou. The project occupies a site area of approximately 131,123 sq.m. with a total GFA of approximately 219,701 sq.m. The project is expected to feature residential buildings. We hold a 25.7% equity interest in the project.

Suzhou Bronze Swallow Terrace is being developed by Suzhou Industrial Park Shimao Century Property Co., Ltd. and Suzhou Industrial Park Shimao Hubin Property Co., Ltd.

Ningbo Sunjia Project

Ningbo Sunjia Project is a residential development situated in Ningbo City, Zhejiang Province. The project occupies a site area of approximately 85,914 sq.m. with a total GFA of approximately 189,010 sq.m. The project is expected to feature residential and commercial buildings. We hold a 25.7% equity interest in the project.

Ningbo Sunjia Project is being developed by Ningbo Dingfeng Real Estate Development Co., Ltd.

Joint Venture Projects

Nanjing Straits City

In August 12, 2012, we entered into a joint venture agreement with Nanjing Straits City Development and Construction Co., Ltd. to develop Nanjing Straits City. The project is situated in Nanjing, Jiangsu and is expected to comprise high-rise residential buildings and commercial property, with a site area of approximately 314,992 sq.m. and a planned GFA of approximately 1,035,990 sq.m. We hold a 49% equity interest in the joint venture.

Fuzhou Pingtan Future City

In March 31, 2011, we entered into a joint venture agreement with Pingtan Straits Ruyicheng Xindouhui Development and Construction Co., Ltd. and Pingtan Straits Ruyicheng Development and Construction Co., Ltd. to develop Fuzhou Pingtan Future City. The project is situated in Fuzhou, Fujian and is expected to comprise high-rise residential buildings and commercial property, with a site area of approximately 764,090 sq.m. and a planned GFA of approximately 1,962,806 sq.m. We hold a 49% equity interest in the joint venture.

Guangzhou Asian Games City

On June 24, 2010, we, Agile, Country Garden Holdings Company Limited (“Country Garden”), R&F and CITIC South (Group) Co., Ltd. (“CITIC South”) entered into certain agreements relating to the transfer of equity interests in the joint venture company developing the Guangzhou Asian Games City. The project is situated in the Panyu District of Guangzhou City. The project occupies an estimated site area of 2.6 million sq.m. and has been approved for the development of residential and commercial properties with a total GFA of approximately 4.4 million sq.m. The project includes the Asian Games village with a GFA of approximately 1.06 million sq.m., comprising approximately 803,400 sq.m. of residential GFA, approximately 65,800 sq.m. of commercial GFA and infrastructural facilities of approximately 197,300 sq.m. of GFA (the “Asian Games Village”), and 14 plots of undeveloped land with an aggregate site area of approximately 545,906 sq.m. We hold a 20% equity interest in the joint venture.

Tianjin Jinnan New City

In August 2010, we entered into a joint venture agreement with KWG, Agile and R&F to develop the Tianjin Jinnan New City. The project is situated in Jinnan, Tianjin and expected to comprise high-rise residential buildings, hotels and commercial property, with a site area of approximately 1,289,200 sq.m. and a planned GFA of approximately 3,010,901 sq.m. We hold a 25% equity interest in the joint venture.

In July 2013, we entered into a joint venture agreement with KWG and China Resources Land Limited to develop Guangzhou FCC. The project is situated in Tianhe, Guangzhou and is expected to comprise high-rise commercial and office properties, with a site area of approximately 32,483 sq.m. and a planned GFA of approximately 389,800 sq.m. We hold a 33.3% equity interest in the joint venture.

Our Potential Projects

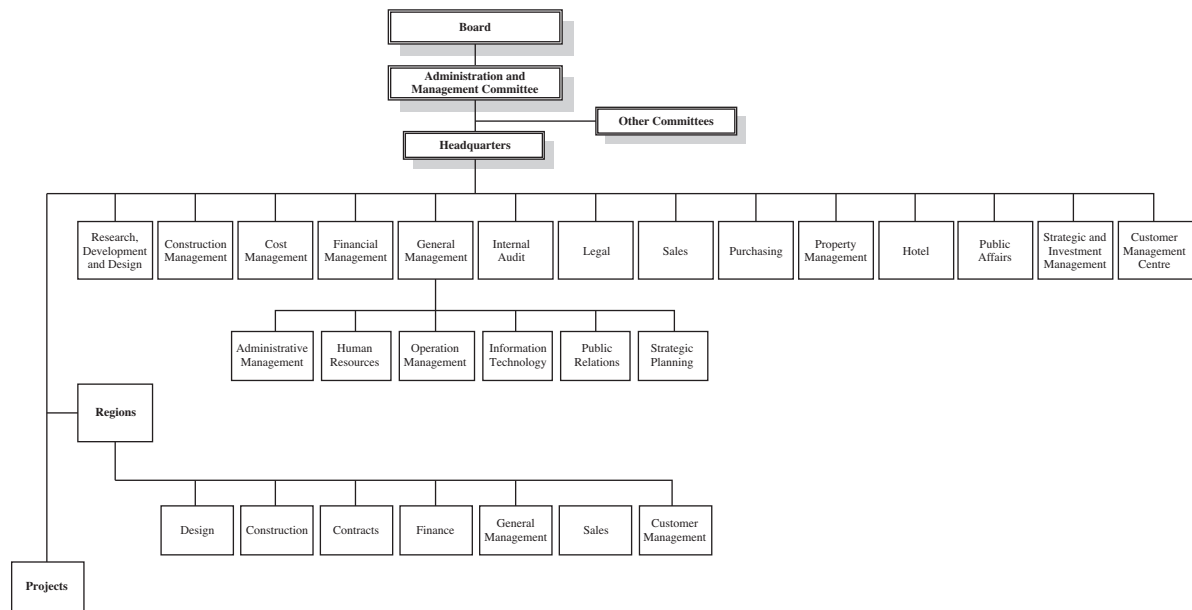
We are currently seeking development opportunities in other cities with growth potential, and continue to assess possible development opportunities in other locations in the PRC. We believe that our brand and expertise in developing high quality properties coupled with high economic growth and governmental incentives in these areas will allow us to increase our profitability and brand recognition. With regard to our potential projects, we are still at the preliminary stages of project selection and are conducting market research.

Project Development

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

Project Management

We set out below our project management structure:



We establish seven functional departments for each of our projects: design, construction, contracts, finance, general management, sales and customer management. The manager of each functional department at the project level reports directly to the project controller and the financial manager is supervised by the finance director. Each of the controllers, including the project controller, reports directly to the Administration and Management Committee.

Project Selection

In conjunction with our ongoing market and design research, we continuously work to identify and evaluate potential sites for new projects. We assess land parcels for use in potential projects based on our analysis of, among other things:

- size, shape and location of the land parcel;

- local customer demand and expected growth of the city in which the land is located;
- transportation access and infrastructure support;
- project evaluation according to our internal pre-determined criteria;
- development prospects, taking into account social, economic and environmental effects;
- timing and cost of relocating existing occupants;
- applicable zoning regulations and government preferential policies; and
- government development plans for the relevant site and the neighboring area. Once we decide to acquire a piece of land, we prepare a feasibility report for approval by the Board.

Bidding/Tendering for Land

According to the Regulation on the Grant of State-owned Land Use Rights by Way of Tender, Auction and Putting Up for Bidding (招標拍賣掛牌出讓國有土地使用權規定) promulgated on May 9, 2002, and amended on September 28, 2007, all land to be developed for commercial purposes, such as business, tourism, entertainment and commodity residential housing, must be granted by way of tender, auction or bidding. When deciding to whom the land use rights should be granted, the relevant authorities will consider not only the tender price but also the credit history and qualifications of the developer and its tender proposal.

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

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

According to the Notice on the Issues Regarding Tightening the Control and Supervision of Real Estate Land Supply (關於加強房地產用地供應和監管有關問題的通知) issued by the Ministry of State Land and Resources on March 8, 2010, property developers are required to enter into the land grant agreement within ten working days after the land transaction is confirmed. This notice also stipulated that the minimum down payment of the land premium should be 50% of the total land premium, which must be paid within one month after execution of the land grant agreement, and the remaining balance should be paid in accordance with the agreement, but not later than one year.

Pursuant to the Notice on Further Strengthening of Real Estate Credit Administration (Yin Fa [2003] No.121) (關於進一步加強房地產信貸業務管理的通知(銀發[2003]121號文)) issued by the PBOC on June 5, 2003, construction loans are linked to the credit-worthiness and financial position of a property developer and the progress of projects. As this notice prohibits commercial banks from advancing loans to fund the payment of land premium, our Directors believe that it has become more difficult for developers in poor standing or a weak financial position to obtain financing for land acquisitions. As a result, we typically target land for large-scale developments which we believe fewer developers have the financial resources and necessary experience to acquire and develop.

On September 21, 2010, the Ministry of Land and Resources and the MOHURD jointly promulgated the Notice on Further Strengthening Control and Regulation of Land and Construction of Property Development (關於進一步加強房地產用地和建設管理調控的通知), which stipulated, among others, that developers and their controlling shareholders are prohibited from participating in land biddings before the rectification of misconducts, including (1) illegal transfer of land use rights; (2) failure to commence required construction within one year from the delivery of land under land grant contracts due to their own business reasons; and (3) non-compliance with the land development requirements specified in land grant contracts.

On May 13, 2011, the Ministry of Land and Resources promulgated Opinions Regarding Upholding and Improvement of the Systems for the Granting of Land through Tender, Auction and Listing-for-sale (關於堅持和完善土地招標拍賣掛牌出讓制度的意見), which impacts policies related to the tender, auction and listing of land in the following aspects:

- (1) restricting the housing prices or land prices and granting land to be used for policy-based housing through listing or auction;
- (2) prescribing a limit on the construction floor area for affordable housing built in conjunction with, and granting the land to be used for, commodity housing through listing or auction; and
- (3) conducting comprehensive assessments of the conditions for development and utilization of land and the price for granting of lands, and determining the person with land use right through tender.

Pre-construction

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

- land use rights certificate (國有土地使用證). A certification of the right of a party to use a parcel of land. In Shanghai or some other cities, a real estate title certificate (房地產權證) will be issued instead;
- construction land planning permit (建設用地規劃許可證). A permit authorizing a developer to begin the survey, planning and design of a parcel of land;
- construction works planning permit (建設工程規劃許可證). A certificate indicating government approval for a developer's overall planning and design of the project and allowing a developer to apply for a work commencement permit (建設工程施工許可證);
- work commencement permit (建設工程施工許可證). A permit required for commencement of construction; and
- pre-sale permit (預售許可證). A permit authorizing a developer to start the pre-sale of property still under construction.

We have obtained all the required land use rights certificates and permits for our existing properties under development taking into account their respective stages of development at such date.

Financing of Projects

We finance our projects primarily through capital contributions from our shareholders, bank loans and internal cash flows, including proceeds from the pre-sale of our properties and the proceeds from our initial public offering. According to guidelines issued by the CBRC, no loan shall be granted to projects which have not obtained the relevant land use rights certificates, construction land planning permits (建設用地規劃許可證), construction works planning permits (建設工程規劃許可證) and work commencement permits (建設工程施工許可證). The guidelines also stipulate that not less than 35% of the total investment in a property development project must come from a real estate developer's own capital for the development project (項目資本金) in order for banks to extend loans to the real estate developer. Our policy is to finance our property developments with internal resources to the extent practicable so as to reduce the level of external funding required. As of June 30, 2014, our outstanding borrowings amounted to RMB54,698.3 million (US\$8,817.2 million).

Project Design

We contract out the project design work for our property developments to reputable architectural and interior design firms (the "External Team") which are selected through a tender process. Our Works and Bidding/Tendering Management Committee is responsible for organizing and monitoring the tender process for major contracts (tenders with a value of over RMB5 million) or commercial tenders of similar value. The committee also manages the selection process for the tenders. Our in-house design department then works with the selected External Team to determine the design of a particular property development by taking into account certain factors such as:

- proposed type of development
- target market;
- size and surrounding area of the site; and
- advice provided by our sales and marketing department on the expectations of our target market.

Once the master design concept for a project is established, our in-house design department will collaborate with the External Team to transform the concept into a more detailed design drawing (the "Design Development Document"). This is a crucial part of the design process. The Design Development Document must be approved by the relevant PRC governmental authorities. Once approved, the Design Development Document then becomes the basis for the detailed design and construction of the project.

Our design department also works with the project engineers and our building material procurement team to develop and determine the appropriate building methods and materials so that project costs can be controlled and our developed properties are more likely to be accepted by the targeted markets.

During the construction phase, our design department works closely together with the contractors, the project engineers and the External Team to manage and oversee the project's progress. In addition to focusing on the functional and aesthetic aspects of a project, our design team also provides constant site supervision and conducts progress audits in order to ensure that construction progresses according to the design plan and schedule.

Resettlement

Resettlement in respect of most of our project developments (except for our Shanghai Shimao Riviera Garden) is carried out by the relevant local governments pursuant to specified time schedules for the delivery of the land to us as agreed and reflected in our land grant contracts. The relevant local governments are in the process of resettling the residents on the land in Wuhan Shimao Splendid River, Phase 2 of Nanjing Shimao Riviera New City, Xuzhou Shimao Dongdu, Dalian Lvshunkou project, Dalian Shimao Dragon Bay,

Dalian Shimao Glory City, Mudanjiang Shimao South Bund and Wuxi Shimao The Capital. Upon delivery of land (and the accompanying land use rights certificates) to us, we will pay the corresponding portion of the land premium according to the relevant land grant contract but there are no additional resettlement costs that will be incurred by us in relation to these projects.

Construction

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

According to the PRC Tender Law (中華人民共和國招標投標法), which became effective on January 1, 2000, and the Rules on the Tender Scopes and Criteria for Construction Projects (工程建設項目招標範圍規模標準規定), the selection of construction companies with respect to certain construction projects must be carried out using a bidding process. Such bidding process must be carried out for commodity housing projects which have an estimated total investment amount of RMB30 million or more, or which have any of the following contracts: (1) a single construction contract with an estimated contract price of RMB2 million or more; (2) a single contract for the purchase of key equipment and material with an estimated contract price of RMB1 million or more; or (iii) a single contract for the outsourcing of surveying, design, supervision and other services with an estimated contract price of RMB500,000.

The Group has selected its construction companies in accordance with a strict selection process as detailed below:

- Our project controller and consultants, in conjunction with our contracts department and the relevant supporting technical team, recommend a list of contractors to our Group's senior management.
- Such recommended contractors are then invited to provide information in relation to, for example, their previous experience, financial status and size and composition of their project management team.
- Based on the information provided by the contractors, our technical, design and contract departments then prepare a shortlist of contractors to be invited to submit tenders ("Invitees").
- We issue a tender notice to the Invitees.
- Upon receipt of the tender documents submitted by the Invitees, our engineers, quantity surveyors and the contracts department, together with relevant consultants in certain cases (together, the "Tender Team") will analyze the tender documents and prepare a report.
- The Tender Team conducts interviews with the Invitees to discuss in detail the scope of work required for the project and the specifications.
- The project manager recommends a candidate for the senior management's approval based on the Tender Team's analysis report and interviews.

Our construction contracts generally provide for progressive monthly payments during construction until a specified maximum percentage of the total contract sum is paid. The remaining balance, except for 5% of the contract sum which we withhold for two to three years from completion to apply against any expenses incurred as a result of any construction defects, is payable upon satisfactory completion of work. Our standard construction contract also includes express terms on construction schedule, cost and work quality. Under the standard construction contract, the general contractors are required to indemnify us for any losses we incur as a result of construction defects or delay and, in the latter case, the general contractors are required to pay default interest on a daily basis. We also request the general contractors to provide performance bonds in a sum equal to 10% of the construction cost as stated in the construction contract.

Quality Control and Construction Supervision

As of October 31, 2014 we employed 277 qualified architects to carry out the functions of design, quality control and construction supervision of the Group. We place a strong emphasis on quality control to ensure that our properties comply with relevant regulations and are of high quality. These procedures are strictly followed by our functional departments, project companies and by our construction supervisors. As part of our quality control procedures, it is our policy to only contract with reputable design and construction companies.

We purchase major materials, such as doors, windows, sanitary fittings and kitchen cabinets directly, while the general contractors procure the more basic building materials, such as cement and steel. With respect to the materials we purchased, particularly those that are in large volumes, we seek to utilize our centralized procurement function to strengthen our negotiating position with suppliers of these materials. The general contractors procure most of the equipment necessary for each project in accordance with our specifications. We do not own any construction equipment and do not maintain any inventory of building materials. To maintain quality control, we employ very strict procedures for selection, inspection and testing of materials. Our project management teams inspect all equipment and materials to ensure compliance with the contractual specifications before accepting the materials on site and approving payment. We reject materials which are below standard or that do not comply with our specifications and return them to the suppliers. To ensure quality and monitor the progress and workmanship of construction, each project has its own on-site project management team, which comprises qualified engineers led by our project controller. As of October 31, 2014, we employed 718 qualified engineers. Our project management teams provide on-site supervision of the project. We also engage independent quality supervisory companies to conduct quality and safety control checks on all building materials and workmanship on site.

Our construction controller is responsible for the supervision of the construction of our properties and ensuring that our properties meet a specified standard upon completion. In addition, prior to handing over a property to our customers, our sales and customer service departments together with our engineers and the relevant property management partners will inspect the property.

Pre-sale

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

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

The Ministry of Construction and the NDRC jointly issued the Notice of Further Rectifying the Trade Order of Real Estate Transactions (關於進一步整頓規範房地產交易秩序的通知) on July 6, 2006, which provides that real estate development enterprises shall commence the sale of commodity residential properties within 10 days after obtaining the pre-sale permit.

According to the Notice on Further Enhancing the Supervision of the Real Estate Market and Improving the Pre-sale System of Commodity Housing (關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知) issued by the MOHURD on April 13, 2010, the property developers are not allowed to charge the purchasers any deposit, pre-payment or payment of the similar nature prior to obtaining the pre-sale permit.

In addition, the Shanghai governmental authority promulgated a policy on October 7, 2010 to put more stringent requirements on the pre-sale of projects, such as: (i) commercial housing projects which obtain a construction work commencement permit after July 1, 2010 shall not be permitted to pre-sell until the main structural component of the building is completed and approved; (ii) the scope under a construction works planning permit and a work commencement permit, and the pre-sale scope of commercial housing shall not be less than 30,000 sq.m.; and (iii) projects of less than 30,000 sq.m. shall apply for and obtain a construction works planning permit, a work commencement permit and a pre-sale permit concurrently. On November 4, 2010, the Beijing government promulgated a notice which provided that, when applying for a pre-sale permit for commercial housing, developers shall (i) provide pre-sale programs with details including, among others, construction schedules, the pre-sale plans of the relevant projects, the portion of commercial housing to be retained by the developer and other pre-sale details; (ii) after obtaining the pre-sale permit, arrange for sales to proceed in strict accordance with the pre-sale programs, which shall also be posted publicly at the sales offices; and (iii) not change the pre-sale programs in principle.

We have complied with the relevant statutory requirements for pre-sale in all material respects. For details of the laws and regulations governing pre-sales, please refer to “Regulation—The Land System of the PRC—Pre-sale and Sale.”

Sales and Marketing

As of October 31, 2014 we had a dedicated sales and marketing team of over 1,200 employees responsible for determining the appropriate advertising and sales plans for our property developments. Our sales and marketing teams are responsible for conducting detailed analyses of market conditions, preparing promotional materials, conducting general promotional campaigns, recommending unit prices and pricing-related policies for our projects and coordinating and monitoring our relationship with the media. Our property sales planning is typically divided into three stages, as set out below:

- Planning stage—During the construction of our properties, our sales and planning and development departments will establish a sales team, train the team, and choose the agents to represent us in the relevant overseas cities. At this stage, our sales and planning and development departments will formulate a detailed sales plan including estimated selling prices, the selling period, number of units for sale and expense budget and refine our sales plans (the “Sales Plan”) previously prepared at the project selection stage;
- Sales stage—Our management committee together with our senior management will confirm the Sales Plan and the relevant functional departments will implement the Sales Plan. We commence pre-sales after we obtain the relevant pre-sale permits; and
- Review stage—On a regular basis, we review our sales performance by comparing our actual sales results against the Sales Plan. Where there are significant differences, our management committee will investigate the reasons and put in place remedial plans where appropriate.

We also undertake both direct and indirect marketing efforts such as advertising, participating in international real estate exhibitions and maintaining loyalty clubs to promote the “Shimao” brand. Our loyalty clubs currently have over 180,000 members. Through these loyalty clubs, we maintain close contact with our customers and encourage them to actively participate in referring potential purchasers to us. We work with companies which have reputable brands to hold social events for our customers. In respect of our hotels, we partner with the Hyatt Group, the Starwood Group, the InterContinental Group and Hilton Group to increase our access to an international customer network so as to broaden our customer base and further increase the international recognition of our “Shimao” brand.

We do not provide property sales agency services. We engage international property agents to promote our properties in Hong Kong, Taiwan, Southeast Asia, Japan, the United States, Canada, Australia and Europe.

In line with the market practice in the PRC, we usually commence pre-sales before completion of the entire project. Our pre-sales typically occur phase by phase and we use the pre-sale proceeds to fund a significant portion of the project construction cost for the relevant project.

For details of the laws and regulations governing pre-sales, please refer to the section headed “Regulation—The Land System of the PRC—Pre-sale and Sale.”

Handover

In relation to our properties for sale, after construction is completed, we will need to obtain a completion and acceptance certificate (竣工驗收證明) from the relevant local governments before we are able to hand over the properties to our customers. In Shanghai, there is an additional requirement for us to obtain a delivery certificate (交付使用許可證) in respect of our completed residential properties before handover can be effected. As required by the applicable regulations, we provide, without charge, both the “Internal Furnishing Quality Control Certificate” (室內裝修質量合格證書) and the “Air Quality Control Certificate” (室內空氣質量檢驗合格證書) to the owners of our residential units in Shanghai upon handover. The initial owners also receive a residence quality warranty against certain defects and a homeowner’s guidebook from us. We believe such certificates and warranty evidence our construction standards and have contributed to our high customer satisfaction rate.

Payment and End-user Financing

Purchasers of our properties can choose between payment by installments or lump sum payments. Where a purchaser chooses to pay by installments, at least 30% of the purchase price is typically required to be made as a down payment when the sales contract is entered into. Mortgages will be arranged for the remaining purchase price and the full purchase price must be paid within six months from the date of the sales contract or by the delivery of the unit whichever is earlier. In line with market practice, we have arrangements with various banks for the provision of mortgage facilities to our purchasers and we provide guarantees for these mortgages until completion of construction and the relevant property ownership certificates and certificates of other interests in the property are submitted to the relevant banks.

In line with industry practice, we do not conduct independent credit checks on our purchasers but rely on credit checks conducted by the relevant bank. To date, there have only been a few cases of default on residential mortgages guaranteed by us. We were subsequently involved in legal proceedings with respect to these defaults and successfully recovered our claims. As a result, we did not suffer any financial loss from these defaults. For more details on the risks associated with guaranteeing mortgages, please refer to the section headed “Risk Factors—Risk Relating to Our Business—We guarantee mortgage loans of our customers and may be liable to the mortgage banks if our customers default on their mortgage payments”.

After-sale Services

We have a specialized customer service team designated to provide comprehensive after-sale services to our customers, which include assistance in financing applications, title registration and obtaining relevant title certificates. We also engage international property management partners to provide a high standard of property management and after-sale services to our customers. In addition, we have engaged Shanghai Shimao Property Services (Nanjing) Co., Ltd., in which we hold a 100% interest, to provide property management services to Kunshan Shimao Butterfly Bay and Changshu Shimao The Center.

Our Hotels and Investment Properties

Overview

We focus on large-scale property development projects, many of which have a combination of residential, hotels, retail and office properties. All of our residential properties are held for sale, while our hotels and some of our retail and office properties are held for investment purposes. In recent years, we have expanded into the hotel, retail and office property sectors.

Hotels

We developed and hold three hotels in Shanghai, namely, the Le Méridien Sheshan Shanghai, the Le Royal Méridien Shanghai and the Hyatt on the Bund Shanghai, two in Shaoxing, namely the Shaoxing Shimao Holiday Inn and Crowne Plaza Shaoxing, one in Mudanjiang, namely the Mudanjiang Holiday Inn, one in Nanjing, namely the Hilton Nanjing Riverside, one in Wuhu, namely Doubletree by Hilton Wuhu and one in Fuzhou, namely the InterContinental Fuzhou, which are operated by our hotel operating management partners. We are also developing or planning to develop a number of other hotels in Shanghai, Xuzhou, Taizhou, Shaoxing, Ningbo, Yantai, Tianjin, Wuhan, Shenyang, Changsha, Fuzhou, Jinjiang and Xiamen. We intend to hold these hotels for investment purposes when they are completed. We have already entered into management contracts with the InterContinental and Hilton Groups with respect to a number of these hotels. We plan to enter into similar management contracts for some of our other hotels that are under development or planning. In return for managing and operating these hotels, we agree to pay our hotel operating management partners a basic management fee based on a percentage of the relevant hotel's total revenue, and an incentive fee with reference to the relevant hotel's gross operating profit. In addition, we have established our own hotel management company to manage some of our other hotels under development or currently being planned.

In October 2010 and April 2011, we entered into two agreements with Hilton Worldwide in Shanghai covering global strategic hotel management cooperation. Under the agreements, we will cooperate with Hilton Worldwide in the development of the "Hilton," "Double Tree by Hilton" and "Conrad" brands at hotels in more than ten tier-one and tier-two cities in China, including Tianjin, Nanjing, Wuhan, Shenyang, Yantai, Wuxi, Xiamen, Changsha and Ningbo. Hilton Nanjing Riverside opened in December 2011, Doubletree by Hilton Wuhu opened in November 2013 and Crowne Plaza Shaoxing opened in March 2014.

In October 2012, we registered a series of "Yu Hotels" trademarks in the PRC and intend to manage some of our hotels under development or planning through our own hotel management company under "Yu Hotels" brand name.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, we had 2,689, 2,689, 2,689 and 3,904 guest rooms, respectively.

The table below sets out certain information relating to our hotels which had been completed, as of June 30, 2014:

	Hotel GFA (sq.m.)	Number of rooms	Ownership interest	Management partner	Date of commencement	Term under the operating management agreement
Le Méridien Sheshan Shanghai .	69,328	327	100%	Starwood	November 2005	10 years from the date of full opening, renewable for a further five years
Le Royal Méridien Shanghai	99,696	770	100%	Starwood	September 2006	10 years from the date of full opening, renewable for a further five years
Hyatt on the Bund Shanghai	100,972	631	100%	Hyatt	June 2007	20 years from the date of full opening
Mudanjiang Holiday Inn	32,630	266	100%	InterContinental	December 2010	10 years from the date of full opening, renewable for a further 10 years
Shaoxing Shimao Holiday Inn .	29,790	284	64.2%	InterContinental	September 2011	10 years from the date of full opening, renewable for a further 10 years
Hilton Nanjing Riverside.....	77,296	411	82.1%	Hilton	December 2011	15 years from the date of full opening, renewable for a further 10 years

	Hotel GFA (sq.m.)	Number of rooms	Ownership interest	Management partner	Date of commencement	Term under the operating management agreement
DoubleTree by Hilton Wuhu	63,702	442	100%	Hilton	November 2013	15 years from the date of full opening, renewable for a further 10 years
InterContinental Fuzhou	64,690	453	100%	InterContinental	January 2014	10 years from the date of full opening, renewable for a further 10 years
Crowne Plaza Shaoxing.....	74,277	320	100%	InterContinental	March 2014	10 years from the date of full opening, renewable for a further 10 years

The table below sets out certain information relating to our hotels which were under development or planning as of June 30, 2014:

	Estimated Date of Completion	Estimated Hotel GFA (sq.m.)	Estimated Number of Rooms	Ownership Interest	Management Partner
Doubletree by Hilton Ningbo Beilun.....	2015	58,000	380	100%	Hilton
Doubletree by Hilton Ningbo Chunxiao	2014 ⁽²⁾	53,436	210	100%	Hilton
InterContinental Shanghai Wonderland.....	2016	62,172	338	64.2%	InterContinental
Hilton Wuhan Riverside.....	2014 ⁽²⁾	63,702	327	96.1%	Hilton
Hilton Tianjin.....	2015	79,726	300	100%	Hilton
Hilton Shenyang	2015	58,498	332	100%	Hilton
Hilton Yantai	2015	59,944	331	100%	Hilton
Conrad Xiamen	2015	60,000	241	81%	Hilton
Hilton Changsha	2017	51,606	366	50%	Hilton
Yu Luxe Hotel Taizhou.....	2014 ⁽²⁾	43,391	261	100%	Yu Hotels ⁽¹⁾
Yu Luxe Hotel Xuzhou	2015	31,790	204	100%	Yu Hotels ⁽¹⁾
Yu Luxe Hotel Fuzhou Riverside	2015	45,000	300	100%	Yu Hotels ⁽¹⁾
Yu Luxe Hotel Jinjiang	2017	48,000	300	100%	Yu Hotels ⁽¹⁾
Yu Luxe Hotel Yuyao.....	2017	30,000	200	70%	Yu Hotels ⁽¹⁾

Notes:

1. We plan to manage these hotels by our own hotel management company under the brand name of “Yu Hotels.”
2. Construction of this hotel has been completed and the hotel is expected to commence operations in 2015.

Our hotel department is responsible for formulating the strategies for hotel operations. For certain of our hotels, in particular the high-end hotels, our strategy is to enter into hotel management agreements with international hotel operators. In selecting our hotel management partners, we consider their relevant experience, reputation and track records. We believe that by partnering with international hotel operators, we are able to enhance the image of our hotels, and benefit from our partners’ expertise in hotel management and their global marketing, advertising and procurement capabilities. The hotel management partners are responsible for managing the daily operation of the hotels in all aspects, including recruiting and training of staff members and setting room rates and other charges and the strategies of the hotels. Our target customers are mid- to high-end international and domestic travelers. For some hotels in second-tier cities, we plan to manage them through our own hotel management company.

We expect to continue to receive recurring income stream from the operation of the hotels, including income derived from room rent, food and beverage sales and provision of other goods and services in our hotels.

Investment Properties

As of June 30, 2014, we had a total GFA of approximately 593,636 sq.m. of properties available for rent, of which substantially all had been rented out. The table below sets out certain information relating to our completed investment properties, including those that have been reclassified as investment properties, as of June 30, 2014:

Property	Location	Total rentable GFA (sq.m.)	Date of completion	Ownership interest attributable to us (%)
Shanghai Shimao International Plaza	Shanghai	71,239	May 2007	100%
Beijing Shimao Tower	Beijing	70,175	April 2006	64.2%
Changshu Shimao The Center	Changshu	43,357	January 2009	64.2%
Shanghai Shimao Shangdu	Shanghai	9,584	November 1996	64.2%
Suzhou Shimao Canal Scene	Suzhou	49,993	June 2010	64.2%
Kunshan Shimao Plaza	Kunshan	88,249	September 2009	64.2%
Wuhu Shimao Plaza Project	Wuhu	19,963	September 2009	64.2%
Shaoxing Shimao Mall	Shaoxing	181,605	May 2010	93.79%
Xuzhou Shimao Plaza	Xuzhou	59,471	March 2011	64.2%
Total.....		<u>593,636</u>		

The table below sets out certain information relating to our investment properties under development and held for future development as of June 30, 2014:

Property	Location	Total planned rentable GFA (sq.m.)	Estimated date of completion	Ownership interest attributable to Us (%)
Shanghai Shimao Theme Park	Shanghai	50,600	2015	64.2%
Hangzhou Shimao Plaza Project	Hangzhou	52,042	2015	64.2%
Wuhan Shimao Carnival	Wuhan	188,570	2015	64.2%
Suzhou Shimao Canal Scene	Suzhou	135,125	2015	64.2%
Shenyang Shimao Plaza Project	Shenyang	50,242	2016	64.2%
Xiamen Shimao Tower	Xiamen	88,575	2015	99.46%
Jinan Shimao Plaza Project	Jinan	110,713	2014 ⁽¹⁾	100%
Changshu Shimao The Center	Changshu	<u>73,657</u>	2015	64.2%
Total.....		<u>749,524</u>		

Note:

(1) Construction of this investment property has been completed and this investment property has been in operations since the second half of 2014.

We have a leasing department which is responsible for formulating the strategies for our rental properties. Our current strategy is to enter into long-term tenancy agreements with anchor retail tenants and operation management agreements with retail property operators for the entire retail properties which we hold for investment purposes. In selecting our anchor retail tenants or retail property operators, we consider their relevant experience, reputation and track records. We believe that anchor retail tenants and retail

property operators are able to provide expertise in retail management, promote the image of our rental properties and also reduce the administrative responsibility of having to liaise with individual tenants directly. The anchor retail tenants and retail property operators are responsible for all aspects of managing the daily operation of the shopping mall, including recruiting and training staff for the shopping mall and coordinating the leasing and subleasing of business. Our target tenants and subtenants are mid to high-end retail stores, restaurants and supermarkets.

According to our strategy for our retail properties, we have entered into an operation management agreement with Shanghai Brilliance (Group) Co., Ltd. (“Shanghai Brilliance”) as the operator in relation to Phases 1 and 2 of the shopping mall at Shanghai Shimao International Plaza. In return for managing the operation of the shopping mall, we pay Shanghai Brilliance a fixed monthly management fee subject to adjustment at year end with reference to the turnover of the shopping mall. Shanghai Brilliance will guarantee a minimum level of turnover, less certain operational costs, and will reimburse us for any such shortfall.

In addition, we have entered into strategic cooperation partnership agreements with over 1,066 strategic retail partners including McDonalds, Starbucks, Watsons, Decathlon, B&Q, Auchan, Parkson, Warner Brothers, Mister Donut, Haoledi KTV and Esprit in relation to our rental properties, under which these domestic and international retailers from various segments rent our properties for a specified period, generally from three years to 20 years with an option to extend upon mutual consent. In return, we develop properties which meet the requirements of our strategic retail partners. We intend to enter into similar strategic cooperation partnership agreements, in addition to long-term tenancy agreements with anchor retail tenants and operation management agreements with retail property operators, prior to or upon the completion of our other retail properties which are to be held for investment purposes.

Information Management

In 2013, we adopted an information technology system, namely, the SAP system, to implement visual process management and control over our projects, which has been officially launched throughout the Group. The SAP system warns deficiencies and vulnerabilities in an enterprise’s internal control. Since guidelines for different operational processes are automatically generated by the system, we believe we will be able to regulate and standardize our operations to ensure full control of our projects. The SAP system will also bring a robust integrated data platform since data that was previously scattered across various departments and management levels will be centralized, extracted and analyzed in an unified manner by the central processor, providing us with accurate information to support our strategic decision-making.

Competition

The market for real estate development in China has evolved significantly over the past decade. In addition to Chinese real estate developers, a number of overseas real estate developers are active in China. In April 2004, the PRC government announced a six month moratorium on land auctions. In June 2004, the PRC government further issued policies to reduce the number of property projects that involve redevelopment or relocation of existing residents. These policies further increased competition among real estate developers as the amount of land available for property development was reduced. See “Risk Factors—Risks Relating to Our Business—Increasing competition in the PRC, particularly in the Yangtze River Delta and the Bohai Rim, may adversely affect our business and financial condition” and for details of the policies, see “Regulation—The Land System of the PRC—National Legislation” and “Regulation—The Land System of the PRC—Resettlement.”

Our existing and potential competitors include major domestic State-owned and private developers and foreign real estate developers (including leading developers listed in Hong Kong) who focus on the high-end and/or upper mid-tier property markets in China. We believe that through our experience in developing large scale, high quality properties and our in-depth understanding of the Chinese real estate market, we will be able to react more quickly when competing with these property developers to identify and secure desirable opportunities.

Intellectual Property

We place significant emphasis on developing our brand image and resort to extensive trademark registrations to protect all aspects of our brand image. As of June 30, 2014, we had registered 175 trademarks in the PRC, six trademarks in the United Kingdom and 25 trademarks in Hong Kong. “Shimao” and “世茂” are our primary trademarks. We have also registered a device with respect to such primary trademarks.

Under Hong Kong and PRC law, a registered trademark owner has exclusive rights in the registered trademark. Any unauthorized use of a registered trademark (unless such use constitutes “fair use” as defined by law), will constitute infringement of the trademark owner’s exclusive right. The licensing agreements to be entered into pursuant to a trademark framework agreement will be governed by Hong Kong or PRC law, and the courts of Hong Kong or the PRC (as applicable) will have exclusive jurisdiction to settle any disputes arising under these agreements.

Insurance

With respect to our properties under development over which our lending banks have security interests, we obtained insurance coverage in accordance with the requirements of the loan documents. We do not, however, maintain property damage or third-party liability insurance for our other property developments. Under PRC law, these types of insurance are not mandatory. With respect to our completed residential properties managed by our property management companies, we maintain insurance to cover losses arising from fire, asset damages and third party liabilities until the properties are sold and delivered to our customers. Our completed residential properties managed by third parties are typically insured by such third party property management companies, and we do not maintain insurance for such properties. With respect to our completed investment properties and hotels, we maintain a variety of insurance policies, including fire insurance, all-risk insurance and asset insurance. We also maintain business disruption insurance policies for our owned shopping malls. In addition, we maintain on a voluntary basis personal accidental insurance and supplementary commercial medical insurance for our employees. We may re-evaluate the risk profile of the property markets and adjust our insurance practice from time to time.

Employees

As of October 31, 2014, we had 3,694 full time employees. The following table provides a breakdown of our employees by responsibilities as of October 31, 2014:

Accounting	354
Administration	128
Auditing	25
Corporate Affairs	6
Cost Control (Construction)	347
Design, Quality Control and Construction Supervision	277
Engineering	718
Human Resource	122
Information Technology	41
Investment Development.....	147
Legal	43
Management	24
Marketing and Sales	1,205
Operation Management	32
Procurement	51
Project Management.....	59
Strategy Planning	8
Hotel Management	74
Business Management	33
Total	<u>3,694</u>

The remuneration package of our employees includes salary, bonus and other cash subsidies. In general, we determine employee salaries based on each employee's qualification, position and seniority. We have designed an annual review system to assess the performance of our employees, which forms the basis of our determination on salary raise, bonus and promotion. We are subject to social insurance contribution plans organized by the PRC local governments. In accordance with the relevant national and local labor and social welfare laws and regulations, we are required to pay on behalf of our employees monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and housing reserve fund. We believe the salaries and benefits that our employees receive are competitive in comparison with market rates.

Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. We believe our relationship with our employees is good. We have not experienced significant labor disputes which adversely affected or are likely to have an adverse effect on our business operations.

Environmental Matters

We are subject to PRC national environmental laws and regulations as well as environmental regulations promulgated by local governments. These include regulations relating to air pollution, noise emissions and water and waste discharge. Please refer to the section headed "Regulation—the Land System of the PRC—Environmental Protection" for details of these environmental laws and regulations. Each of our property developments is required to undergo environmental assessments and submit the related environmental impact assessment document to the relevant government authorities for approval prior to the commencement of property development. For certain of our projects, we did not submit the environmental impact assessment documents although we have obtained the relevant government approvals to commence the development of these projects. See "Risk Factors—Risks Relating to Our Business—Potential liability for environmental problems could result in substantial costs." On the completion of each property development, the relevant government authorities inspect the site to ensure that applicable environmental standards have been complied with, and the resulting report is then presented together with other specified documents to the local construction administration authorities for their record. We have not experienced any problems in the inspections conducted by the relevant authorities upon handover of our properties.

Legal Proceedings

We have been involved in disputes with various parties involved in the construction, development and the sale of our properties, including contractors, suppliers, construction workers, joint venture partners and property purchasers, in the ordinary course of business. We are not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to us to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

REGULATION

The Land System of the PRC

All land in the PRC is either State-owned or collectively-owned, depending on the location of the land. All land in the urban areas in a city or town is State-owned, and all land in the rural areas of a city or town and all rural land is, unless otherwise specified by law, collectively-owned. The State has the right to resume land in accordance with law if required for the benefit of the public.

Although all land in the PRC is owned by the State or by collectives, private individuals, enterprises and other organizations are permitted to hold, lease and develop land for which they are granted land use rights.

National Legislation

In April 1988, the Constitution of the PRC (the “Constitution”) was amended by the National People’s Congress (全國人民代表大會) to allow for the transfer of land use rights for value. In December 1988, the Land Administration Law (中華人民共和國土地管理法) of the PRC was amended to permit the transfer of land use rights for value.

Under the Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State-owned Land in Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例) (“Urban Land Regulations”) promulgated in May 1990, local governments at or above county level have the power to grant land use rights for specific purposes and for a definite period to a land user pursuant to a contract for the grant of land use rights upon payment of a grant premium.

Under the Urban Land Regulations, there are different maximum periods of grant for different uses of land. They are generally as follows:

<u>Maximum period use of land</u>	<u>In years</u>
Commercial, tourism, entertainment.....	40
Residential	70
Industrial.....	50
Public utilities.....	50
Others	50

Under the Urban Land Regulations, all local and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The State may not resume possession of lawfully granted land use rights prior to expiration of the term of grant. If public interest requires the resumption of possession by the State under special circumstances during the term of grant, compensation must be paid by the State. A land user may lawfully assign, mortgage or lease its land use rights to a third party for the remainder of the term of grant.

Upon expiration of the term of grant, renewal is possible subject to the execution of a new contract for the grant of land use rights and payment of a premium. If the term of the grant is not renewed, the land use rights and ownership of any buildings thereon will revert to the State without compensation.

The National People’s Congress adopted the PRC Property Rights Law (中華人民共和國物權法) in March 2007, which became effective on October 1, 2007. According to the Property Rights Law, when the term of the right to use construction land for residential(but not other) property purposes expires, it will be renewed automatically.

In order to stop illegal occupation and abusive use of land, prevent overheating in investment in fixed assets in some areas, and implement strict protection of cultivated land, the General Office of the State Council (國務院辦公廳) issued the Urgent Notice on Further Governing and Rectifying Land Market and Strengthening Administration of Land (關於深入開展土地市場治理整頓嚴格土地管理的緊急通知) on April 29, 2004.

The notice addresses issues including, (i) continuing the rectification of the land market by cooperation between the PRC Ministry of Land and Resources (authorities on problems existing in the grant of State-owned land use right by way of tender, auction and invitation for bidding; (ii) strictly administering approvals of construction land; (iii) protecting basic agricultural land; (iv) strictly implementing the general strategy and annual plan for land use, and the balance system for occupying and compensating cultivated land; and (v) actively promoting the reform of the administration system of land and resources. Also, according to the notice, the rectification of the land market will take approximately half a year from the issuance of the notice. Approvals for converting agricultural land to non-agricultural construction land will be suspended throughout China during this period, except for certain major public infrastructure projects which shall be approved by the State Council.

On March 26, 2005, the General Office of the State Council promulgated a Notice on Effectively Stabilizing House Prices (關於切實穩定住房價格的通知) to restrain the excessive growth of house prices and promote the sound development of the real estate market. The notice provided that housing prices should be stabilized and the system governing housing supply should be vigorously adjusted and improved. In accordance with the notice, seven departments of the State Council including the Ministry of Construction issued an Opinion on the Work of Stabilizing Housing Prices (關於做好穩定住房價格工作的意見) on April 30, 2005. The opinion stated, amongst the others, that: (i) the local government should focus on increasing the supply of low to medium-end ordinary residential houses while controlling the construction of high-end residential houses; (ii) to curb any speculation in the real estate market, business taxes would be levied from June 1, 2005 on the total revenue arising from any transfer by individuals of houses within two years upon their purchase thereof or on the difference between the transfer price and the original price for any transfer of non-ordinary houses (非普通住宅) by individuals after two or more years upon their purchase thereof; and (iii) the real estate registration department will no longer register the transfer of apartment units which are pre-sold, where such units have not obtained the relevant Real Estate Ownership Certificates.

On May 24, 2006, the General Office of the State Council further issued a Notice on Adjusting the Housing Structure and Stabilizing Housing Prices (關於調整住房供應結構穩定住房價格意見的通知). The notice provided for six broad measures including but not limited to the following specific directives to (i) encourage mass-market residential developments and to curb the development of high-end residential properties; (ii) enforce the collection of business taxes on property sales (business taxes will be levied on the entire sale price of any property sold within five years, or on the profit arising from any property sold after five years subject to possible exemptions for ordinary residential properties); (iii) restrict housing mortgage loans to not more than 70% of the total property price (for houses purchased for self-residential purposes and with an area of less than 90 sq.m., the owners are still able to apply for housing mortgage up to an amount representing 80% of the total property price); (iv) halt land supply for villas projects and restrict land supply for high-end, low density residential projects; (v) moderate the progress and scale of demolition of old properties for redevelopment; (vi) local governments are also required to ensure that at least 70% of the total development and construction area also must consists of units of less than 90 sq.m. in size (with any exceptions requiring the approval of the Ministry of Construction); and (vii) banks are not permitted to provide loans to a property developer whose total capital fund is less than 35% of the total investment amount in an intended development project. On August 30, 2006, the State Council published the Notice by the State Council on Strengthening the Regulation and Control of the Land (關於加強土地調控有關問題的通知), which regulates the management of land in the PRC and also the protection of cultivated land. According to the notice, land designated for industrial purposes shall be granted by way of tender, auction and putting up for bidding, but in any event shall not be sold below the reserve price.

In May 2006, the Ministry of Land and Resources published an Urgent Notice to Tighten Up Land Administration (當前進一步從嚴土地管理的緊急通知). In this notice, the Ministry of Land and Resources stressed that local governments must adhere to their annual overall land use planning and land supply plans and tighten up the control on land supply for non-agricultural use. The notice requires local governments to suspend the supply of land for new villa projects to ensure adequate supply of land for more affordable housing. In this notice, the Ministry of Land and Resources also required the local governments to conduct thorough investigations of illegal land use and submit a report on such investigations to the Ministry by the end of October 2006.

In September 2007, the Ministry of Land and Resources issued the Notice on Implementation of the State Council's Certain Opinions on Resolving Difficulties and Further Strengthening Macro-control of Land Supply (關於認真貫徹國務院〈關於解決城市低收入家庭住房困難的若干意見〉進一步加強土地供應調控的通知), pursuant to which, at least 70% of the land supply arranged by the relevant land administration authority at city or county level for residential property development for any given year must be used for developing low- to medium-cost and small-to medium-size units, low-cost rental properties and affordable housing.

In order to encourage the consumption of the ordinary residence and support the real estate developer to handle the market change, the General Office of the State Council issued the Several Opinions on Facilitating the Healthy Development of the Real Estate Market (關於促進房地產市場健康發展的若干意見) in December 2008. Pursuant to this opinion, in order to encourage the consumption of the ordinary residence, from January 1, 2009 to December 31, 2009, business tax is imposed on the full amount of the sale income upon the transfer a non-ordinary residence by an individual within two years from the purchase date. For the transfer of non-ordinary residence which is more than two years from the purchase date and ordinary residence which is within two years from the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after two years from the purchase date. Furthermore, individuals with an existing ordinary residence that is smaller than the average size for their locality may buy a second ordinary residence under favorable loan terms similar to first-time buyers. In addition, support for real estate developers to deal with the changing market is to be provided by increasing credit financing services to "low-to-medium-level price" or "small-to-medium-sized" ordinary commercial housing projects, particularly those under construction, and providing financial support and other related services to real estate developers with good credit standing for merger and acquisition activities.

In January 2010, the General Office of the State Council issued a Circular on Facilitating the Stable and Healthy Development of Property Market (關於促進房地產市場平穩健康發展的通知), which adopted a series of measures to strengthen and improve the regulation of the property market, stabilize market expectation and facilitate the stable and healthy development of the property market. These include, among others, measures to increase the supply of affordable housing and ordinary commodity housing, provide guidance for the purchase of property, restrain speculation of properties, and strengthen risk prevention and market supervision. Additionally, it explicitly requires a family (including a borrower, his or her spouse and children under 18), who have already purchased a residence through mortgage financing and have applied to purchase a second or more residences through mortgage financing, to pay a minimum down-payment of 40% of the purchase price.

On April 17, 2010, the State Council Issued Notice on Resolutely Containing the Excessive Hike of Property Price in Some Cities (堅決遏制部分城市房價過快上漲的通知) (the "April 17 Notice"), which provides that where the first home purchaser (including a borrower, his or her spouse and children under 18) buy a residence with a unit floor area of more than 90 sq.m. for self-use, the minimum down payment shall not be less than 30%; where for the second home buyers that use mortgage financing, it is required that the minimum down payment shall be 50% of the purchase price with minimum mortgage lending interest rate at the rate of 110% of the benchmark rate; where a third or further buyers that use mortgage financing, the minimum down payment and interest rate thereof shall be further substantially raised. The April 17 Notice,

further requires that in cities where property price is overly high with excessive price hike and strained house supply, commercial banks may in light of risk exposure suspend extending bank loans for a third or further buyers; also provision of housing loans shall be suspended to non-local residents who cannot present the local tax returns or social insurances certification of more than one (1) year.

On April 30, 2010, Beijing Municipal Government issued the Circular on Implementation of the Notice on Resolutely Containing the Excessive Hike of Property Price in Some Cities by the State Council (北京市人民政府貫徹落實國務院關於堅決遏制部分城市房價上漲文件的通知) in response to the April 17 Notice. Under the circular, one household is allowed to purchase only one residential property in Beijing, effective from the date of issuance of the Circular.

On May 26, 2010, the MOHURD, the PBOC and the CBRC jointly issued the Circular on Regulating the Criteria for Identifying the Second Housing Unit in Connection with Commercial Mortgage Loans (關於規範商業性個人住房貸款中第二套住房認定標準的通知), which provides, among others, that the number of housing units owned by an individual purchaser who is applying for mortgage loans shall be determined by taking into account of all housing units owned by the family members of such purchaser (including the purchaser and such purchaser's spouse and children under the age of 18), and that purchasers of second or subsequent housing units shall be subject to different credit policies when applying for mortgage loans.

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

- (i) at least 70% of land designated for construction of urban housing must be used for low-income housing, housing for resettlement of shanty towns and small to medium-sized ordinary commercial housing; in areas with high housing prices, supply of land designated for small to medium-sized, price-capped housing must be increased; prior to the satisfaction of the above, local authorities shall not supply land for the construction of high-end and large-sized housing;
- (ii) developers and their controlling shareholders are prohibited from participating in land biddings before the rectification of misconducts, including (1) illegal transfer of land use rights; (2) failure to commence required construction within one year from the delivery of land under land grant contracts due to their own business reasons; and (3) non-compliance with the land development requirements specified in land grant contracts;
- (iii) developers are required to commence construction within one year from the date of delivery of land under the relevant land grant contract and complete the construction within three years of commencement; and
- (iv) development and construction of projects of low-density and large-sized housing must be strictly limited and the plot ratio of the planned GFA to the total site area of residential projects must be more than 1:1.

On September 29, 2010, the PBOC and the CBRC jointly issued the Notice on Relevant Issues Regarding the Improvement of Differential Mortgage Loan Policies (關於完善差別化住房信貸政策有關問題通知), which (i) raised the minimum down payment to 30% for all first home purchases with mortgage loans, (ii) required commercial banks in China to suspend mortgage loans to customers for their third residential property purchases and beyond or to non-local residents who cannot provide documentation certifying payment of local tax or social security for longer than a one-year period, and (iii) restricted the grant of new project bank loans or extension of credit facilities for all property companies with non-compliance records of, among others, holding idle land, changing the use of land other than for its designated purpose, postponing construction commencement or completion or hoarding properties.

On November 2, 2010, the MOHURD, the Ministry of Finance and the PBOC jointly promulgated the Notice on Relevant Issues Concerning Policies of Regulation of Individual Housing Fund Loans (關於規範住房公積金個人住房貸款政策有關問題的通知), which provided that, among other things, (i) where a first

house purchaser (including the borrower, spouse and minor children) uses housing funds to buy an ordinary house for self-use with a unit floor area of (a) less than 90 sq.m. (and including 90 sq.m.), the minimum down payment shall not be less than 20%, (b) more than 90 sq.m., the minimum down payment shall not be less than 30%; (ii) for a second house purchaser that uses housing funds, the minimum down payment shall not be less than 50% with the minimum lending interest rate of 110% of the benchmark rate; (iii) the second housing fund loan shall be only available to families whose per capita housing area is below the average in the locality and such loan is only used to purchase an ordinary house for self-use to improve residence conditions; and (iv) housing fund loans to families for their third residential property and beyond are suspended.

On November 4, 2010, the MOHURD and the SAFE jointly promulgated the Notice on Further Regulating Administration of Purchase of Houses by Overseas Institutions and Individuals (關於進一步規範境外機構和個人購房管理的通知), pursuant to which an overseas individual can only purchase one house for self-use within the PRC and an overseas institution which had established a branch or representative office in the PRC can only purchase non-residential houses for business use in the city where it is registered within the PRC.

In December 2010, the Ministry of Land and Resources promulgated the Notice on Strict Implementation of Policies Regarding Regulation and Control of Real Property Land and Promotion of the Healthy Development of Land Markets (關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知), which, among other things, provides that (i) cities and counties that have less than 70% of their land supply designated for affordable housing, redevelopment housing for shanty towns or small/medium-sized residential units shall not provide land for large-sized and high-end housing before the end of 2010; (ii) local land and resources authorities shall file a transaction report with the Ministry of Land and Resources and provincial land and resources authorities, respectively, in relation to land sold via tender, auction and listing-for-sale with a 50% or more premium; and (iii) where land designated for affordable housing is used for the development of commodity properties, any illegal income derived therefrom shall be confiscated and the relevant land use rights shall be terminated. In addition, changing the plot ratio without approval is strictly prohibited.

On January 26, 2011, the General Office of the State Council issued the Notice on Relevant Issues of Further Improvement of the Control in Real Estate Market (進一步做好房地產市場調控工作有關問題的通知). This notice, among others, provides that:

- (i) individuals selling houses within five years of purchase will be charged business taxes on the full amount of the sale price of such houses, whether ordinary or non-ordinary;
- (ii) the minimum down payment for second house purchases is raised from 50% to 60%;
- (iii) the PRC government will forfeit the land use rights and impose an idle land fee of up to 20% of the land premium if a developer fails to obtain a 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, municipalities with independent planning status, provincial capitals and cities with high housing prices shall limit the number of homes that local residents can buy in a specified period. In principle, local resident families that own one house and non-local resident families who can provide local tax clearance certificates or local social insurance payment certificates for a required period are permitted to purchase only one additional house (including newly-built houses and second-hand houses). Sales of properties to (a) local resident families who own two or more houses, (b) non-local resident families who own one or more houses, and (c) non-local resident families who cannot provide local tax clearance certificates or local social insurance payment certificates for a required period, shall be suspended in local administrative regions.

In order to implement the Notice on Relevant Issues of Further Improvement of the Control in Real Estate Market, many cities have promulgated new measures to restrict the number of houses one family is allowed to purchase.

On February 16, 2011, the Beijing Municipal Government promulgated the Notice on Further Strengthening Control over Beijing Property Market (北京市人民政府辦公廳關於貫徹落實國務院辦公廳文件精神進一步加強本市房地產市場調控工作的通知), which, among other things, provides that (i) a local family that owns one house in Beijing (including a family that holds an effective Beijing Certificate for Work and Residence), and (ii) a non-local family with an effective Certificate for Temporary Residence that does not own a house in Beijing and has paid social insurance or individual income tax for five consecutive years, are permitted to purchase one additional house in Beijing (including newly-built and second-hand houses). Furthermore, (i) a local family that owns two or more houses in Beijing, and (ii) a non-local family that owns one house or more in Beijing, or fails to provide both an effective Certificate for Temporary Residence and evidence of payment of social insurance or individual income tax for consecutive five years, is suspended from purchasing a new house in Beijing. In addition to Beijing, other cities, including Shanghai, Nanjing, Qingdao, Chengdu and Harbin have also announced new purchase limit policies which are substantially similar to the requirements set forth in the Notice on Relevant Issues of Further Improvement of the Country in Real Estate Market.

In February 2011, the Ministry of Land and Resources promulgated the Notice on Implementation Measures on Urban Housing Land Management and Regulation in 2011 (關於切實做好2011年城市住房用地管理和調控重點工作的通知), which provides that construction land for 10 million affordable housing units shall be implemented in 2011. It also requires that the target for the total supply of urban housing land shall not be lower than the annual average supply for the preceding two years.

In February 2012, the Ministry of Land and Resources promulgated the Notice on Implementation Measures on Urban Housing Land Management and Regulation in 2012 (關於做好2012年房地產用地管理和調控重點工作的通知), pursuant to which, the target for the total supply of urban housing land shall not be lower than the annual average supply for the preceding five years.

On July 19, 2012, the Ministry of Land and Resources and MOHURD jointly issued the Urgent Notice to Further Tighten Up Real Estate Land Administration and Enhance the Achievements of Macroeconomic Control of the Real Property Market (關於進一步嚴格房地產用地管理鞏固房地產市場調控成果的緊急通知) to strengthen the enforcement of macroeconomic policy in the real property market, which requires that real estate land shall not be granted by exceeding the upper limit of land area or bundling such land with another land, and “undeveloped land” shall not be granted.

On September 6, 2012, the Ministry of Land and Resources promulgated the Notice on Strictly Implementing Land Use Standards and Vigorously Promoting Economical and Intensive Land Use (關於嚴格執行土地使用標準大力促進節約集約用地的通知), which stipulates, among other things, that: (a) land use standards shall be strictly implemented and continuously improved. For industrial and commercial land transferred through lawful public tender, auction and listing-for-sale, the administration of land and resources of cities and counties shall establish the requirements related to land use standards in the schemes and announcement of land grant, and include such requirements in land grant contracts and strictly enforce the requirements. Construction lands that are listed in the Catalog for Prohibited Land Use Projects, or that fail to conform to the prescribed conditions in the Catalog for Restricted Land Use Projects (限制用地項目目錄), or for which the intensity of investment, floor area ratio, construction coefficient, ratio of green land, or proportion of administrative offices and living facilities land fail to conform to relevant requirements for industrial projects or total area or each functional division area surpasses the required limits or the land area and floor area ratio fails to conform to the conditions of the residential land supply shall not pass the land approval, supply and use procedures; (b) the format and substantial content of land use standards shall be strictly examined; (c) the implementation of land use standards shall be further supervised and evaluated; and (d) the land use standards training program shall be given to the officials in land and resources authorities, and such the land use standards shall be widely publicized for the purpose of effectuation.

On November 5, 2012, the Ministry of Land and Resources, the Ministry of Finance, PBOC and CBRC jointly promulgated the Notice on Strengthening Land Reserves and Financing Administration (Guotuzi Fa [2012] No.162) (關於加強土地儲備與融資管理的通知(國土資發[2012]162號)) in order to strengthen administration by land bank authority, determine the reasonable scale and structure of land bank, strengthen the administration of land pre-development, reservation and protection, and regulate the financing to land reservation and the use of land reservation funds.

On February 26, 2013, the General Office of the State Council issued the Notice on Continuing Adjustment and Control of Property Markets (關於繼續做好房地產市場調控工作的通知) which requires, among other restrictive measures:

- (i) improving the responsibility system for stabilizing housing prices:

Municipalities directly under the central government, cities listed on state plans and provincial capitals (excluding Lhasa) must set up an annual objective for controlling housing prices and publish the annual new commodity housing price control target in the first quarter of the year.

- (ii) firmly restraining purchases of residential housing for investment and speculation purposes:

Municipalities directly under the central government, cities listed on state plans and provincial capitals (excluding Lhasa) which have implemented restrictions on the real estate market are required to designate all administrative areas of the cities as restricted areas, and restricted housing shall include new commodity housing and second-hand housing. Non-local residents who possess one or more residential properties and fail to provide one-year or longer tax payment certificates or social insurance payment certificates are to be barred from purchasing any residential properties located in the administrative area. For cities where housing prices are increasing at an excessive rate, local branches of PBOC may further raise the down payment rate and mortgage interest rate for the purchase of a second residential property. In addition, the state will strictly enforce a 20% tax on house sale profits according to laws and regulations.

- (iii) expanding ordinary commodity housing units and increasing the supply of land:

The overall housing land supply in 2013 in principle shall not be lower than the average actual land supply in the past five years. Financial institutions, subject to credit requirements, are to prioritize requests for loans for ordinary commodity housing construction projects in which small and medium housing units constitute 70% or more of the total units in such construction project.

- (iv) accelerating the planning and construction of affordable housing projects:

The task of completing 4.7 million units of urban affordable housing and commencing new construction of 6.3 million of such units shall be accomplished in an all-round manner in 2013. It is important to reinforce planning and the overall coordination, and strengthen allocation management.

- (v) strengthening market regulation and expectation management:

Starting from 2013, all regions shall raise the pre-sale threshold for commercial housing and reinforce the management of commercial housing pre-sale licensing so as to guide real estate developers to rationally determine house prices, and steadily push forward the reform of the commercial housing pre-sale system. All regions shall vigorously push forward the construction of an urban personal housing information system so that, in principle, all cities at and above the prefectural level shall be connected to each other via networks by the end of the “Twelfth Five-Year Plan” period.

On May 22, 2014, the Ministry of Land and Resources promulgated the Provisions on the Economical and Intensive Use of Land (節約集約利用土地規定), effective from September 1, 2014, which provides that land and resources authorities shall effectively control the scale of additional construction lands in cities with permanent resident population between five and ten million in urban districts; the supply of various lands under compensable use shall be not less than the lowest price standards; and it is prohibited to reduce or relieve the land grant price in a disguised form by way of exchanging projects with land, returning fees after collecting them or granting subsidies or awards.

On September 12, 2014, the Ministry of Land and Resources issued the Guiding Opinions on Promoting the Economical and Intensive Use of Land (關於推進土地節約集約利用的指導意見) (the “Opinions”). The Opinions set out major targets for the economical and intensive use of land, including controlling the quantity of land used for construction, optimizing land use structure and layout, achieving significant progress in the exploration and overall improvement of land reserves, and improving the system and mechanism for the

economical and intensive use of land. In order to achieve these targets, the Opinions also impose a series of requirements including deepening the reform of the system for the paid use of state-owned construction land, expanding the scope of state-owned land that can be used with compensation, gradually promoting the use of land with compensation for the construction of profit-making infrastructure and social undertakings, and narrowing the scope of land the supply of which is subject to allocation.

On September 29, 2014, the PBOC and the CBRC jointly issued the Circular on Further Improving Financial Services for Housing Consumption (關於進一步做好住房金融服務工作的通知), which provides that the down payment for the first time home purchase with mortgage loans or the home upgrade purchase with mortgage loans after full repayment of the first home purchase shall be not less than is 30% of the purchase price, and the loan interest rate shall be not lower than 70% of the benchmark lending rate published by the PBOC. In cities where restriction on purchasing residential properties have not been applied or have been canceled, the banks may determine the down payment as a percentage of purchase price and the interest rate based on the solvency and credit status of mortgage loan applicants who own two or more residential properties with mortgage loans fully repaid and are applying for mortgage loans to buy another property.

Grant

PRC law distinguishes between the ownership of land and the right to use land. Land use rights can be granted by the State to a person to entitle him to the exclusive use of a piece of land for a specified purpose within a specified term and on such other terms and conditions as may be prescribed. A premium is payable on the grant of land use rights. The maximum term that can be granted for the right to use a piece of land depends on the purpose for which the land is used. As described above, the maximum limits specified in the relevant regulations vary from 40 to 70 years depending on the purpose for which the land is used.

Under the Urban Land Regulations, there are three methods by which land use rights may be granted, namely by agreement, tender or auction.

On June 11, 2003, the Ministry of Land and Resources promulgated the Regulation on Grant of State-owned Land Use Rights by Agreement (協議出讓國有土地使用權規定). According to such regulation, if there is only one intended user on a piece of land, the land use rights (excluding land use rights used for business purposes, such as commercial, tourism, entertainment and commodity residential properties) may be granted by way of agreement. The local land bureau, together with other relevant government departments including the city planning authority, will formulate the plan concerning issues including the specific location, boundary, purpose of use, area, term of grant, conditions of use, conditions for planning and design as well as the proposed land premium, which shall not be lower than the minimum price regulated by the State, and submit such plan to the relevant government for approval. The local land bureau and the person who is interested will negotiate and enter into the grant contract based on such plan. If two or more entities are interested in the land use rights proposed to be granted, such land use rights shall be granted by way of tender, auction or putting up for bidding. Furthermore, according to the Rules Regarding the Grant of State-owned Land Use Rights by Way of Tender, Auction and Putting up for Bidding (招標拍賣掛牌出讓國有土地使用權規定) (the “Land Use Grant Rules”) which are effective from July 1, 2002, land use rights for properties for commercial use, tourism, entertainment and commodity residential purposes can only be granted through tender, auction or putting up for bidding.

Where land use rights are granted by way of tender, invitations to tender will be issued by the local land bureau. The invitation will set out the terms and conditions upon which the land use rights are proposed to be granted. A committee will be established by the relevant local land bureau to consider tenders which have been submitted. The successful bidder will then be asked to sign the grant contract with the local land bureau and pay the relevant land premium within a prescribed period. The land bureau will consider the following factors: the successful bidder shall be either the bidder who can satisfy the comprehensive evaluation criteria of the tender, or who can satisfy the substantial requirements of the tender and also offers the highest bid.

Where land use rights are granted by way of auction, a public auction will be held by the relevant local land bureau. The land use rights are granted to the bidder with the highest bid. The successful bidder will be asked to enter into a grant contract with the local land bureau.

Where land use rights are granted by way of bidding, a public notice will be issued by the local land bureau to specify the location, area and purpose of use of land and the initial bidding price, period for receiving bidding and terms and conditions upon which the land use rights are proposed to be granted. The land use rights are granted to the bidder with the highest bid and which satisfies the terms and conditions. The successful bidder will then enter into a grant contract with the local land bureau.

In Shanghai, on May 21, 2001 and November 27, 2008, the Municipal Government (上海市人民政府) updated the Shanghai Land Use Rights Grant Measures (上海市土地出讓辦法) (the “Shanghai Measures”), which took effect from July 1, 2001. According to provisions of the Shanghai Measures, the land use rights to be used for the projects relating to commercial, tourism, entertainment, financial, service and commodity residential properties shall be obtained by way of public tender or auction. However, if the grant of land use rights is approved by Shanghai Municipal Government (上海市人民政府), grant by way of agreement is also allowed as an exception. This was followed by the promulgation of the Land Use Grant Rules, under which land use rights for the purposes of commercial use, tourism, entertainment and commodity residential properties can only be granted through tender, auction or putting up for bidding. A number of measures are provided by the Land Use Grant Rules to require that (i) such grant of land for commercial use is conducted openly and fairly, for instance, the local land bureau, when deciding on land use purpose of a certain piece of land, must take into account various social, economic and planning considerations, and its decision of land use designation is subject to approval by the city or provincial government; (ii) the announcement of tender, auction or putting up for bidding be made 20 days prior to the date of beginning the tender, auction or putting up for bidding; and (iii) for putting up of bidding, the time period of accepting bidding not to be less than ten days.

Upon signing of the contract for the grant of land use rights, the grantee is required to pay the land premium pursuant to the terms of the contract and the contract is then submitted to the relevant local land bureau for the issue of the land use rights certificate. Upon expiration of the term of grant, the grantee may apply for renewal of the term. Upon approval by the relevant local land bureau, a new contract shall be entered into to renew the grant, and a grant premium shall be paid.

In September 2007, the Ministry of Land and Resources further promulgated the Regulations on the Grant of State-owned Construction Land Use Rights Through Public Tender, Auction and Listing-for-sale (招標拍賣掛牌出讓國有建設用地使用權規定) to require that land for industrial use, except land for mining, must also be granted by tender, auction and listing-for-sale. Only after the grantee has paid the land premium in full under the land grant contract, can the grantee apply for the land registration and obtain the land use rights certificates. Furthermore, land use rights certificates may not be issued in proportion to the land premium paid under the land grant contract.

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

Ministry of State Land and Resources promulgated Notice on Problems Regarding Strengthening Control and Monitor of Real Estate Land Supply (關於加強房地產用地供應和監管有關問題的通知) (the “Notice”) on March 8, 2010. According to the Notice, the land provision for affordable housing, redevelopment of shanty towns and small/medium residential units for occupier owner should be no less than 70% of total land supply, and the land supply for large residential units will be strictly controlled and land supply for villa projects will be banned. The Notice also requires that the lowest land grant price should not less than 70% of the basic land price in which the granted land is located and the real estate developers’ bid deposit should not less than 20% of the lowest grant price. The land grant agreement must be executed within 10 working days after the land transaction is confirmed. The minimum down payment of the land premium should be 50% and must be paid within 1 month after the execution of the land grant agreement. The rest payment should be paid in accordance with the agreement, but not later than one year. If the land grant agreement is not executed in accordance with the requirement above, the land should not be handed over and the deposit will not be returned. If no grant premium is paid after the execution of the agreement, the land must be withdrawn.

In order to control and facilitate the procedure of obtaining land use rights, several local governments have stipulated standard provisions for land grant contracts. Such provisions usually include terms such as use of land, land premium and manner of payment, building restrictions including site coverage, total gross floor area and height limitations, construction of public facilities, submission of building plans and approvals, deadlines for completion of construction, town planning requirements, restrictions against alienation before payment of premium and completion of prescribed development and liabilities for breach of contract. Any change requested by the land user in the specified use of land after the execution of a land grant contract will be subject to approvals from the relevant local land bureau and the relevant urban planning department, and a new land use contract may have to be signed and the land premium may have to be adjusted to reflect the added value of the new use. Registration procedures must then be carried out immediately.

Pursuant to the Notice on Further Strengthening Control and Regulation of Land and Construction of Property Development (關於進一步加強房地產用地和建設管理調控的通知) jointly promulgated by the Ministry of Land and Resources and the MOHURD on September 21, 2010, the grant of two or more bundled parcels of lands and undeveloped lands is prohibited.

On May 13, 2011, the Ministry of Land and Resources promulgated Opinions Regarding Upholding and Improvement of the Systems for the Granting of Land through Tender, Auction and Listing-for-sale (關於堅持和完善土地招標拍賣掛牌出讓制度的意見), which impacts policies related to the tender, auction and listing of land in the following aspects:

- (1) restricting the housing prices or land prices and granting land to be used for policy-based housing through listing or auction;
- (2) prescribing a limit on the construction floor area for affordable housing built in conjunction with, and granting the land to be used for, commodity housing through listing or auction; and
- (3) conducting comprehensive assessments of the conditions for development and utilization of land and the price for granting of lands, and determining the person with land use right through tender.

Withdrawal of Land

According to the Law of Administration of Urban Real Property (中華人民共和國城市房地產管理法) (the “Urban Real Property Law”), where a real property development is carried out on land for which the land use rights are acquired by means of grant, the land must be developed in line with the specified use for the land and the deadline for commencement of development set out in the land grant contract. Where the development does not commence within one year from the specified date set out in the land grant contract, an idle land fee may be charged at a rate equivalent to not more than 20% of the relevant land premium. Where the development does not commence within two years from the specified date, the relevant land use rights may be withdrawn without compensation, except where the commencement of construction is delayed due to force majeure, an act of the government or relevant government departments, or delays in preliminary work necessary for the commencement of development.

Pursuant to the Measures on Disposal of Idle Land (閒置土地處置辦法) promulgated in April 1994 and amended in June 2012, “idle land” refers to any state-owned land for construction use, of which the holder of the land use right fails to start the construction and development thereof within one year after the commencement date of the construction and development work as agreed upon and prescribed in the contract for fee-based use of State-owned land for construction use, or the decision on allocation of State-owned land for construction use. Any State-owned land for construction use, of which the construction and development has been started but the area of land that is under construction and development is less than one third of the total area of land that should have been under construction and development, or the invested amount is less than 25% of the total investment, or the construction and development of which has been suspended for more than one year, may also be regarded as idle land.

Idle land shall be disposed of in the following ways:

- (1) Where the land has remained idle for more than one year, the competent department of land and resources shall collect the charges for idle land at the rate of 20% of the land assignment or allocation fee; the said charges for idle land shall not be included in the production cost by the holder of the land use right; and
- (2) Where the land has remained idle for more than two years, the right to use State-owned land for construction will be withdrawn without compensation.

However, where the land is idle due to several specified acts of any government or government department, the land administrative authority may, through consultation with the holder of the land use right, extend the time limit for the commencement of land's construction and development, withdraw the land use right by providing compensation, or provide another plot of land for exchange.

In January 2008, a Notice on Promoting Economization of Land Use (關於促進節約集約用地的通知) issued by the State Council urges the full and effective use of existing construction land and the preservation of farming land and emphasizes the enforcement of the current rules on idle land fee for any land left idle for over one year but less than two years, with such idle land fee charged at 20% of the land grant premium.

Transfer

After land use rights relating to a particular area of land have been granted by the State, unless any restriction is imposed, the party to whom such land use rights are granted may transfer, lease or mortgage such land use rights for a term not exceeding the term which has been granted by the State. The difference between a transfer and a lease is that a transfer involves the vesting of the land use rights by the transferor in the transferee during the term for which such land use rights are vested in the transferor. A lease, on the other hand, does not involve a transfer of such rights by the lessor to the lessee. Furthermore, a lease, unlike a transfer, does not usually involve the payment of a premium. Instead, a rent is payable during the term of the lease. Land use rights cannot be transferred, leased or mortgaged if the provisions of the grant contract, with respect to the prescribed period and conditions of investment, development and use of the land, have not been complied with. In addition, different areas in the PRC have different conditions which must be fulfilled before the respective land use rights can be transferred, leased or mortgaged.

All transfers, mortgages and leases of land use rights must be evidenced by a written contract between the parties which must be registered with the relevant local land bureau at municipality or country level. Upon a transfer of land use rights, all rights and obligations contained in the contract pursuant to which the land use rights were originally granted by the State are deemed to be incorporated as part of the terms and conditions of such transfer, depending on the nature of the transaction.

Under the Urban Real Property Law, real property that has not been registered and of which a title certificate has not been obtained in accordance with the law may not be assigned. Also, under the Urban Real Property Law, if land use rights are acquired by means of grant, the real property shall not be assigned before the following conditions have been met: (i) the premium for the grant of land use rights must have been paid in full in accordance with the land grant contract and a land use rights certificate must have been obtained; (ii) investment or development must have been made or carried out in accordance with terms of the land grant contract; (iii) more than 25% of the total amount of investment or development must have been made or completed; and (iv) where the investment or development involves a large tract of land, conditions for use of the land for industrial or other construction purposes have been satisfied.

Termination

A land use right terminates upon the expiration of the term of the grant specified in the land grant contract and the resumption of that right. Upon expiry, the land use right and ownership of the related buildings erected thereon and other attachments may be acquired by the State without compensation. The

land user will take steps to surrender the land use 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 application is granted, the land user is required to enter into a new land grant contract, pay a premium and effect appropriate registration for the renewed right.

The State generally will not withdraw a land use right before the expiration of its term of grant and for special reasons (such as in the public interests), it must offer proper compensation to the land user, having regard to the surrounding circumstances and the period for which the land use right has been enjoyed by the user.

Document of Title

In the PRC, there are two registers for property interests. Land registration is achieved by the issue of a land use rights certificate by the relevant authority to the land user. It is evidence that the land user has obtained land use rights which can be assigned, mortgaged or leased. The building registration is the issue of a building ownership certificate (房屋所有權證) or a real estate ownership certificate (房地產權證) (“Real Estate Ownership Certificate”) to the owner. It is evidence that the owner has obtained building ownership rights in respect of the building erected on a piece of land. According to the Land Registration Regulations (土地登記規則) promulgated by the State Land Administration Bureau (國家土地管理局) on December 18, 1995 and implemented on February 1, 1996, and the Administrative Rules on Registration of Urban Real Estate Property (城市房屋權屬登記管理條例) promulgated by the Ministry of Construction (建設局) on October 27, 1997 and implemented on January 1, 1998 and the Rules on Land Registration (土地登記辦法) promulgated by the Ministry of Land and Resources, all land use rights and building ownership rights which are duly registered are protected by the law.

In connection with these registration systems, real estate and land registries have been established in the PRC. In most cities in the PRC, the above systems are separate systems. However, in Shenzhen, Shanghai, Guangzhou and some other major cities, the two systems have been consolidated and a single composite real estate ownership certificate (房地產權證) will be issued evidencing the ownerships of both land use rights and the building erected thereon.

Mortgage and Guarantee

The grant of mortgage in the PRC is governed by the Security Law of the PRC (中華人民共和國擔保法) (the “Security Law”) and by relevant laws regulating real estate. Under the Security Law, any mortgage contract must be in writing and must contain specified provisions including (i) the type and amount of the indebtedness secured; (ii) the period of the obligation by the debtor; (iii) the name, quantity, and ownership of the land use rights of the mortgaged property; and (iv) the scope of the mortgage. For mortgages of urban real properties, new buildings on a piece of land after a mortgage has been entered into will not be subject to the mortgage.

The validity of a mortgage depends on the validity of the mortgage contract, possession of the real estate certificate and/or land use rights certificate of the mortgagor and registration of the mortgage with authorities. If the loan in respect of which the mortgage was given is not duly repaid, the mortgagee may sell the property to settle the outstanding amount and return the balance of the proceeds from the sale or auction of the mortgaged property to the mortgagor. If the proceeds from the sale of such property are not sufficient to cover the outstanding amount, the mortgagee may bring proceedings before a competent court or arbitration tribunal (where there is an agreement to recover the amount still outstanding through arbitration) in the PRC.

The Security Law also contains comprehensive provisions dealing with guarantees. Under the Security Law, guarantees may be in two forms: (i) guarantees whereby the guarantor bear the liability when the debtor fails to perform the payment obligation; and (ii) guarantees with joint and several liability whereby the guarantor and debtor are jointly and severally liable for the payment obligation. A guarantee contract must be in writing and unless agreed otherwise, the term of a guarantee shall be six months after the expiration of the term for performance of the principal obligation.

The Security Law further provides that where indebtedness is secured by both a guarantee and by mortgaged property, the guarantor's liability shall be limited to the extent of the indebtedness that is not secured by the mortgaged property.

Leasing

Both the Urban Land Regulations and the Urban Real Property Law permit leasing of granted land use rights and buildings thereon. However, leasing of land use rights obtained by allocation (劃撥) and of buildings on such allocated land is regulated by the Urban Land Regulations.

Leasing of urban real properties is also governed by the Measures for Administration of Leasing of Commodity Buildings (商品房屋租賃管理辦法) (the "Measures"), which was promulgated in accordance with the Urban Real Property Law and which took effect on February 11, 2011. Under the Measures, owners of buildings in the PRC are entitled to lease their buildings, and landlords and tenants are required to enter into a written lease contract which must contain certain specified provisions. The contract has to be registered with the relevant property administrative authority at municipality or country level within 30 days after its execution. A contract cannot be longer than the remainder of the term under the land grant contract. The tenant may, upon obtaining consent from the landlord, sublease the premises.

According to the Urban Real Property Law, where the owner of a house built on state-owned land leases his/her property and that the land use rights were obtained through allocation for the purpose of profit making, any proceeds derived from the land in the form of rent must be paid to the State.

Resettlement

Pursuant to the Administration Rules of Demolition and Removal of Housing in Urban Areas (城市房屋拆遷管理條例) promulgated by the State Council on June 13, 2001, the party responsible for resettlement (the "Resettling Party") should apply for a resettlement permit and provide monetary compensation or alternative residence for the residents to be resettled. The real estate administration authority will issue a resettlement notice after granting the resettlement permit, detailing the parties concerned, the properties affected and the period of the resettlement. The Resettling Party will then enter into written agreements with the relevant residents detailing, among other things, the compensation to be provided to the residents, which will be determined on the basis of, among other things, the property's location, permitted use and GFA. If the Resettling Party and the residents fail to reach agreement, either party may apply to the relevant authority for a ruling. A ruling will be given within 30 days of the application, following which either party may initiate proceedings in the people's court within three months from the ruling if they contest the ruling.

In order to prevent illegal demolition and removal, and overheating investment in some areas, the General Office of the State Council issued the Notice on Controlling the Scale of Demolition and Removal and Strengthening Administration of Demolition and Removal (關於控制城鎮房屋拆遷規模嚴格拆遷管理的通知) on June 6, 2004. The notice addresses issues including, but not limited to, the following: (i) strictly controlling the area of demolition and removal to ensure that the total area of demolition and removal is less than that of the previous year; (ii) strictly administering the procedures of demolition and removal, such procedures to be carried out in an open, fair and just manner; (iii) strengthening the supervision and administration of the compensation costs incurred for the demolition and removal, and ensuring the completion of the relocation; and (iv) strictly punishing certain illegal actions in relation to the demolition and removal.

On January 21, 2011, the State Council promulgated the Regulation on Expropriation and Compensation Related to Buildings on State-owned Land (國有土地上房屋徵收與補償條例) (the “Expropriation and Compensation Regulation”), which replaced the Administration Rules of Demolition and Removal of Housing in Urban Areas. The Expropriation and Compensation Regulation provides that, among other things:

- (i) buildings can be expropriated under certain circumstances for public interests, and only governmental authorities are permitted to conduct resettlement activities; real estate developers are prohibited from being involved in demolition and relocation procedures;
- (ii) compensation shall be paid before the resettlement;
- (iii) compensation to owners of properties to be demolished cannot be less than the market value of similar properties at the time of expropriation. The market value of properties shall be determined by qualified real estate appraisal institutions in accordance with appraisal rules related to property expropriation. Any owner who does not agree with the appraised market value of the property can apply to the real estate appraisal institution for re-appraisal; and
- (iv) neither violence nor coercion may be used to force homeowners to leave sites, nor can certain measures, such as illegally cutting water and power supplies, be used in relocation work.

On June 3, 2011, the MOHURD promulgated Measures for Real Estate Appraisal in Expropriation of Houses on State-owned Land (國有土地上房屋徵收評估辦法), which provides that in appraising the value of the expropriated house, the location, purpose of use, building structure, present condition, GFA and the land area occupied, land use right, and other factors affecting the value of the expropriated house shall be taken into consideration.

Property Development

Property development projects in the PRC are generally divided into single projects and large tract development projects. A single project refers to the construction of buildings on a plot of land and the subsequent sale of units. A large tract development project consists of comprehensive development of an area to be suitable for industrial, leveling of the land and construction of necessary infrastructure such as water, electricity, road and communications facilities. The developer may either assign the land use rights of the developed area, or construct buildings on the land itself and sell or lease the buildings thereon.

Once the developer identifies a piece of land for development, it has to apply for a construction land use planning certificate (建築用地規劃許可證) from the relevant planning commission. Once this certificate is obtained, the developer will have to submit a detailed plan for the design of buildings and construction in order to obtain construction works planning permit (建設工程規劃許可證) and work commencement permit (建設工程施工許可證).

Environmental Protection

The laws and regulations governing the environmental requirements for real estate development in the PRC include the Environmental Protection Law (中華人民共和國環境保護法), the Prevention and Control of Noise Pollution Law (中華人民共和國環境噪聲污染防治法), the Environmental Impact Assessment Law (中華人民共和國環境影響評價法) and the Administrative Regulations on Environmental Protection for Development Projects (建設項目環境保護管理條例). Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact study report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer before the relevant authorities will grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers.

Pre-sale and Sale

Pursuant to the Urban Real Property Law and the Administrative Measures Governing the Pre-sale of Urban Real Estate (城市商品房預售管理辦法) (the “Administrative Measures”) amended on July 20, 2004, commodity houses which have not been completed may be sold when certain conditions and/or requirements are satisfied.

Pre-sale of commodity houses is regulated by an approval system. Developers who intend to pre-sell their commodity houses shall apply to the relevant Real Estate Administration Department of the People’s Government at city or country level (市、縣人民政府房地產管理部門) and obtain a pre-sale permit.

When commodity houses are pre-sold, the following requirements shall be satisfied according to the Urban Real Property Law and the Administrative Measures:

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

On April 20, 2010, the MOHURD issued the Notice on Further Enhancing the Supervision of the Real Estate market and Perfecting the Pre-sale system of commodity houses (關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知). Pursuant to the notice, without the pre-sale approval, the commodity houses are not permitted to be pre-sold and the real estate developer are not allowed to charge the buyer any deposit or pre-payment or payment of the similar nature. In addition, the notice urges local governments to enact regulations on sale of completed commodity properties in light of the local conditions, and encourages property developers to engage in the practice of selling completed commodity properties.

The relevant local pre-sale regulations have been issued in Shenzhen, Shanghai, Fuzhou, Xiamen, Qingdao and some other cities. Pursuant to the Regulations on the Transfer of Real Estate of Shanghai (上海市房地產轉讓辦法) (the “Regulations”) announced on April 21, 2004, the pre-sale of commodity houses in Shanghai is subject to the above-mentioned pre-sale regulations as well as the following principal requirements:

- (a) the construction work for commodity houses must have been completed up to the stipulated standard;
- (b) the construction plan of the ancillary facilities must have been confirmed;
- (c) a pre-sale fund escrow agreement with a local authorized real estate funding supervisory body must have been executed; and
- (d) the covenant of use of the commodity houses must have been formulated and an initial property management service agreement must have been entered into with a real estate management company.

With regards to Shanghai property, according to the Approval Concerning the Adjustment of the Standard of Project Construction Schedule for Pre-sale of Commodity Houses (關於同意調整商品房預售應達到的工程進度標準的批覆) implemented by the Shanghai Municipal Government (上海市人民政府) on October 1, 2000, the rules concerning the stipulated standard referred to in sub-paragraph (a) of the preceding paragraph are supplemented as follows:

- (i) for commodity houses consisting of seven storeys or less, the basic foundation work and the main structural construction of the building must have been completed; and
- (ii) for commodity houses consisting of eight storeys or more, the basic foundation must have been completed and at least two-thirds of the main structural construction must have been completed, and at least seven storeys must have been completed in any event.

Pursuant to the Decisions Concerning the Transfer of Pre-sale Commodity Apartment Units (上海市人民政府關於預售商品房轉讓問題的決定) issued by the People's Government of Shanghai, with effect from April 26, 2004, the real estate registration department in Shanghai no longer accepts the registration of the transfer of a pre-sold apartment unit before the Real Estate Ownership Certificate has been obtained for such unit (房地產權證).

Pursuant to Several Opinions on Further Strengthening Regulation and Control of the Municipal Real Estate Market and Accelerating the Process of Housing Support (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) jointly promulgated by the Shanghai Municipal Housing Support and Building Administration Bureau and four other authorities on October 7, 2010, (i) commercial housing projects which obtain a construction work commencement permit after July 1, 2010 shall not be permitted to pre-sell until the main structural component of the building is completed and approved; (ii) the scope under a construction works planning permit and a work commencement permit, and the pre-sale scope of commercial housing shall not be less than 30,000 sq.m.; and (iii) projects of less than 30,000 sq.m. shall apply for and obtain a construction works planning permit, a work commencement permit and a pre-sale permit concurrently.

With regards to pre-sale of property in Beijing, according to the Administration Regulations on Transfer of Urban Real Estate of Beijing (北京市城市房地產轉讓管理辦法), which became effective from December 1, 2003 and was amended on December 6, 2008, the following conditions must be satisfied: (i) the land premium has been fully paid and the land use rights certificate has been obtained; (ii) a construction land permit (城鎮建設用地批准書) has been obtained if the property units are categorized as low-income housing for pre-sale; (iii) the construction works planning permit and the work commencement permit have been obtained; (iv) the amount of funds allocated to the development of the project is no less than 25% of the total amount of the project investment; (v) the expected completion date has been determined, and is in conformity with the maximum pre-sale period announced by the Beijing Municipal Land and Property Administration Bureau (北京市國土房產局). To date, the authority has not made any mandate on such maximum pre-sale period.

On November 4, 2010, the Beijing Municipal Commission of Housing and Urban-rural Development promulgated the Notice on Strengthening Administration of Pre-sale Programs of Commercial Housing (關於加強我市商品房預售方案管理的通知), which provided that, when applying for a pre-sale permit for commercial housing, developers shall (i) provide pre-sale programs with details including, among others, construction schedules, the pre-sale plans of the relevant projects, the portion of commercial housing to be retained by the developer and other pre-sale details; (ii) after obtaining the pre-sale permit, arrange for sales to proceed in strict accordance with the pre-sale programs, which shall also be posted publicly at the sales offices; and (iii) not change the pre-sale programs in principle.

With regards to pre-sale of property in Nanjing, according to the Administration Regulations on the Trading of Real Estate of Nanjing (南京市房地產交易管理辦法), which came into effect on September 4, 2003, a property developer shall apply for the pre-sale permits/sale permits (銷售許可證) from the real estate administration bureaus at the city or county level of Nanjing, and shall comply with the following conditions: (i) the land premium has been fully paid and the land use rights certificate has been obtained; (ii) the construction works planning permit has been obtained; (iii) the amount of funds allocated to the development

of the projects is no less than 25% of the total amount of the project investment; (iv) the progress and the expected completion date of the construction work have been determined; (v) a pre-sale fund escrow agreement has been signed with banks registered in the same city; (vi) a covenant of the use of the properties has been formulated; and (vii) an initial property management services contract has been signed with a property management company. For completed property, the completion acceptance document (竣工驗收文件) shall be obtained before the property can be sold. For property units to be sold in the overseas market, an approval for the overseas sale is also required in addition to the conditions set out above.

In Shanghai, pursuant to the Certain Opinion Concerning the Merger of the Commodity Housing For Sale in Domestic and Overseas Markets (Hu Fu Fa [2001] No.22) (關於本市內外銷商品住房並軌的若干意見 (滬府發 [2001] 22號) issued jointly by Shanghai Development Planning Committee (上海市發展計劃委員會), Shanghai Construction and Management Committee (上海市建設和管理委員會), Shanghai Foreign Investment Committee (上海市外國投資工作委員會), Shanghai Financial Bureau (上海市財政局), Shanghai City Planning Management Bureau (上海市城市規劃管理局) and Shanghai Real Estate and Land Resources Management Bureau (上海市房屋土地資源管理局) on June 25, 2001, the markets for domestic sale and overseas sale of commodity housing were merged, and domestic and overseas enterprises, organizations and individuals may purchase and/or lease commodity houses irrespective of whether the respective land use rights have been obtained before or after such merger.

Pursuant to the Notice Regarding the Adjustment to the Administration of Sale of Commodity Houses Sold in Domestic and Overseas Markets (關於調整本市內外銷商品房管理有關規定的通知) issued by Beijing Administration of Land, Resources and Housing (北京市國土資源和房屋管理局) on August 5, 2002 and implemented on September 1, 2002, the distinction between sales in the domestic market and the overseas market has been abolished in Beijing. A standard property unit pre-sale permit will be issued to any property unit project which meets the specified pre-sale conditions.

Real Estate Loans

On June 5, 2003, the PBOC promulgated the Notice on Further Strengthening the Administration of Real Estate Loans (關於進一步加強房地產信貸業務管理的通知). According to the notice, the commercial banks shall focus their business towards supporting real estate projects targeted at mid to lower-income households and appropriately restrict the granting of real estate loans to projects involving spacious apartments, luxurious apartments and villas. The notice strictly prohibits banks from advancing working capital loans to real estate developers. When applying for a real estate loan, the real estate developer's own capital in any proposed real estate project should not be less than 30% of the total investment of the project. The notice also prohibits loans advanced for the payment of land premium for land use rights.

On August 12, 2003, the State Council published the Notice by the State Council on Facilitating Sustained and Healthy Development of Real Estate Market (國務院關於促進房地產市場持續健康發展的通知), which provides a series of measures to control the real estate market, including but not limited to increasing the supply of common residential houses, controlling the construction of high-end commodity houses, and strengthening the supervision of the real property administration. The purpose of the notice is to create a positive influence on the long-term development of the real estate market in China.

On September 2, 2004, CBRC issued a Guideline for Commercial Banks of Risks of Real Estate Loans (商業銀行房地產貸款風險管理指引). According to the guideline, no loan shall be granted to projects which have not obtained the land use rights certificate, construction land planning), construction works planning permit and work commencement permit. The guideline also stipulated that not less than 35% of the total investment in a property development project must come from the real estate developer's own capital for the project (項目資本金) in order for banks to extend loans to the real estate developer. In addition, the guideline requires commercial banks to set up strict approval systems for loan grants.

In September 2007, PBOC and CBRC promulgated a Circular on Strengthening the Management of Commercial Real-estate Credit Loans (關於加強商業性房地產信貸管理的通知), with a supplement issued in December 2007. The circular aims to tighten the control over real-estate loans from commercial banks to prevent granting excessive credit. The measures, among others, include: prohibiting commercial banks from providing loans to real-estate developers who have been found by relevant government authorities to be

hoarding land and properties. In addition, commercial banks are also banned from providing loans to the projects that have less than 35% of capital funds (proprietary interests), or fail to obtain land use rights certificates, construction land planning permits, construction works planning permits or construction permits. Commercial banks are also prohibited from accepting commercial premises that have been vacant for more than three years as collateral for loans. In principle, real-estate development loans provided by commercial banks should only be used for the projects where the commercial banks are located. Commercial banks may not provide loans to property developers to finance the payment of land premium.

In July 2008, PBOC and CBRC jointly issued the Notice on Financially Promoting the Saving and Intensification of Use of Land (關於金融促進節約集約用地的通知), requiring that relevant financial institutions to strengthen the administration of construction land project loans, including the administration of commercial real estate credit loan.

On February 1, 2010, the CBRC issued a Notice on Relevant Issues on Strengthening Administration of Real Estate Trust Business of Trust Companies (關於加強信托公司房地產信託業務監管有關問題的通知), which, among other things, provides that real estate projects must meet the following conditions to be eligible for loan financing from trust companies: (1) such projects must have obtained the land use rights certificates, construction land planning permits, construction works planning permits and construction permits; (2) developers or their controlling shareholders must be qualified as Class 2 or higher; (3) the capital ratio of the project must satisfy the minimum requirements set by the relevant authorities; and (4) trust companies may not provide trust funds to finance the land reserves.

Local Legislation

While the Urban Land Regulations set out a general framework for transactions relating to land use rights, various local legislation regulates specific transactions within specific areas relating to the grant and transfer of land use rights. Some of them are inconsistent with the national legislation. The central authority has taken the position that if there are inconsistencies the national legislation shall prevail.

Foreign Investment In Property Development

The Urban Land Regulations state that foreign entities may acquire land use rights in China unless the law otherwise provides. However, in order to develop the land acquired, foreign investment enterprises in the form of equity or co-operative joint ventures or wholly foreign-owned enterprises must be established.

Under the Catalog of Guidance on Industries for Foreign Investment (外商投資企業指導目錄) promulgated by MOFCOM and NDRC in December 2011, effective on January 1, 2012, the development of a whole land lot, namely primary preparation of a land site including infrastructure construction and utility installation, solely by foreign investors, and construction and operation of golf courses and villas, falls within the category of industries in which foreign investment is prohibited, the joint development of a whole land lot with the PRC partners, as well as the construction and operation of high-end hotels, premium office buildings and international conference centers fall within the category of industries in which foreign investment is subject to restrictions, and other real estate development falls within the category of industries in which foreign investment is permitted. Establishment of a foreign investment enterprise engaged in property development, commonly referred to as a “development company”, is subject to approval by the relevant departments of China’s government in accordance with relevant laws and regulations. To establish a foreign investment enterprise, the joint venture partners must submit a project application report to the central or local development and reform authority for project approval. At the same time, the parties typically proceed to negotiate and execute the joint venture contract and articles of association for the establishment of development company. The project application report, the joint venture contract and/or articles of association shall then be submitted to the central or local foreign economic and trade authorities in their respective capacities for approval. Having obtained the approval certificate, the foreign investor and/or the domestic party can apply to the relevant industry and commerce authority for a foreign investment enterprise business license for the development company. In addition, all property development companies, including foreign investment enterprises, are also required to apply for a property development enterprise qualification certificate (房地產開發企業資質證書) from the central or local construction authority.

According to applicable laws, it is clear that the PRC government will protect investments by foreign investors and their legal rights, and will not nationalize or appropriate any Sino-foreign joint venture or any foreign wholly-owned enterprise unless it is in the public interest and the relevant foreign investors are appropriately compensated.

On July 11, 2006, the Ministry of Construction, the MOFCOM, the National Development and Reform Commission, PBOC, SAIC and SAFE jointly promulgated the Opinions on Foreign Investment in Real Estate (關於規範房地產市場外資准入管理的意見), which states that: (i) an overseas entity or individual investing in real estate in China other than for self-use, shall apply for the establishment of a FIREE in accordance with applicable PRC laws and shall only conduct operations within the authorized business scope after obtaining the relevant approvals from and registering with the relevant governmental authorities; (ii) the registered capital of a FIREE with a total investment of US\$10 million or more shall not be less than 50% of its total investment amount, whereas for FIREE with a total investment of less than US\$10 million, the current rules on registered capital shall apply; (iii) a newly established FIREE can only obtain an approval certificate and business license which are valid for one year. The approval certificate and business license can be obtained by submitting the land use rights certificate to the relevant government departments after the land grant premium for the land has been paid; (iv) an equity transfer of a FIREE or the transfer of its projects, as well as the acquisition of a domestic real estate enterprise by foreign investors, must first be approved by the MOFCOM. The investor shall submit a letter to the MOFCOM confirming that it will abide with the land grant contract, the construction land planning permit (建設用地規劃許可證) and the construction works planning permit (建設工程規劃許可證). In addition, the investor shall also submit the land use rights certificate, the registration of change of investor and evidence from the tax authorities confirming that tax relating to the transfer has been fully paid; (v) foreign investors acquiring a domestic real estate enterprise through an equity transfer, acquiring the Chinese investors' equity interest in an equity joint venture or through any other methods shall pay the purchase price from its own capital and shall ensure that the enterprise's employees and bank loans are treated and dealt with in accordance with applicable PRC laws; (vi) if the registered capital of a FIREE is not fully paid up, its land use rights certificate has not been obtained or the paid-in capital is less than 35% of the total investment amount of the project, the FIREE is prohibited from borrowing from any domestic or foreign lenders and SAFE shall not approve the settlement of any foreign loans; (vii) the investors in a FIREE shall not in any manner stipulate a fixed return clause or equivalent clause in their joint venture contract or in any other documents; (viii) a branch or representative office established by a foreign investor in China (other than a FIREE), or a foreign individual working or studying in the PRC for more than one year, is permitted to purchase commodity residential properties located in the PRC only for the purpose of self-residence. Residents of Hong Kong, Macau and Taiwan and overseas Chinese may purchase commodity residential properties of a stipulated floor area based on their living requirements in the PRC for self-residence purposes.

In May 2007, MOFCOM and SAFE issued the Circular on Strengthening and Regulating the Examination and Approval and Supervision of Foreign Direct Investment in the Real Estate Sector (關於進一步加強、規範外商直接投資房地產業審批和監管的通知) ("Circular 50"). Under Circular 50, prior to applying for establishment of real estate companies, foreign investors must first obtain land use rights and building ownership, or must have entered into pre-sale or pre-grant agreements with respect to the land use rights or building ownership. If foreign-invested enterprises in China engage in real estate development or operations or if FIREEs in China engage in new real estate project developments, they must first apply to the relevant PRC governmental authorities to expand their scope of business or scale of operations in accordance with the PRC laws and regulations related to foreign investments. In addition, the local PRC governmental authorities must file with MOFCOM for record their approvals of establishment of FIREEs, and must exercise due control over foreign investments in high-end properties. Foreign exchange authorities may not allow capital-account foreign exchange sales and settlements by FIREEs that have been established in contravention of these requirements.

In connection with the filing requirement, MOFCOM issued the Notice on the Proper Filings of Foreign Investment in the Real Estate Sector (關於做好外商投資房地產業備案工作的通知) in June 2008 to authorize the competent MOFCOM at the provincial level to verify and check the filing documents.

In addition, in December 2010, the MOFCOM promulgated the Notice on Strengthening Administration of the Approval and Registration of Foreign Investment into Real Estate Industry (關於加強外商投資房地產產業審批備案管理的通知), which, among other things, provides that where a real estate enterprise is established in China with foreign capital, it is prohibited to purchase and/or sell real estate properties, completed or under construction, in China for arbitrage purposes. The local MOFCOM authorities shall not approve investment companies to engage in real estate development and management.

According to the Several Opinions of the State Council on Further Strengthening the Utilization of Foreign Investment (國務院關於進一步做好利用外資工作的若干意見) promulgated by the State Council in April 2010, and the Notice on Delegation of Power of Approval for Foreign Investment Projects (關於做好外商投資項目下放核准權限工作的通知) promulgated by NDRC in May 2010, except where approval by the relevant departments under the State Council is required by the Catalog of Guidance on Industries for Foreign Investment, foreign investment of less than US\$300 million in encouraged and permitted industries may be examined and approved by NDRC's provincial branches. Pursuant to the Notice on Issues Related to Delegation of Powers of Examination and Approval of Foreign Investment to Authorities at Lower Levels (關於下放外商投資審批權限有關問題的通知) promulgated by the MOFCOM in June 2010, the MOFCOM's provincial branch is responsible for the examination and approval of establishments and changes of foreign-invested enterprises in encouraged or permitted industries of less than US\$300 million, and in restricted industries of less than US\$50 million.

On June 24, 2014 the MOFCOM and the SAFE jointly promulgated the Circular on Improving the Registration of Foreign Investment in Real Estate (關於改進外商投資房地產備案工作的通知), which simplifies the procedures for registering foreign investment in real estate, the MOFCOM registration has been changed from paper-based to electronic and selective examination will be conducted during and after the registration.

Foreign Exchange Controls

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to December 31, 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the Bank of China (中國銀行) or other designated banks. Such conversion had to be effected at the official rate prescribed by SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centers. The exchange rates used by swap centers were largely determined by the demand for, and supply of, the foreign currency and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap center had to obtain the prior approval of the SAFE (國家外匯管理局).

On December 28, 1993, PBOC, under the authority of the State Council (國務院), promulgated the Notice of the PBOC Concerning Further Reform of the Foreign Currency Control System (中國人民銀行關於進一步改革外匯管理體制的公告), effective from January 1, 1994. The notice announced the abolition of the foreign exchange quota system, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On March 26, 1994, the PBOC promulgated the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯暫行管理規定) (the "Provisional Regulations"), which set out detailed provisions regulating the trading of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On January 1, 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which is determined by demand and supply of Renminbi. Pursuant to such systems, the PBOC sets and publishes the daily Renminbi-U.S. dollar exchange rate. Such exchange rate is determined with reference to the transaction price for Renminbi-U.S. dollar in the inter-bank

foreign exchange market on the previous day. Also, the PBOC, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of Renminbi against other major foreign currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the rate announced by the PBOC.

On January 29, 1996, the State Council promulgated Regulations for the control of Foreign Exchange (中華人民共和國外匯管理條例) (“Control of Foreign Exchange Regulations”) which became effective from April 1, 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on January 14, 1997 and on August 5, 2008. Such amendment affirms that the State shall not restrict international current account payments and transfers.

On June 20, 1996, PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) (the “Settlement Regulations”) which became effective on July 1, 1996. The Settlement Regulations superseded the Provisional Regulations and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC published the Announcement on the Implementation of Foreign Exchange Settlement and Sale Banks by Foreign-invested Enterprises (外商投資企業實行銀行結售匯工作實施方案). The announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange, and specialized accounts for capital account receipts and payments at designated foreign exchange banks.

On October 25, 1998, PBOC and SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business (關於停辦外匯調劑業務的通知) pursuant to which and with effect from December 1, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprises shall be regulated under the system for the settlement and sale of foreign exchange applicable to banks.

On July 21, 2005, the PBOC announced that, beginning from July 21, 2005, China will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar. The PBOC will announce the closing price of a foreign currency such as the U.S. dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each business day, setting the central parity for trading of the Renminbi on the following business day.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in China (except for foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares is not required to be sold to designated banks, but may be deposited in foreign exchange accounts with designated banks.

Enterprises in China (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, upon presentation of valid receipts and proof. Foreign-invested enterprises which need foreign currencies for the distribution of profits to their shareholders, and Chinese enterprises which, in accordance with regulations, are required to pay dividends to shareholders in foreign currencies, may with the approval of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE or its competent branch.

In January and April 2005, SAFE issued two regulations that require PRC residents to register with and receive approvals from SAFE in connection with their offshore investment activities. SAFE also announced that the purpose of these regulations is to achieve the proper balance of foreign exchange and the standardization of all cross-border flows of funds.

On July 4, 2014, the SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange for Overseas Investment and Financing and Reverse Investment by Domestic Residents via Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知), or Notice 37, which replaced the Notice on Issues Relating to the Administration of Foreign Exchange for the Financing and Reverse Investment by Domestic Residents via Offshore Special Purpose Vehicles issued by SAFE in October 2005, or Notice 75. Pursuant to Notice 37, any PRC residents, including both PRC institutions and individual residents, are required to register with the local SAFE branch before making contribution to a company set up or controlled by the PRC residents outside of the PRC for the purpose of overseas investment or financing with their legally owned domestic or offshore assets or interests, referred to in this Notice as a “special purpose vehicle.” Under Notice 37, the term “PRC institutions” refers to entities with legal person status or other economic organizations established within the territory of the PRC. The term “PRC individual residents” includes all PRC citizens (also including PRC citizens abroad) and foreigners who habitually reside in the PRC for economic benefits. A registered special purpose vehicle is required to amend its SAFE registration in the event of any change of basic information including PRC individual resident shareholder, name, term of operation, or PRC individual resident’s increase or decrease of capital, transfer or exchange of shares, merger, division or other material changes. In addition, if a non-listed special purpose vehicle grants any equity incentives to directors, supervisors or employees of domestic companies under its direct or indirect control, the relevant PRC individual residents could register with the local SAFE branch before exercising such options. The SAFE simultaneously issued a series of guidance to its local branches with respect to the implementation of Notice 37.

On September 1, 2006, the Ministry of Construction and SAFE promulgated the Circular on the Issues Concerning the Regulation of Foreign Exchange Administration of the Real Estate Market (關於規範房地產市場外匯有關問題的通知). This circular states that: (i) where foreign exchange is remitted for a real estate purchase, the foreign purchaser shall be subject to examination by the designated foreign exchange bank. The remitted funds shall be directly remitted by the bank to the RMB account of the real estate development enterprise and no payment remitted from abroad by the purchasers shall be kept in the foreign exchange current account of the real estate development enterprises; (ii) where the real estate purchase fails to complete and the foreign purchaser intends to remit the purchase price in RMB back to foreign currencies, the foreign purchaser shall be subject to examination by the designated foreign exchange bank; (iii) when selling real estates in China and the purchase price received in RMB is remitted to foreign currencies, the foreign purchaser shall be subject to examination by the local branch of SAFE; and (iv) if the registered capital of a FIREE is not fully paid up, its land use rights certificate has not been obtained or the paid-in capital is less than 35% of the total investment amount of the project, the FIREE is prohibited from borrowing from any domestic or foreign lenders and SAFE shall not approve the settlement of any foreign loans.

On November 19, 2012, SAFE promulgated the Notice on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investments (關於進一步改進和調整直接投資外匯管理政策的通知), which took effect on December 17, 2012. Pursuant to the notice, the opening of and payment into foreign exchange accounts under direct investment accounts and reinvestment with legal income of foreign investors in China are no longer subject to approval by the SAFE; the administration of foreign exchange in reinvestments by foreign investment-oriented companies, the procedures for capital verification and confirmation that foreign-funded enterprises need to go through and the foreign exchange registration procedures for acquisition by foreign investors of shares held by Chinese parties are simplified; purchase and external payment of foreign exchange under direct investment accounts and domestic transfer of foreign exchange under direct investment account are no longer subject to approval by the SAFE; the control over provision of loans abroad is further relaxed; and the administration over the conversion of foreign exchange capital of foreign-funded enterprises is improved.

On April 28, 2013, SAFE issued the Administrative Measures for Foreign Debt Registration (外債登記管理辦法) and Guidelines for Administration over Foreign Debt Registration (外債登記管理操作指引) (the “Guidelines”), effective as of May 13, 2013, which provide requirements and guidelines for, among others, (i) foreign debt registration procedures, application documents and review standard; (ii) foreign debt accounts, use of funds and settlement and sales of foreign exchange; (iii) offshore security for domestic loan; and (iv) foreign issues related to transfer of non-performing assets to overseas investors. Pursuant to the Guidelines, real estate enterprises with foreign investment approved by local MOFCOM and filed with MOFCOM on or after June 1, 2007 shall not be accepted for registration of foreign debt contracts by SAFE or its local branches; where the foreign-invested real estate enterprise fails to fully pay the registered capital, or does not obtain the Land Use Certificate for State-owned Land, or the capital for project development fails to reach 35% of total amount of project investment, such enterprise shall not seek foreign debt and SAFE or its local branches shall not register foreign debt contracts for such enterprise.

On May 10, 2013, SAFE issued the Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors in China (外國投資者境內直接投資外匯管理規定) and the Operating Guidelines for Business Relating to Direct Investment in China (境內直接投資業務操作指引), effective on May 13, 2013, which provide requirement and detailed rules for direct investment in China related to, among others, (i) foreign-invested enterprise registration, (ii) administration of foreign exchange accounts, (iii) registration for contribution by foreign investors, (iv) settlement of foreign exchange, and (v) transfer of funds.

Taxation in China

Income Tax

Prior to the EIT Law and its implementation rules that became effective on January 1, 2008, our PRC subsidiaries and joint ventures were generally subject to a 33% corporate income tax. Under the new income tax law, effective from January 1, 2008, a unified enterprise income tax rate is set at 25% for both domestic enterprises and foreign-invested enterprises. The EIT Law and its implementation rules provide certain reliefs to enterprises that were established prior to March 16, 2007, including (1) continuously enjoying the preferential income tax rate during a five-year transition period if such enterprises are entitled to preferential income tax rate before the effectiveness of the EIT Law; (2) continuously enjoying the preferential income tax rate until its expiry if such enterprises are entitled to tax holidays for a fixed period under the relevant laws and regulations. However, where the preferential tax treatment has not commenced due to losses or accumulated loss not being fully offset, such preferential tax treatment shall be deemed to commence from January 1, 2008 and expire on December 31, 2013. In addition, dividends from PRC subsidiaries to their foreign shareholders will be subject to a withholding tax at a rate of 10% unless any lower treaty rate is applicable. However, under the EIT Law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose “de facto management body” is located in China are treated as “resident enterprises” for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. Dividends from PRC subsidiaries to their foreign shareholders that are treated as PRC enterprises may be excluded from such taxable worldwide income. Under the implementation rules of the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. There is uncertainty as to how this law and its implementation rules will be interpreted or implemented by relevant tax bureaus.

Business Tax

Business tax is payable in respect of certain business activities in China as set out in the Provisional Regulations Concerning Business Tax (中華人民共和國營業稅暫行條例), which was promulgated in 1994 and amended in 2008. The activities to which the business tax applies include construction, leases and sales of real estate properties in China. The tax is a turnover tax charged on gross revenue. No deduction of the tax incurred on purchased services or materials is allowed. However, deductions from gross revenue are allowed for subcontracting fees paid among the transportation, tourism and construction industries. The rate of business tax payable for property sale and leasing transactions is 5% of the proceeds from the sale or leasing of real estate/immovable properties in China.

In order to further adjust business taxes on individual transfer of houses, on January 27, 2011, the State Administration of Taxation and the Ministry of Finance jointly promulgated the Circular on Adjusting Policies of Business Tax on Individual Transfer of Residential Properties (關於調整個人住房轉讓營業稅政策的通知) which requires that, where individuals sell residential properties which have been purchased within the previous five years, they shall pay the business tax in full amount; where individuals sell the non-ordinary residential properties which have been purchased for more than five years (inclusive), they shall pay the business tax on the balance of their sale incomes after deducting the purchase price of the residential properties; where individuals sell ordinary residential properties which have been purchased for more than five years (inclusive), they shall be exempted from the business tax.

Land Appreciation Tax

Land appreciation tax is applicable to entities or individuals upon the transfer of land use rights and its attachments where a gain is generated. This tax is calculated based on the appreciated value of the real estate property. The applicable marginal tax rate progresses from 30% to 60% based on the ratio of the appreciated value as compared to the original cost. A full exemption is available for individual owners that assign their personal residence of five years or more. For personal residences of more than three years but less than five years, a 50% reduction of the land appreciation tax is available.

For property developers, an additional 20% of deductible expenses may be further deducted in the calculation of the land appreciation amount. Deductible expenses include the land use right costs incurred and other costs associated with acquiring such right; costs associated with property development, such as removal fees, construction costs, basic infrastructure costs, and indirect development costs, as well as sales expenses, management expenses and finance expenses. Land appreciation tax is assessed at completion of the property transfer. Net profit is assessed after the completion of each phase to derive the tax liability.

In December 2006, the State Administration of Taxation issued a Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (關於房地產開發企業土地增值稅清算管理有關問題通知), which came into effect on February 1, 2007. The notice required settlement of LAT liabilities by real estate developers if the required condition is satisfied.

On May 19, 2010, the SAT issued the Circular on Settlement of Land Appreciation Tax (關於土地增值稅清算有關問題的通知) to strengthen the settlement of the land appreciation tax. The circular clarifies certain issues with respect to calculation and settlement of the land appreciation tax, such as (i) the recognition of the revenue upon the settlement of the land appreciation tax, and (ii) the deduction of fees incurred in connection with the property development.

On May 25, 2010, the SAT issued the Notice on Strengthening the Collection Land Appreciation Tax (關於加強土地增值稅徵管工作的通知), which requires that the minimum LAT prepayment rate shall be 2% for provinces in the eastern region, 1.5% for provinces in the central and northeastern regions, and 1% for provinces in the western region. According to the notice, the local tax bureaus shall determine the applicable LAT prepayment rates based on the types of the properties.

Pursuant to Several Opinions on Further Strengthening Regulation and Control of the Municipal Real Estate Market and Accelerating the Process of Housing Support (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) jointly promulgated by the Shanghai Municipal Housing Support and Building Administration Bureau and four other authorities on October 7 2010, for housing projects with an average sales price of (i) less than the average price of newly-built commercial housing in the previous year in the area where the projects are located (“area average price”), the LAT prepayment rate shall be 2%; (ii) more than the area average price but less than twice the area average price, the LAT prepayment rate shall be 3.5%; and (iii) more than twice the area average price, the LAT prepayment rate shall be 5%.

To further strengthen administration on levying of land appreciation tax, on June 20, 2013, the SAT promulgated the Circular on Further Improving the Collection and Administration of LAT (國家稅務總局關

於進一步做好土地增值稅徵管工作的通知), which stipulates that the local tax agencies shall: (i) fully understand the significance of levying of LAT and strengthen organizational leadership; (ii) deepen work, pay greater attention on settlement of LAT; and (iii) conscientiously implement and intensify supervision and inspection.

Real Estate Tax

Enterprises engaged in the development of and investment in real estate in China are required to pay real estate tax on land and buildings owned by them in China. The tax is charged at a rate of 1.2% based on the original value of the property discounted by 10% to 30%. If no original value is available, the tax chargeable is determined by the relevant local tax authorities with reference to the value of other properties of a similar nature.

Stamp Duty

Persons who have executed or received dutiable documents within China are subject to stamp tax. Dutiable documents include contracts or documents of a contractual nature for the sale of goods, the undertaking of processing work, the contracting of construction and engineering projects, the lease of property and technology, as well as transfer of property. A stamp tax by each party to the stampable documents at the rate of 0.05% is payable in respect of transfer of properties based on the contractual price of the property transferred and at the rate of 0.1% of the total amount of rent in respect of the leasing of properties.

Property Taxes

The State Council have approved, on a trial basis, the launch of a new property tax scheme in selected cities. On January 27, 2011, the governments of Shanghai and Chongqing issued their respective measures for implementing pilot property tax schemes, which became effective on January 28, 2011. Under the Shanghai Interim Rules of the Trial in Levy of Property Tax on Certain Houses (上海市開展對部分個人住房徵收房產稅試點的暫行辦法), among other things, starting on January 28, 2011, (i) Shanghai shall, on a trial basis, levy property taxes on a second or succeeding house in Shanghai which purchased by a local resident family and each house in Shanghai which is purchased by a non-local resident family; (ii) the applicable rate of the property tax is 0.4% or 0.6%, subject to specified circumstances; and (iii) the property tax shall be temporarily payable on the basis of 70% of the transaction value of the taxable house. Moreover, the Shanghai property tax rule provides several measures for tax deduction or exemption, including the rule that if a local resident family's GFA per capita, calculated on the basis of the consolidated living space 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 in Shanghai. Under the measures issued by the Chongqing government, the property tax in trial areas in nine major districts will be imposed on (i) stand-alone residential properties (such as villas) owned by individuals, (ii) high-end residential properties purchased by individuals on or after January 28, 2011, the purchase prices per square meter of which are two or more times of the average price of new residential properties developed within the nine major districts of Chongqing in the last two years and (iii) the second or further ordinary residential properties purchased on or after January 28, 2011 by individuals who are not local residents, or are not employed in and do not own an enterprise in Chongqing, at rates ranging from 0.5% to 1.2% of the purchase price of the property. Furthermore, the Chongqing property tax rule provides several possible deductions or exemptions, including the following: (i) for stand-alone residential properties owned before January 28, 2011, the deduction area is 180 sq.m; (ii) for newly purchased stand-alone residential properties and high-end residential properties, the deduction area is 100 sq.m; (iii) the deduction area shall be based on the family unit, and the deduction can only be enjoyed by one family for its single property. In addition, there is no deduction for individuals who are not local residents, not employed in or do not own an enterprise in Chongqing. These two governments may issue additional measures to tighten the levy of property tax. It is also expected that more local governments will follow Shanghai and Chongqing in imposing property tax on commodity properties, including Beijing, Shenzhen and Hangzhou.

MANAGEMENT

Our board is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of the members of our board:

Name	Age	Position
Hui Wing Mau (許榮茂).....	64	Chairman and executive director
Hui Sai Tan, Jason (許世壇).....	37	Vice chairman and executive director
Xu Younong (許幼農).....	56	Executive director
Tang Fei (湯沸)	44	Executive director
Liao Lujang (廖魯江)	43	Executive director
Liu Sai Fei (劉賽飛).....	53	Non-executive director
Kan Lai Kuen, Alice (簡麗娟)	60	Independent non-executive director
Lu Hong Bing (呂紅兵).....	48	Independent non-executive director
Lam Ching Kam (林清錦).....	54	Independent non-executive director

Directors

Executive Directors

Mr. HUI Wing Mau (許榮茂), aged 64, is the chairman and executive director of our Company and the founder of our Group. With over 24 years' experience in property development, property investment and hotel operation, he is primarily responsible for our Group's overall strategic planning and business management. Mr. Hui is currently a member of the National Committee of the Twelfth Chinese People's Political Consultative Conference ("CPPCC") and deputy director of the Economic Committee of the National Committee of the CPPCC, vice-president of All-China Federation of Returned Overseas Chinese, the president of China Federation of Overseas Chinese Entrepreneurs, vice president of China Overseas Chinese Entrepreneurs Association, chairman of Shanghai Overseas Chinese Chamber of Commerce, president of The Association for the Promotion of Global Chinese Traders Fraternity, executive president of China Red Ribbon Foundation and president of New Home Association Hong Kong. Mr. Hui obtained a master's degree in business administration from the University of South Australia. Mr. Hui is also the non-executive chairman of Shanghai Shimao and a director of Shimao International Holdings Limited ("Shimao International"). He is a director of Gemfair Investments Limited and Shiyang Finance Limited, substantial shareholders of our Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). He has been the chairman and an executive director of our Company since November 8, 2004. Mr. Hui is the father of Mr. Hui Sai Tan, Jason, the vice chairman and executive director of our Company, and Ms. Hui Mei Mei, Carol, the vice chairman of Shanghai Shimao.

Mr. HUI Sai Tan, Jason (許世壇), aged 37, the vice chairman and executive director of our Company. He has been the group sales controller since he joined our Group in March 2000. Mr. Jason Hui is responsible for the sales, marketing, management and design of our Group's projects. He has more than 15 years' experience in the property development industry and has presided over the sales and marketing of Shanghai Shimao Riviera Garden which boasted top sales proceeds among residential projects in Shanghai for four consecutive years from 2001 to 2004. Mr. Jason Hui obtained a master's degree in business administration from the University of South Australia in 2004, and a Master of Science degree in real estate from the University of Greenwich, the United Kingdom in 2001. He is a member of the Standing Committee of All-China Youth Federation and a member of Shanghai Committee of the CPPCC. He has been an executive director and the vice chairman of our Company since November 17, 2004 and April 21, 2008 respectively and was an executive director of Shimao International from July 2002 to June 2006. He is also a director of Shanghai Shimao. Mr. Jason Hui is the son of Mr. Hui Wing Mau, the chairman and executive director of our Company, and a brother of Ms. Hui Mei Mei, Carol, the vice chairman of Shanghai Shimao.

Mr. XU Younong (許幼農), aged 56, has joined our Group since June 2001 and was appointed an executive director of our Company on January 1, 2011. Mr. Xu is currently a vice president and regional president of our Group, responsible for project management of our Group. Mr. Xu holds a bachelor's degree

of engineering from Tong Ji University in Shanghai and has over 30 years' experience in architectural design and project management. Prior to joining our Group, he worked for Shanghai Building Material Industry Design Institute (上海市建築材料工業設計研究院) from 1983 to 1992 as an engineer and designer. From 1993 to 2001, he worked for Shanghai Fortune World Development Company Limited as project manager.

Ms. TANG Fei (湯沸), aged 44, has joined our Group since July 2004 and was appointed an executive director of our Company since February 6, 2013. Ms. Tang is currently a vice president of our Group, responsible for the financial control of the Group. Ms. Tang holds a master's degree in business administration from the University of South Australia and has over 20 years' experience in financial management and internal audit. Prior to joining the Group, Ms. Tang worked in the internal audit department of Bank of China, Head office from 1992 to 1998. She also worked in the audit department and treasury department of Bank of China (Hong Kong) Limited from 1999 to 2004.

Mr. LIAO Lujiang (廖魯江), aged 43, has joined our Group since January 2011 and was appointed an executive director of our Company since February 6, 2013. Mr. Liao is currently the chief operation officer of our Group, responsible for management of enterprise operation, human resources, information system and administrative support of our Group. Mr. Liao holds a master's degree in public administration from Tsinghua University and has over 11 years' experience in office administration, human resources management and staff training. Prior to joining our Group, Mr. Liao worked in Ianjia Group as senior human resources manager of northern district from 2003 to 2006. From 2006 to 2010, he worked for Beijing Longfor Properties Co., Ltd. as deputy human resources general manager and chief human resources officer (property).

Non-executive Director

Mr. LIU Sai Fei (劉賽飛), aged 53, has joined our Group since 2003, was appointed as our executive director since February 1, 2010 and has been re-designated as our non-executive director since January 9, 2015. He is also currently the president of Shanghai Shimao. Mr. Liu obtained a master's degree in project management from the University of Western Sydney, Australia in 2000. Mr. Liu has over 30 years' experience in architectural design and project management. Prior to joining our Group, he worked for CRG Contractors Dte from 1998 to 2001. From 2001 and 2003, he worked for Shanghai Merry Land Co. Ltd. as project manager.

Independent Non-executive Directors

Ms. KAN Lai Kuen, Alice (簡麗娟), aged 60, has been an independent non-executive director of our Company since March 16, 2006 and has more than 22 years' experience in corporate finance. She is a responsible officer of three licensed corporations registered under the SFO, namely Asia Investment Management Limited ("AIML"), Asia Investment Research Limited ("AIRL") and Lotus Asset Management Limited. AIML is currently the investment manager of China Investment Fund Company Limited which is listed on Hong Kong Stock Exchange. She is also a shareholder and the managing director of AIML and AIRL. Ms. Kan currently serves as an independent non-executive director on the boards of the following companies which are listed on Hong Kong Stock Exchange: Shougang Concord International Enterprises Company Limited, Regal Hotels International Holdings Limited, China Enengine International (Holdings) Limited and Cosmopolitan International Holdings Limited. She is also an independent director of AVIC International Maritime Holdings Limited, a company listed on Singapore Exchange Securities Trading Limited. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Directors. Ms. Kan held various senior positions in international and local banks and financial institutions.

Mr. LU Hong Bing (呂紅兵), aged 48, has been an independent non-executive director of our Company since November 17, 2004. He obtained a master's degree in law from the East China University of Politics and Law in 1991 and has more than 21 years' experience in corporate and securities laws in China. Mr. Lu currently serves as an independent director on the boards of the following companies which are listed on the Shanghai Stock Exchange: Shanghai Aerospace Automobile Electromechanical Co. Ltd. (上海航天汽車機電股份有限公司), Shanghai Jiaoda Onlly Co., Ltd. (上海交大昂立股份有限公司), Shanghai Metersbonwe Fashion & Accessories Co., Ltd. (上海美特斯邦威服飾股份有限公司) and Shanghai DaZhong Public Utilities (Group) Co., Ltd. (上海大眾公用事業 (集團) 股份有限公司). Mr. Lu is an

executive partner of the Grandall Legal Group, a vice-president of the executive council of the All China Lawyers Association, an arbitrator of the China International Economic and Trade Arbitration Commission, an arbitrator of the Shanghai Arbitration Committee, a concurrent professor of the East China University of Political Science and Law and the Shanghai Institute of Foreign Trade and a commissioner of the public offering commission of the Shanghai Stock Exchange. He was appointed as an independent non-executive director of the Shimao International from October 2001 to February 2005.

Mr. LAM Ching Kam (林清錦), aged 54, has been an independent non-executive director of our Company since June 1, 2006. He is currently a fellow member and committee member of the PRC committee (Quantity Surveying Division) of the Hong Kong Institute of Surveyors. Mr. Lam obtained a master's degree in business administration from the Hong Kong Open University in 2004 and is a fellow member of the Chartered Institute of Building and the Royal Institution of Chartered Surveyors. He was the vice chairman of the Royal Institution of Chartered Surveyors China Group from 2003 to 2006. He is a member of the China Civil Engineering Society (中國土木工程師學會會員) and also a registered China Costing Engineer (中國造價工程師執業資格). Mr. Lam has been a consultant to the Beijing Construction Project Management Association (北京市建設監理協會) since 2003 and has engaged in professional training and vocational education in China for more than 12 years. Mr. Lam has been in the property development and construction industry for 30 years, and has worked for construction contractors such as Shui On Building Contractors Limited, China State Construction Engineering Corporation and Hopewell Construction Co. Ltd. Mr. Lam was employed as a quantity surveyor and worked in London from 1990 to 1991. He was employed by certain consultant firms and the Architectural Services Department of the Hong Kong Government before he emigrated to Australia in 1996 and operated a project management firm in Sydney. Mr. Lam was the project controller of Sino Regal Ltd. (HK) for investment projects in China from 1994 to 1996. In 1998, Mr. Lam established a surveying and management consultant firm which has been participating in many large-scale projects in China and Macau, including a Beijing Olympic 2008 project involving the hotels, offices towers and commercial complex in Olympic Park, Beijing.

Financial Controller

Mr. YAU Kwan Shan (丘鈞山) is our financial controller of the Company. Mr. Yau is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Prior to joining our Company, he worked for an international accounting firm and a number of Hong Kong listed companies, with over 23 years of experience in accounting, finance and management.

Company Secretary

Ms. LAM Yee Mei, Katherine (林綺薇) is our assistant president and company secretary. Ms. Lam is an associate member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and holds a bachelor's degree and a master's degree in law from the University of London. She has over 22 years' experience in company secretarial practice.

Board Committees

Audit Committee

We have an audit committee in compliance with the Listing Rules. The audit committee consists of three members, all of whom are our independent non-executive directors. The chairman of the audit committee is Ms. Kan Lai Kuen, Alice, an independent non-executive director.

The primary duties of the audit committee are to assist the board to review and supervise the financial reporting process and internal control system of our Company, nominate and monitor external auditor and provide advice and comments to our Board.

Remuneration Committee

We have a remuneration committee. The remuneration committee consists of four members, comprising Mr. Hui Wing Mau and our three independent non-executive directors. The chairman of the remuneration committee is Mr. Lu Hong Bing.

The primary functions of the remuneration committee are to evaluate the performance and make recommendations on the remuneration package of our directors and senior management and evaluate, make recommendations on our share option schemes share award scheme, retirement scheme and our performance assessment system and bonus and commission policies.

Nomination Committee

We have a nomination committee. The nomination committee consists of four members, comprising Mr. Hui Wing Mau and our three independent non-executive directors. The chairman of the nomination committee is Mr. Hui Wing Mau.

The primary functions of the nomination committee are to identify and nominate suitable candidates for our Board's consideration and recommendation to stand for election by shareholders at annual general meetings, and when necessary, make recommendations to our Board regarding candidates to fill vacancies on our Board.

Compensation of Directors

The aggregate amount of compensation (including any salaries, fees, discretionary bonuses and other allowances and benefits in kind) paid by us during the years ended December 31, 2011, 2012 and 2013, to those persons who have been or are our directors, was approximately RMB24.1 million, RMB23.6 million and RMB27.2 million (US\$4.4 million), respectively.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding ownership of our outstanding shares as of October 31, 2014 by those persons who beneficially own more than 5% of our outstanding shares, as recorded in the register maintained by us pursuant to Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the “SFO”):

Name of Shareholder	Nature of Interest	Number of Shares	Approximate percentage of interest in our Company
Hui Wing Mau	(Note 1)	2,256,699,442	64.99%
Gemfair Investments Limited	(Note 2)	1,947,984,000	56.10%
Overseas Investment Group International Limited (“Overseas Investment”)	(Note 3)	1,947,984,000	56.10%
Shiying Finance Limited	(Note 4)	308,715,442	8.89%

Notes:

- (1) These 2,256,699,442 shares represent the interest in the Company held by Gemfair Investments Limited and Shiying Finance Limited, companies which are directly wholly owned by Mr. Hui Wing Mau.
- (2) The interest disclosed represents the interest in the Company held by Gemfair Investments Limited, a company which is directly wholly owned by Mr. Hui Wing Mau.
- (3) The interest disclosed represents the right of Overseas Investment to vote on behalf of Gemfair Investments Limited as a shareholder at general meetings of the Company, pursuant to a deed dated June 12, 2006 between Gemfair and Overseas Investment, as long as Mr. Hui Wing Mau or his associates (directly or indirectly) hold not less than a 30% interest in the Company.
- (4) The interest disclosed represents the interest in the Company held by Shiying Finance Limited, a company directly wholly owned by Mr. Hui Wing Mau.

Except as disclosed above, no other interest or short position in the shares and underlying shares of the Company were recorded in the register.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

As a listed company on The Stock Exchange of Hong Kong Limited, we are subject to the requirements of Chapter 14A of the Listing Rules which require certain “connected transactions” with “connected persons” be approved by a company’s independent shareholders. Each of our related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

Major Related Party Transactions

The following table sets forth certain material transactions between us and our related parties for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,		
	2011	2012	2013	2013	2013	2014	
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
	(in thousands)						
Major related party transactions:							
Operating lease rental expense charged by Shimao International ⁽¹⁾	3,738	5,411	5,411	872	2,705	2,705	436
Construction material sold to related companies	—	—	50,214	8,094	33,886	129	21
Key management compensation							
Emoluments							
- Salaries and other short-term employee benefits	29,553	28,416	26,313	4,242	8,556	9,181	1,480
- Retirement scheme contributions ..	131	122	276	44	135	141	23
- Employee share option schemes ..	—	2,489	—	—	—	—	—

Notes:

- (1) We rented a portion of office premises of Shimao International in Hong Kong for a term from January 1, 2009 to December 31, 2011 under a lease agreement dated January 1, 2009. On January 1, 2012, we renewed a lease agreement to lease part of the same office premises for a term from January 1, 2012 to December 31, 2013.

In addition, we had provided Shanghai Mason Club Co., Ltd. with the right to operate one of our clubhouses at a fee calculated based upon certain percentage of net profit of the clubhouse when it has achieved an accumulated net profit. During the three years ended December 31, 2013 and six month period ended June 30, 2014, the clubhouse was operated at loss and, therefore, no fee had been charged.

Non-competition Undertaking

In June 2009, we completed the restructuring with Shanghai Shimao Enterprises Development Co., Ltd. (“Shimao Enterprises”) and Shanghai Shimao (the “Restructuring”) and, as a result, Shimao Enterprises and Shanghai Shimao became our majority-owned subsidiaries. Upon completion of the Restructuring, we owned an approximately 50.9% equity interest in Shimao Enterprises and an approximately 64.21% equity interest in Shanghai Shimao. On October 27, 2007, our Company, Shanghai Shimao, Shimao Enterprises, Overseas Investment, Mr. Hui Wing Mau, Mr. Xu Shiyong and Shimao International entered into a supplementary agreement (“Revised Undertaking”) to a non-competition undertaking dated February 19, 2005 (the “Non-competition Undertaking”), to amend certain non-competition arrangements according to the changes in the relationships among the parties as contemplated upon completion of the Restructuring. Furthermore, in order to reflect the new commercial circumstances in relation to the new non-competition arrangements, our Company, Shanghai Shimao and Mr. Hui Wing Mau also entered into the PRC non-competition agreement dated October 22, 2007 (“PRC Non-competition Agreement”) to substitute certain undertakings previously given by our Company and Shanghai Shimao to each other under the Non-competition Undertaking. Upon completion of the Restructuring, the new non-competition arrangements contemplated under the Revised Undertaking and the PRC Non-competition Agreement became effective. The table below set forth the summary of these new non-competition arrangements:

	Our Group	Shanghai Shimao	Mr. Hui Wing Mau and the Private Group
Shareholding interests		Approximately 64.21% indirectly owned by our Company	Companies under the Private Group
Principal business	Residential property and hotel projects	Commercial property projects	Continue to hold a number of property development projects in the PRC undertaken by the Private Group prior to the Non-competition Undertaking
Delineation with our Group		Delineation by the nature of the development projects	No new competing business with our Group
Carve-outs		Shanghai Shimao’s existing projects in the PRC prior to the PRC Non-competition Agreement	The Private Group’s existing projects in the PRC prior to the Revised Undertaking and Mr. Hui Wing Mau’s certain personal interest
			Mr. Hui Wing Mau has the right to engage in property business outside the PRC in the event that our Company decides not to pursue such business

Provision of Guarantees by Mr. Hui Wing Mau in favor of Our Group

Mr. Hui Wing Mau has provided certain guarantees to secure our bank loans. As of June 30, 2014, we had not paid for or provided any benefit to Mr. Hui Wing Mau to induce him to provide these guarantees.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing property projects and to finance our working capital requirements, we have entered into loan agreements with various financial institutions. As of June 30, 2014, our total outstanding external borrowings amounted to RMB54,698.3 million (US\$8,817.2 million). Set forth below is a summary of the material terms and conditions of these loans and other indebtedness.

Project Loan Agreements

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, including China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, China CITIC Bank, Bank of China, China Minsheng Banking Co., Ltd., Ping An Bank, The Bank of East Asia Limited, Bank of Shanghai, The Hongkong and Shanghai Banking Corporation Limited, Evergrowing Bank, Ningbo Commerce Bank and Dah Sing Bank, Limited. These PRC bank loans are typically project loans to finance the construction of our projects (the “project loans”) and have terms ranging from one year to 10 years, which generally correspond to the construction periods of the particular projects. As of June 30, 2014, the aggregate outstanding amount under these project loans totaled approximately RMB31,822.7 million (US\$5,129.7 million), of which RMB6,969.7 million (US\$1,123.5 million) was due within one year, RMB8,297.2 million (US\$1,337.5 million) was due between one and two years, RMB18,760.5 million (US\$3,024.1 million) was due between two and five years and RMB6,092.5 million (US\$982.0 million) was due over five years. Our project loans are typically secured by land use rights and properties as well as guaranteed by our Company and certain of our PRC subsidiaries.

Interest

The principal amounts outstanding under the project loans generally bear interest at floating rates calculated by reference to the relevant bank’s benchmark interest rate per annum. Floating interest rates are generally subject to review by the banks annually. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of June 30, 2014, the weighted average interest rate on the aggregate outstanding amount of our project loans was 7.21% per annum.

Covenants

Under these project loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the lenders’ prior consent:

- create encumbrances on any part of their property or assets or deal with their assets in a way that may adversely affect their ability to repay the loans;
- grant guarantees to any third parties that may adversely affect their ability to repay the loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations;
- alter the nature or scope of their business operations in any material respect;
- incur additional debts that may adversely affect their ability to repay the loans;
- prepay the loans; and
- transfer part or all of their liabilities under the loans to a third party.

Events of Default

The project loans contain certain customary events of default, including insolvency, material adverse change in the collateral and breaches of the terms of the loan agreements. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

Guarantee and Security

Our Company and certain of our PRC subsidiaries have entered into guarantee agreements with the PRC banks in connection with some of the project loans pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these project loans. Further, as of June 30, 2014, RMB29,387.7 million (US\$4,737.2 million) of the project loans were secured by land use rights and/or other assets and properties of the subsidiary borrowers and/or our other PRC subsidiaries, including equity interests in certain of our PRC subsidiaries.

Dividend Restrictions

Pursuant to the project loans with certain PRC banks, some of our PRC subsidiaries also agreed not to distribute any dividend:

- if the borrower's after-tax profit is nil or negative;
- before the principal amount of and accrued interest on the relevant project loan have been fully paid; or
- before any principal amount of and accrued interest on the relevant project loan due within the period have been fully paid.

2011 Notes

On March 8, 2011, we entered into an indenture (as amended or supplemented from time to time, the "2011 Indenture"). Pursuant to the 2011 Indenture, we issued US\$350,000,000 principal amount of 11% senior notes due 2018 (the "2011 Notes"). As of the date of this offering memorandum, a total of US\$350,000,000 principal amount of the 2011 Notes is outstanding. We plan to use part of the net proceeds from this offering to redeem the 2011 Notes in part or in whole.

Guarantee

The obligations pursuant to the 2011 Notes are guaranteed by our existing subsidiaries (the "2011 Subsidiary Guarantors" or "2011 JV Subsidiary Guarantors," as the case may be) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the 2011 Indenture.

Each of the 2011 Subsidiary Guarantors and 2011 JV Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal of, any premium and interest on, and all other amounts payable under, the 2011 Notes.

Collateral

On March 8, 2011, the trustee for the 2011 Notes acceded to the Intercreditor Agreement, pursuant to which the 2011 Notes are secured by the 2010 Collateral, as supplemented from time to time (such collateral, the "2011 Collateral"), on a *pari passu* basis.

The 2011 Collateral and the subsidiary guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the 2011 Indenture may, subject to certain conditions, incur additional indebtedness which would be secured by the 2011 Collateral on a *pari passu* basis with the 2011 Notes and the related subsidiary guarantees.

Interest

The 2011 Notes bear an interest rate of 11% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the 2011 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The 2011 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the 2011 Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the 2011 Indenture or the holders of at least 25% of the outstanding 2011 Notes may declare the principal of the 2011 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we are required to make an offer to repurchase all outstanding 2011 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the 2011 Notes is March 8, 2018.

At any time on or after March 8, 2015, we may redeem the 2011 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth in the table below if redeemed during each period indicated below, plus any accrued and unpaid interest to the redemption date:

Period	Redemption Price
March 8, 2015 — March 7, 2016	105.50%
March 8, 2016 — March 7, 2017	102.75%
March 8, 2017 — March 7, 2018	100.00%

At any time prior to March 8, 2015, we may redeem the 2011 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2011 Notes, plus a premium and any accrued and unpaid interest to the redemption date.

At any time prior to March 8, 2014, we may redeem up to 35% of the aggregate principal amount of the 2011 Notes at a redemption price equal to 111% of the principal amount of the 2011 Notes, plus any accrued and unpaid interest with the proceeds from sales of certain kinds of the Company's capital stock, subject to certain conditions.

Additionally, if we or a subsidiary guarantor under the 2011 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2011 Notes at a redemption price equal to 100% of the principal amount of the 2011 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

2012 Syndicated Loan Facilities

On November 26, 2012, we entered into a credit agreement in connection with multi-currency term loan facilities (the "2012 Syndicated Loan Facilities"), comprising a US\$610,000,000 facility and a HK\$468,000,000 facility, with HSBC, Hang Seng Bank Limited, SCB, The Bank of East Asia, Limited and Sumitomo Mitsui Banking Corporation as mandated coordinating arrangers and SCB as facility agent.

The proceeds of the 2012 Syndicated Loan Facilities are to be used to refinance our existing indebtedness or for general corporate purposes, including any investment in fixed assets. On December 7, 2012, we drew down US\$510,000,000 and HK\$391,278,689 from the 2012 Syndicated Loan Facilities. In January 2013, we drew down all the remaining principal amounts of US\$100,000,000 and HK\$76,721,311 from the 2012 Syndicated Loan Facilities. As of the date of this offering memorandum, US\$457,500,000 and HK\$351,000,000 are outstanding under the 2012 Syndicated Loan Facilities.

Interest

Under the credit agreement, the interest rate applicable for an interest period is LIBOR, in the case of a U.S. dollar loan, or HIBOR, in the case of a Hong Kong dollar loan, in each case, plus a margin of 3.90% per annum. If we fail to pay the sum due on its payment date, interest shall accrue on the unpaid sum from the due date up to the date of actual payment, and interest on an overdue amount (provided that such overdue amount is not a principal amount of the loan) is payable at a rate determined by the facility agent to be 2% per annum above the rate which would have been payable.

Maturity and Prepayment

The loan facilities are repayable in four semi-annual installments and in the amounts as follows: (i) on the date falling 18 months after the date of the credit agreement, 10% of the outstanding loan facilities; (ii) on the date falling 24 months after the date of the credit agreement, 15% of the outstanding loan facilities; (iii) on the date falling 30 months after the date of the credit agreement, 30% of the outstanding loan facilities; and (iv) on the date falling 36 months after the date of the credit agreement, 45% of the outstanding loan facilities. We have the right to prepay the facilities by giving not less than 30 days' prior notice (or such shorter period as the facility agent, acting on the instructions of the majority lenders, may agree) to the facility agent.

Collateral

On January 14, 2013, the facility agent for the 2012 Syndicated Loan Facilities and the trustee for the 2013 Notes acceded to the Intercreditor Agreement, pursuant to which both the 2012 Syndicated Loan Facilities and the 2013 Notes are secured by the 2011 Collateral, as supplemented from time to time (such collateral, the "2013 Collateral"), on a pari passu basis. See "—2013 Notes" below.

Guarantee and Indemnity

Our obligations under the credit agreement are guaranteed by our certain subsidiaries which are incorporated outside of the PRC.

Covenants

Pursuant to the facility agreement, we agreed to the following financial covenants:

- our consolidated tangible net worth shall not at any time be less than RMB30,000,000,000;
- the ratio of consolidated net borrowings to consolidated tangible net worth shall not at any time be more than 0.80:1;
- the ratio of consolidated current assets to consolidated current liabilities shall not at any time be less than 1:1;
- fixed charge coverage ratio in respect of any relevant period shall be no less than 3.00:1; and
- the ratio of consolidated PRC borrowings to consolidated total tangible assets is not at any time more than 0.45:1.

We have further agreed, among other things, that we will not (i) declare or pay any dividends or make any other distribution in the form of cash to our shareholders in excess of 35% of our consolidated net profit after tax in any financial year; or (ii) create or allow to exist any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect on any of its assets, unless such security interest is a permitted security interest as defined in the credit agreement, including security interest the benefit of which is extended equally and rateably to the lenders under the credit agreement.

Events of Default

The credit agreement contains certain customary events of default, including insolvency and breaches of the terms of the credit agreement. The facility agent, as directed by the majority lenders, is entitled to terminate the all or any part of the total commitment and/or declare that all or part of any amounts outstanding immediately due and payable and/or payable on demand by the facility agent acting on the instructions of the majority lenders.

2013 Notes

On January 14, 2013, we entered into an indenture (as amended or supplemented from time to time, the “2013 Indenture”). Pursuant to the 2013 Indenture, we issued US\$800,000,000 principal amount of 6.625% senior notes due 2020 (the “2013 Notes”). As of the date of this offering memorandum, a total of US\$800,000,000 principal amount of the 2013 Notes is outstanding.

Guarantee

The obligations pursuant to the 2013 Notes are guaranteed by our existing subsidiaries (the “2013 Subsidiary Guarantors” or “2013 JV Subsidiary Guarantors,” as the case may be) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the 2013 Indenture.

Each of the 2013 Subsidiary Guarantors and 2013 JV Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal of, any premium (if any) and interest on, and all other amounts payable under, the 2013 Notes.

Collateral

On January 14, 2013, the facility agent for the 2012 Syndicated Loan Facilities and the trustee for the 2013 Notes acceded to the Intercreditor Agreement, pursuant to which both the 2012 Syndicated Loan Facilities and the 2013 Notes are secured by the 2013 Collateral on a *pari passu* basis.

The 2013 Collateral and the subsidiary guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the 2013 Indenture may, subject to certain conditions, incur additional indebtedness which would be secured by the 2013 Collateral on a *pari passu* basis with the 2013 Notes and the related subsidiary guarantees.

Interest

The 2013 Notes bear an interest rate of 6.625% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the 2013 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries’ ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and

- effecting a consolidation or merger.

Events of Default

The 2013 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the 2013 Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the 2013 Indenture or the holders of at least 25% of the outstanding 2013 Notes may declare the principal of the 2013 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we are required to make an offer to repurchase all outstanding 2013 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the 2013 Notes is January 14, 2020.

At any time on or after January 14, 2017, we may redeem the 2013 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth in the table below if redeemed during each period indicated below, plus any accrued and unpaid interest to the redemption date:

Period	Redemption Price
January 14, 2017 — January 13, 2018.....	103.3125%
January 14, 2018 — January 13, 2019.....	101.65625%
January 14, 2019 — January 13, 2020.....	100.0000%

At any time prior to January 14, 2017, we may redeem the 2013 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2013 Notes, plus a premium and any accrued and unpaid interest to the redemption date.

At any time prior to January 14, 2016, we may redeem up to 35% of the aggregate principal amount of the 2013 Notes at a redemption price equal to 106.625% of the principal amount of the 2013 Notes, plus any accrued and unpaid interest with the proceeds from sales of certain kinds of the Company's capital stock, subject to certain conditions.

Additionally, if we or a subsidiary guarantor under the 2013 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2013 Notes at a redemption price equal to 100% of the principal amount of the 2013 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

2013 Syndicated Loan Facilities

On June 14, 2013, we entered into a credit agreement in connection with multi-currency term loan facilities (the "2013 Syndicated Loan Facilities"), comprising a US\$320,000,000 facility and a HK\$1,950,000,000 facility, with HSBC, Bank of China Limited Macau Branch, Hang Seng Bank Limited, SCB, The Bank of East Asia, Limited and Sumitomo Mitsui Banking Corporation, Tai Fung Bank Limited and Deutsche Bank AG, Singapore Branch as mandated coordinating arrangers and SCB as facility agent.

The proceeds of the 2013 Syndicated Loan Facilities are to be used to refinance our existing indebtedness or for general corporate purposes, including any investment in fixed assets. In July 2013, we drew down US\$320,000,000 and HK\$1,950,000,000 from the 2013 Syndicated Loan Facilities in full, a part of which we used to redeem the outstanding 2006 Notes. As of the date of this offering memorandum, US\$320,000,000 and HK\$1,950,000,000 are outstanding under the 2013 Syndicated Loan Facilities.

Interest

Under the credit agreement, the interest rate applicable for an interest period is LIBOR, in the case of a U.S. dollar loan, or HIBOR, in the case of a Hong Kong dollar loan, in each case, plus a margin of 3.50% per annum. If we fail to pay the sum due on its payment date, interest shall accrue on the unpaid sum from the due date up to the date of actual payment, and interest on an overdue amount (provided that such overdue amount is not a principal amount of the loan) is payable at a rate determined by the facility agent to be 2% per annum above the rate which would have been payable.

Maturity and Prepayment

The loan facilities are repayable in five semi-annual installments and in the amounts as follows: (i) on the date falling 24 months after the date of the credit agreement, 5% of the outstanding loan facilities; (ii) on the date falling 30 months after the date of the credit agreement, 10% of the outstanding loan facilities; (iii) on the date falling 36 months after the date of the credit agreement, 15% of the outstanding loan facilities; (iv) on the date falling 42 months after the date of the credit agreement, 20% of the outstanding loan facilities; and (v) on the date falling 48 months after the date of the credit agreement, 50% of the outstanding loan facilities. We have the right to prepay the facilities by giving not less than 30 days' prior notice (or such shorter period as the facility agent, acting on the instructions of the majority lenders, may agree) to the facility agent.

Collateral

The 2013 Syndicated Loan Facilities are initially not secured by collateral. Due to the financial covenant relating to the creation of security interest on our assets we have agreed to in the credit agreement as described below, the facility agent for the 2013 Syndicated Loan Facilities will join the Trustee to become parties to the Intercreditor Agreement upon the closing of this offering so that the 2013 Syndicated Loan Facilities will be secured by the 2013 Collateral on a *pari passu* basis with the Notes, the 2013 Notes and certain other indebtedness.

Guarantee and Indemnity

Our obligations under the credit agreement are guaranteed by our certain subsidiaries which are incorporated outside of the PRC.

Covenants

Pursuant to the facility agreement, we agreed to the following financial covenants:

- our consolidated tangible net worth shall not at any time be less than RMB30,000,000,000;
- the ratio of consolidated net borrowings to consolidated tangible net worth shall not at any time be more than 0.80:1;
- the ratio of consolidated current assets to consolidated current liabilities shall not at any time be less than 1:1;
- fixed charge coverage ratio in respect of any relevant period shall be no less than 3.00:1; and
- the ratio of consolidated PRC borrowings to consolidated total tangible assets is not at any time more than 0.45:1.

2014 Notes

On January 22, 2014, we entered into an indenture (as amended or supplemented from time to time, the “2014 Indenture”), pursuant to which we issued US\$600,000,000 principal amount of 8.125% senior notes due 2021 (the “2014 Notes”). As of the date of this offering memorandum, US\$600,000,000 principal amount of the 2014 Notes is outstanding.

Guarantee

The obligations under the 2014 Notes are guaranteed by our existing subsidiaries (the “2014 Subsidiary Guarantors” or “2014 JV Subsidiary Guarantors,” as the case may be) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the 2014 Indenture.

Each of the 2014 Subsidiary Guarantors and 2014 JV Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal of, any premium (if any) and interest on, and all other amounts payable under, the 2014 Notes.

Collateral

On January 22, 2014, the facility agent for the 2013 Syndicated Loan Facilities and the trustee for the 2014 Notes acceded to the Intercreditor Agreement, pursuant to which both the 2013 Syndicated Loan Facilities and the 2014 Notes are secured by the 2014 Collateral on a *pari passu* basis.

The 2014 Collateral and the subsidiary guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the 2014 Indenture may, subject to certain conditions, incur additional indebtedness which would be secured by the 2014 Collateral on a *pari passu* basis with the 2014 Notes and the related subsidiary guarantees.

Interest

The 2014 Notes bear an interest rate of 8.125% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the 2014 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries’ ability to pay dividends, transfer assets or make intercompany loans;

- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The 2014 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the 2014 Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the 2014 Indenture or the holders of at least 25% of the outstanding 2014 Notes may declare the principal of the 2014 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we are required to make an offer to repurchase all outstanding 2014 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the 2014 Notes is January 22, 2021.

At any time on or after January 22, 2018, we may redeem the 2014 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth in the table below if redeemed during each period indicated below, plus any accrued and unpaid interest to the redemption date:

Period	Redemption Price
January 22, 2018 — January 21, 2019	104.063%
January 22, 2019 — January 21, 2020	102.031%
January 22, 2020 — January 21, 2021	100.000%

At any time prior to January 22, 2018, we may redeem the 2014 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2014 Notes, plus a premium and any accrued and unpaid interest to the redemption date.

At any time prior to January 22, 2017, we may redeem up to 35% of the aggregate principal amount of the 2014 Notes at a redemption price equal to 108.125% of the principal amount of the 2014 Notes, plus any accrued and unpaid interest with the proceeds from sales of certain kinds of the Company's capital stock, subject to certain conditions.

Additionally, if we or a subsidiary guarantor under the 2014 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2014 Notes at a redemption price equal to 100% of the principal amount of the 2014 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

2014 ICBC Asia Facility I

We received a letter of offer dated May 5, 2014 from Industrial and Commercial Bank of China (Asia) Limited ("ICBC Asia") as lender in connection with a term loan facility of HK\$60,000,000 (US\$7,741,736) (the "2014 ICBC Asia Facility I"). We drew down HK\$60,000,000 (US\$7,741,736) under the 2014 ICBC Asia Facility I on May 30, 2014. As of the date of this offering memorandum, HK\$60,000,000 (US\$7,741,736) remains outstanding under the 2014 ICBC Asia Facility I.

Interest

Interest on the 2014 ICBC Asia Facility I is computed at 2.70% per annum over three-month HIBOR, payable at the end of each interest period. An additional interest at ICBC Asia's then prevailing overdue or

over limit interest rate will be payable on sums which are overdue, and may be compounded monthly or at such other intervals as ICBC Asia determines. ICBC Asia may, without prejudice to its other rights, increase the interest rate on the entire amount outstanding under the 2014 ICBC Asia Facility I automatically and without prior notice as soon as and if any amount becomes overdue.

Maturity and Prepayment

The 2014 ICBC Asia Facility I is due one year from drawdown, or 15 days before the expiry of the relevant standby letter of credit, whichever is earlier.

We may prepay the 2014 ICBC Asia Facilities I on the interest payment date subject to one day prior written notice to ICBC Asia. A prepayment fee of 0.2% on the prepaid loan amount is payable.

Guarantee

The drawdown we have made under the 2014 ICBC Asia Facility I as of the date of this offering memorandum is guaranteed by a one-year stand-by letter of credit issued by a Bank of Beijing, Shanghai Branch, for a maximum of RMB50,000,000 (US\$8,059,836).

2014 ICBC Asia Facility II

We received a letter of offer dated July 8, 2014 from ICBC Asia as lender in connection with a term loan facility of HK\$1,740,000,000 (US\$224,510,335) (the “2014 ICBC Asia Facility II”). We drew down HK\$1,471,700,000 (US\$237,233,219) and HK\$158,300,000 (US\$25,517,441) under the 2014 ICBC Asia Facility II on August 4, 2014 and August 5, 2014, respectively. As of the date of this offering memorandum, HK\$1,630,000,000 (US\$210,317,153) remains outstanding under the 2014 ICBC Asia Facility II.

Interest

Interest on the 2014 ICBC Asia Facility II is computed at 2.70% per annum over three-month HIBOR, payable at the end of each interest period. An additional interest at ICBC Asia’s then prevailing overdue or over limit interest rate will be payable on sums which are overdue, and may be compounded monthly or at such other intervals as ICBC Asia determines. ICBC Asia may, without prejudice to its other rights, increase the interest rate on the entire amount outstanding under the 2014 ICBC Asia Facility II automatically and without prior notice as soon as and if any amount becomes overdue.

Maturity and Prepayment

The 2014 ICBC Asia Facility II is due one year from drawdown, or 15 days before the expiry of the relevant standby letter of credit, whichever is earlier.

We may prepay the 2014 ICBC Asia Facilities II on the interest payment date subject to one day prior written notice to ICBC Asia. A prepayment fee of 0.2% on the prepaid loan amount is payable.

Guarantee

The drawdown we have made under the 2014 ICBC Asia Facility II as of the date of this offering memorandum is guaranteed by a one-year stand-by letter of credit issued by a syndicate of banks, for a maximum of RMB1,450,000,000 (US\$233,735,250).

2014 Syndicated Loan Facilities

On June 12, 2014, we entered into a credit agreement in connection with multi-currency term loan facilities (the “2014 Syndicated Loan Facilities”), comprising a US\$665,000,000 facility and a HK\$555,000,000 facility, with HSBC and Hang Seng Bank Limited as mandated lead arrangers and coordinators, The Bank of East Asia, Limited, Standard Chartered Bank (Hong Kong) Limited, Sumitomo

Mitsui Banking Corporation, Tai Fung Bank Limited, Goldman Sachs Bank USA, China CITIC Bank International Limited, JPMorgan Chase Bank, N.A., Hong Kong Branch, Morgan Stanley Senior Funding, Inc. and UBS AG, Hong Kong Branch as mandated lead arrangers, certain financial institutions as specified therein as original lenders and SCB as facility agent.

The proceeds of the 2014 Syndicated Loan Facilities are to be used to refinance our existing indebtedness or for general corporate purposes, including any investment in fixed assets. In July 2014, we drew down US\$665,000,000 and HK\$555,000,000 from the 2014 Syndicated Loan Facilities in full, a part of which we used to redeem the outstanding 2010 Notes. As of the date of this offering memorandum, US\$665,000,000 and HK\$555,000,000 are outstanding under the 2014 Syndicated Loan Facilities.

Interest

Under the credit agreement, the interest rate applicable for an interest period is LIBOR, in the case of a U.S. dollar loan, or HIBOR, in the case of a Hong Kong dollar loan, in each case, plus a margin of 3.3% per annum. If we fail to pay the sum due on its payment date, interest shall accrue on the unpaid sum from the due date up to the date of actual payment, and interest on an overdue amount (provided that such overdue amount is not a principal amount of the loan) is payable at a rate determined by the facility agent to be 2% per annum above the rate which would have been payable.

Maturity and Prepayment

The loan facilities are repayable in five semi-annual installments and in the amounts as follows: (i) on the date falling 24 months after the date of the credit agreement, 5% of the outstanding loan facilities; (ii) on the date falling 30 months after the date of the credit agreement, 10% of the outstanding loan facilities; (iii) on the date falling 36 months after the date of the credit agreement, 15% of the outstanding loan facilities; (iv) on the date falling 42 months after the date of the credit agreement, 20% of the outstanding loan facilities; and (v) on the date falling 48 months after the date of the credit agreement, 50% of the outstanding loan facilities. We have the right to prepay the facilities by giving not less than 30 days' prior notice (or such shorter period as the facility agent, acting on the instructions of the majority lenders, may agree) to the facility agent.

Collateral

The 2014 Syndicated Loan Facilities are initially not secured by collateral. In December 2014, the facility agent for the 2014 Syndicated Loan Facilities executed a supplement to the Intercreditor Agreement to become a party thereto so that the 2014 Syndicated Loan Facilities are secured by the 2014 Collateral on a *pari passu* basis with the 2014 Notes and certain other indebtedness.

Guarantee and Indemnity

Our obligations under the credit agreement are guaranteed by our certain subsidiaries which are incorporated outside of the PRC.

Covenants

Pursuant to the facility agreement, we agreed to the following financial covenants:

- our consolidated tangible net worth shall not at any time be less than RMB30,000,000,000;
- the ratio of consolidated net borrowings to consolidated tangible net worth shall not at any time be more than 0.80:1;
- the ratio of consolidated current assets to consolidated current liabilities shall not at any time be less than 1:1;

- fixed charge coverage ratio in respect of any relevant period shall be no less than 3.00:1; and
- the ratio of consolidated PRC borrowings to consolidated total tangible assets is not at any time more than 0.45:1.

2014 BoC Singapore Facility I

We received a letter of offer dated July 25, 2014 from Bank of China Limited Singapore Branch (“BoC Singapore”) as lender in connection with a term loan facility of US\$122,000,000 (the “2014 BoC Singapore Facility I”). The proceeds of the facilities are to be used for general working capital requirements.

We drew down an aggregate amount of US\$122,000,000 under the 2014 BoC Singapore Facility I on September 18, 2014. As of the date of this offering memorandum, an aggregate amount of US\$122,000,000 remains outstanding under the 2014 BoC Singapore Facility I.

Interest

Interest on the 2014 BoC Singapore Facility I is computed at 2.70% per annum over LIBOR, payable at the end of each interest period. An additional interest of 2.00% per annum or such other rate BoC Singapore may determine at its sole discretion will be payable on sums which are overdue.

Maturity and Prepayment

The 2014 BoC Singapore Facility I is due one year from drawdown, or on the date of termination of the 2014 BoC Singapore Facility I, whichever is earlier.

We may prepay the 2014 BoC Singapore Facility I with one month’s prior notice in writing.

2014 BoC Singapore Facility II

We received a letter of offer dated July 25, 2014 from BoC Singapore as lender in connection with a term loan facility of US\$61,000,000 (the “2014 BoC Singapore Facility II”). The proceeds of the facilities are to be used for general working capital requirements.

We drew down an aggregate amount of US\$61,000,000 under the 2014 BoC Singapore Facility II on October 7, 2014 and November 3, 2014. As of the date of this offering memorandum, an aggregate amount of US\$61,000,000 remains outstanding under the 2014 BoC Singapore Facility II.

Interest

Interest on the 2014 BoC Singapore Facility II is computed at 2.70% per annum over LIBOR, payable at the end of each interest period. An additional interest of 2.00% per annum or such other rate BoC Singapore may determine at its sole discretion will be payable on sums which are overdue.

Maturity and Prepayment

The 2014 BoC Singapore Facility II is due one year from drawdown, or before the expiry of the relevant standby letter of credit, whichever is earlier.

We may prepay the 2014 BoC Singapore Facility II with one months’ prior notice in writing.

Guarantee

The drawdowns we have made under the 2014 BoC Singapore Facility II as of the date of this offering memorandum are guaranteed by one-year standby letters of credit issued by Bank of China Limited, Shanghai Branch, dated July 22, 2014, for a maximum of RMB400,000,000.

2014 BoC Luxembourg Facility

We received a letter of offer dated October 15, 2014 from Bank of China Limited, Luxembourg Branch (“BoC Luxembourg”) as lender in connection with a term loan facility of US\$50,000,000 (the “2014 BoC Luxembourg Facility”).

We drew down an amount of US\$50,000,000 under the 2014 BoC Luxembourg Facility on October 31, 2014. As of the date of this offering memorandum, an aggregate amount of US\$50,000,000 remains outstanding under the 2014 BoC Luxembourg Facility.

Interest

Interest on the 2014 BoC Singapore Facility II is computed at 2.80% per annum over LIBOR, payable at the end of each interest period. An additional interest of 2.00% per annum will be payable on sums which are overdue.

Maturity and Prepayment

The 2014 BoC Luxembourg Facility is due on October 27, 2017 or such date as extended at the discretion of BoC Luxembourg.

We may prepay the 2014 BoC Luxembourg Facility in whole or in part with a bonus or penalty rate at 2.00%.

2014 HSBC Facility

Brand Rise Limited, one of our subsidiaries in which we own 80% interest, received a letter of offer dated November 7, 2014 from The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) as lender in connection with a term loan facility of HK\$920,000,000 (US\$118,706,614) (the “2014 HSBC Facility”).

We drew down an amount of HK\$915,261,200 (US\$118,095,172) under the 2014 HSBC Facility on November 17, 2014. As of the date of this offering memorandum, an aggregate amount of HK\$915,261,200 (US\$118,095,172) remains outstanding under the 2014 HSBC Facility.

Interest

Interest on the 2014 HSBC Facility is computed at 2.00% per annum over one, two, three or six months HIBOR, payable at the end of each interest period. An additional interest of 8.00% per annum will be payable on sums which are overdue.

Maturity and Prepayment

The 2014 HSBC Facility is due six months from drawdown.

We may prepay the 2014 HSBC Facility with HSBC’s prior approval and a prepayment fee of 0.1% of the amount repaid.

Guarantee

The drawdown we have made under the 2014 HSBC Facility as of the date of this offering memorandum is guaranteed by (i) a first ranking building mortgage over our project at Tung Chung Town Lot No.38 in Area 53a; (ii) debenture incorporating a first floating charge over all the assets of Brand Rise Limited, (iii) a guarantee limited to HK\$736,000,000 (US\$94,965,291) from us, and (iv) a guarantee limited to HK\$184,000,000 (US\$23,741,323) from Mingfa Group (International) Company Limited, a third party who owns the remaining 20% interest in Brand Rise Limited.

Other Obligations

We have provided certain guarantees in connection with borrowing arrangements of certain of our jointly-controlled entities, as described further below. Even though such contingent liabilities are not considered indebtedness in our consolidated financial statements, they are nevertheless treated as indebtedness under the 2011 Indenture, the 2013 Indenture and the 2014 Indenture.

Tianjin Jinnan New City Guarantee

We are developing Tianjin Jinnan New City in Tianjin through Tianjin Jinnan New City Property Development Co., Ltd. (“Tianjin JV Co”), a joint venture with Agile, R&F and KWG in which we hold a 25% interest. On May 21, 2013, Tianjin JV Co, as borrower, entered into a three-year RMB1,000 million term loan facility with certain financial institutions, as lenders. In connection with the loan facility, Shanghai Shimao Jianshe Co., Ltd., our wholly owned subsidiary, provided a guarantee up to an amount in proportion to our percentage of investment in the joint venture in favor of the lenders.

On October 10, 2013, Charm Talent Limited (Tianjin JV Co’s Hong Kong holding company), a joint venture with Agile, R&F and KWG in which we hold a 25% interest, as borrower, entered into a three-year HK\$2,700 million term loan facility with, among others, The Bank of East Asia, Limited, HSBC and SCB, as lenders. In connection with the loan facility, we provided a guarantee up to an amount in proportion to our percentage of investment in the joint venture in favor of the lenders.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to Shimao Property Holdings Limited, and any successor obligor on the Notes, and not to any of its subsidiaries. Each subsidiary of the Company which guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.” Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee (as defined herein) is referred to as a “JV Subsidiary Guarantor.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and Citicorp International Limited, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) and the Intercreditor Agreement. This summary does not purport to be complete and is subject to and qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) and the Intercreditor Agreement. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at 39/F, Citibank Tower, 3 Garden Road, Central, Hong Kong.

Citibank, N.A., an affiliate of the Trustee, acts as the Shared Security Agent. Citicorp International Limited acts as the trustee for the 2011 Notes (the “2011 Notes Trustee”), the trustee for the 2013 Notes (the “2013 Notes Trustee”) and the trustee for the 2014 Notes (the “2014 Notes Trustee”).

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment against the Company with respect to the 2011 Notes, the 2012 Syndicated Loan Facilities, the 2013 Notes, the 2013 Syndicated Loan Facilities, the 2014 Notes, the 2014 Syndicated Loan Facilities and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “— The Subsidiary Guarantees and JV Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;
- effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor (other than the Collateral); and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries, including the Prior Notes JV Subsidiary Guarantor (as defined below).

In addition, on the Original Issue Date, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”, the Notes will be secured by a pledge of the Collateral as described below under the caption “— Security” and will:

- be entitled to the benefit of a lien on the Collateral (subject to any Permitted Liens and shared on a *pari passu* basis with (i) the holders of the 2011 Notes, (ii) the lenders under the 2012 Syndicated Loan Facilities, (iii) the holders of the 2013 Notes, (iv) the lenders under the 2013 Syndicated Loan Facilities, (v) the holders of the 2014 Notes, (vi) the lenders under the 2014 Syndicated Loan Facilities and (vii) any holders of other Permitted *Pari Passu* Secured Indebtedness); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on February 10, 2022, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes to be issued from time to time (together, the “Additional Notes”), subject to certain limitations described under “— Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will bear interest at 8.375% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on February 10 and August 10 of each year (each an “Interest Payment Date”), commencing August 10, 2015.

Interest on the Notes will be paid to the Holders of record at the close of business on January 26 or July 26 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment, then payment of principal, premium or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of the Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be the corporate trust administration office of the principal paying agent of the Notes, currently located at Citibank, N.A., London Branch, 1 North Wall Quay, Dublin 1, Ireland) and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Trustee, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees and JV Subsidiary Guarantees

As of the date of the Indenture, all of the Company's Subsidiaries other than Shanghai Shimao Riviera (Hong Kong) Limited will be "Restricted Subsidiaries." However, under the circumstances described below under the caption "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company's Unrestricted Subsidiaries will not guarantee the Notes.

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company's Restricted Subsidiaries other than the Existing Non-Guarantor Subsidiaries and the Prior Notes JV Subsidiary Guarantor (each as defined below). Certain of the Subsidiary Guarantors are holding companies that do not have significant operations.

None of the Subsidiaries organized under the laws of the PRC (together, the "PRC Non-Guarantor Subsidiaries"), Excel Land Investments Limited, Orient Talent Limited, Speedy Gains Limited, Great Element Limited (欣元有限公司), Joy Select Limited (欣澤有限公司), Idea New Limited (意新有限公司), Super Matrix Holdings Limited, Shimao Property Investments Limited (世茂房地產投資有限公司), Modern Way Holdings Limited, Assets Charm Limited, Shimao Mini Hotel Group Limited, Benesome Limited, Century Select Limited, Dynamic Classic Holdings Limited, Easygain Global Limited, Genuine Victory Holdings Limited, Insight Best Limited, Precision One Investments Limited, Sino Fusion Ventures Limited, Sino Green Group Limited, Starry Vision Limited and Year Honour Limited, which are subsidiaries organized under the laws of BVI (together, the "BVI Non-Guarantor Subsidiaries"), Sparkle First Limited, Brand Rise Limited, Ample Fortune Architectural Design and Construction Consultancy Limited, Shimao Property Investments (HK) Limited, Whole New Limited (星喜有限公司), Mount Profit Investments Limited, Prosper Rise Construction Material Trading Limited, Shanghai Talent Limited, Adventure Success Limited, All Excellent Limited, Best Harmony Limited, Bonus Yield Limited, Grandeur Hope Limited, Huge Profit Creation Limited, Legend One Limited, Powerful Brilliant Limited, Smart Arch Limited and Upper Bonus Limited, which are subsidiaries organized under the laws of Hong Kong (together, the "HK Non-Guarantor Subsidiaries," together with the BVI Non-Guarantor Subsidiaries and the PRC Non-Guarantor Subsidiaries, the "Existing Non-Guarantor Subsidiaries") will provide a Subsidiary Guarantee on the Original Issue Date. In addition, none of the future Restricted Subsidiaries that may be organized under the laws of the PRC or any Exempted Subsidiaries (as defined below) will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at any time in the future. Moreover, Summer Sky Investments Limited, which is a JV subsidiary guarantor under the 2011 Notes and the 2013 Notes but does not provide subsidiary guarantee or JV subsidiary Guarantee with respect to the 2014 Notes, will not provide Subsidiary Guarantee or JV Subsidiary Guarantee with respect to the Notes (the "Prior Notes JV Subsidiary Guarantor"). Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries organized under the laws of the PRC may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to, or on behalf of, the Company.

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC or Exempted Subsidiaries) to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Subsidiary will Guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor, as soon as practicable after such Person becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary. Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee (such Restricted Subsidiary a "New Non-Guarantor Subsidiary") at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary; *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 25% of the Total Assets of the Company.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than through a JV Subsidiary Guarantee is referred to as a “Future Subsidiary Guarantor” and, upon execution of the applicable supplemental indenture to the Indenture, will be a “Subsidiary Guarantor.”

As of June 30, 2014,

- the Company and its consolidated subsidiaries had total consolidated borrowings of approximately RMB54,698 million (US\$8,817 million), of which RMB51,466 million (US\$8,296 million) was secured; and
- the Existing Non-Guarantor Subsidiaries and the Prior Notes JV Subsidiary Guarantor had total liabilities (including borrowings) of approximately RMB115,223 million (US\$18,574 million).

In addition, the Existing Non-Guarantor Subsidiaries and the Prior Notes JV Subsidiary Guarantor had total capital commitments and contingent liabilities of approximately RMB50,366 million (US\$8,119 million) as of June 30, 2014.

In the case of a Restricted Subsidiary (1) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (2) that is incorporated in any jurisdiction other than the PRC, and (3) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase the Capital Stock of an Independent Third Party and designate such entity as a Restricted Subsidiary, the Company may, concurrently with the consummation of such sale or purchase, provide a JV Subsidiary Guarantee instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (1) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (2) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is purchased from, an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company;
- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee and, if applicable, the Shared Security Agent (as defined below):
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;

- (iii) an Officers' Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
- (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing the JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor (other than the Collateral);
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* in right of payment with the guarantees provided for the 2011 Notes, the 2012 Syndicated Loan Facilities, the 2013 Notes, the 2013 Syndicated Loan Facilities, the 2014 Notes, the 2014 Syndicated Loan Facilities and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law).

If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

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

In addition, subject to the limitations described in "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral", the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be entitled to a security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption "— Security"; shared on a *pari passu* basis with (i) the holders of the 2011 Notes, (ii) the lenders under the 2012 Syndicated Loan Facilities, (iii) the holders of the 2013 Notes, (iv) the lenders under the 2013 Syndicated Loan Facilities, (v) the holders of the 2014 Notes, (vi) the lenders under the 2014 Syndicated Loan Facilities and (vii) any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness; and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The JV Subsidiary Guarantee of any JV Subsidiary Guarantor will not be secured.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will jointly and severally Guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; *provided* that any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will (1) agree that their respective obligations under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable:

- each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be Guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally; and
- each JV Subsidiary Guarantee will be limited to an amount which is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be Guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

No assurance can be given that the preceding provision limiting the maximum amount of each Subsidiary Guarantee or JV Subsidiary Guarantee will be given effect. If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable for any reason, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor's liability on its JV Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees."

Release of the Subsidiary Guarantees and JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor (if any) may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under "— Defeasance — Defeasance and Discharge";
- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture;

- upon the sale, disposition or merger of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under the captions “— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Certain Covenants — Limitation on Asset Sales” and “— Consolidation, Merger and Sale of Assets”) resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company’s other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale, disposition or merger are used for the purposes permitted or required by the Indenture;
- in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee; or
- in the case of a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, in compliance with the terms of the Indenture.

In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may concurrently with the consummation of such sale or issuance of Capital Stock, (a) instruct the Trustee to release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC, and upon such release such Subsidiary Guarantor and its Restricted Subsidiaries organized outside the PRC will become “New Non-Guarantor Subsidiaries” (such that each New Non-Guarantor Subsidiary will no longer Guarantee the Notes) and (b) instruct the Shared Security Agent to (i) discharge the pledge of the Capital Stock granted by each such New Non-Guarantor Subsidiary and (ii) discharge the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such New Non-Guarantor Subsidiary, (in each case, without any requirement to seek the consent or approval of the Holders), *provided* that after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors (including the New Non-Guarantor Subsidiaries) do not account for more than 25% of the Total Assets of the Company. A Subsidiary Guarantee of a Subsidiary Guarantor may only be released pursuant to this paragraph if as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (b) requiring the Company or such Subsidiary Guarantor to deliver or keep in place a guarantee of other Indebtedness of the Company by such Subsidiary Guarantor.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (x) such Subsidiary Guarantor or (y) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale, whether through the sale of existing shares or the issuance of new shares, is for no less than 20% of the Capital Stock of the relevant Subsidiary Guarantor, *provided* that the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (1) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (2) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale is made to an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company;

- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee and, if applicable, the Shared Security Agent:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantees have been approved by a majority of the disinterested members of the Board of Directors; and
 - (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including the "Limitation on Asset Sales" and "Limitation on Restricted Payments" covenants.

Any Net Cash Proceeds from the sale of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the "Limitation on Asset Sales" covenant.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantor from its JV Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Trustee has received an Officers' Certificate from the Company stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the Indenture.

Security

The Company has agreed, for the benefit of the Holders, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors (the "Collateral") (subject to Permitted Liens) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee.

The Company and the initial Subsidiary Guarantor Pledgors have agreed to:

- (a) execute one or more Security Documents granting to the Trustee, for the benefit of the Holders, Liens on the relevant Collateral (subject to any Permitted Liens);
- (b) take all requisite steps under applicable laws and undertake other customary procedures in connection with the granting and perfection (if relevant) of the Lien on the relevant Collateral (subject to any Permitted Liens); and
- (c) deliver to the Trustee on the Original Issue Date an Opinion of Counsel and an Officers' Certificate relating to each such pledge in form and substance as set forth in the Indenture.

The initial Subsidiary Guarantor Pledgors are Able Power Enterprises Limited, All Modern Investments Limited, Best Empire Investments Limited, Charm Mix Group Limited, Charm Sum Enterprises Limited, Dokino International Limited, Double Achieve Assets Limited, Eagle House Enterprises Limited, East Light Group Limited, Easy Reach Group Limited (易達集團有限公司), Everactive Properties Limited, Exceed New Limited, Fast Intellect Investments Limited, Favor Luck Holdings Limited, Favor Rich International Limited, Fine Sharp Investments Limited, Fine Union Group Limited, Gain Come Group Limited, Glorify Property Investments Limited, Goldprime Holdings Limited, Greater Tiger International Limited, Intellect Joy Investments Limited, Keen View Limited, Lead Win Enterprises Limited, Marble Mountain Group Limited, Marvel Joyday International Limited, Max Act Investments Limited, Max Champion Holdings Limited, Max Start International Limited, Mega Make Investments Limited, Mega Universe Limited, Money Raider Enterprises Limited, Move Max Investments Limited, New Fine International Limited, New Fit Investments Limited, Peak Castle Assets Limited, Peak Gain International Limited (峰盈國際有限公司), Penders Enterprises Limited, Perfect East Investments Limited, Plenty Up Investments Limited, Prime Master Holdings Limited, Profun Group Limited, Proven Earn Holdings Limited, Rich Town Group Limited, Richly Holdings Limited, Roadstead Holdings Limited, Rocket High Group Limited, Running Leopard International Limited, Running Lion Group Limited, Running Panda Limited, See Bright Enterprises Limited, Shanghai Shimao Investment Management and Consultancy (HK) Limited, Shimao Property Holdings (BVI) Limited, Shimao Travel Limited (世茂旅遊有限公司), Sino Run Investments Limited, Smart Sea Group Limited, Super Good Group Limited, Surenew Group Limited, Talent Investor Investments Limited, Talenta Group Limited, Terimay Enterprises Limited, Tiger Go Group Limited, Top Roof International Limited, Topleigh Holdings Limited, Turbo Up Holdings Limited, Unique Choice Investments Limited, Upper Aim International Limited, Vicking International Ltd., Whole Grace Enterprises Limited, Wickfair Investments Limited, Wise Plenty Investments Limited, World Known International Limited, Xinwin International Limited, Year Grant Investments Limited, Year Joy Holdings Limited, World Rich Group Limited, Ho Yeung Group Limited (浩洋集團有限公司), Magical Year Limited and Ultimate Eagle Limited.

The Collateral will not consist of the pledge of shares by the Company in Shimao Property Holdings (BVI) Limited, Shimao Property Holdings (BVI) Limited in Peak Castle Assets Limited or Peak Castle Assets Limited in Modern Way Holdings Limited.

None of the Capital Stock of the Existing Non-Guarantor Subsidiaries will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC or any New Non-Guarantor Subsidiary will be pledged at any time in the future. If any JV Subsidiary Guarantor is established, the Capital Stock of such JV Subsidiary Guarantor owned by the Company or any Subsidiary Guarantor will be pledged to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, as the case may be, in the manner described above. However, none of the JV Subsidiary Guarantors will provide a Security Document pledging the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Trustee.

The Company has also agreed, for the benefit of the Holders, to pledge, or cause each Subsidiary Guarantor (other than a JV Subsidiary Guarantor, if any) to pledge, the Capital Stock owned directly by the Company or such Subsidiary Guarantor of any Person that becomes a Subsidiary Guarantor or JV Subsidiary Guarantor after the Original Issue Date, within 30 days after such Person becomes a Subsidiary Guarantor or JV Subsidiary Guarantor, to secure (subject to Permitted Liens) the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor Pledgor under its Subsidiary Guarantee, in the manner described above.

Each Subsidiary Guarantor that pledges Capital Stock of a Restricted Subsidiary after the Original Issue Date is referred to as a “Future Subsidiary Guarantor Pledgor” and, upon giving such pledge, will be a “Subsidiary Guarantor Pledgor.”

The Collateral will be shared on a *pari passu* basis by the Holders and the holders of other secured indebtedness including the holders of the 2011 Notes, the lenders under the 2012 Syndicated Loan Facilities, the holders of the 2013 Notes, the lenders under the 2013 Syndicated Loan Facilities, the holders of the 2014

Notes and the lenders under the 2014 Syndicated Loan Facilities. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness.

The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) is unlikely to be sufficient to satisfy the Company's and each of the Subsidiary Guarantor Pledgors' obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement), and the Collateral securing the Notes and such Subsidiary Guarantee (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture and the Intercreditor Agreement. See “— Release of Security” and “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes, the 2011 Notes, the 2013 Notes, the 2014 Notes, the 2012 Syndicated Loan Facilities, the 2013 Syndicated Loan Facilities, the 2014 Syndicated Loan Facilities and other *pari passu* secured indebtedness.”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture, the Intercreditor Agreement and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement). By its nature, all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted *Pari Passu* Secured Indebtedness

On or after the Original Issue Date, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) or any Subsidiary Guarantor and any *Pari Passu* Guarantee with respect to such Indebtedness (such Indebtedness of the Company or any Subsidiary Guarantor and any such *Pari Passu* Guarantee, “Permitted *Pari Passu* Secured Indebtedness”); *provided* that (1) the Company or such Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant under the caption “— Limitation on Indebtedness and Preferred Stock,” (2) the holders (or their representative) of such Indebtedness (other than Additional Notes) become party to the Intercreditor Agreement referred to below; (3) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral and such *Pari Passu* Guarantee is substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor than the provisions of the Indenture and the Security Documents; and (4) the Company and such Subsidiary Guarantor Pledgor promptly deliver to the Trustee an Opinion of Counsel and an Officers' Certificate with respect to corporate and collateral matters in connection with the Security Documents, stating that either (x) all necessary actions have been taken with respect to the recording, registering and filing of the Security Documents or (y) no such action is necessary to make such Lien effective. The Trustee or the Shared Security Agent, as the case may be, will be permitted and authorized, without the consent of any Holder, to enter into any amendments to the Intercreditor Agreement, the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of

Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness).

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Agreement

(i) The Company, (ii) the Subsidiary Guarantor Pledgors, (iii) Citibank, N.A. (the “Shared Security Agent”) and (iv) Citibank, N.A., as trustee with respect to the Senior Floating Rate Notes due 2011 and 8.0% Senior Notes due 2016 issued by the Company, entered into an amended and restated intercreditor agreement (the “Intercreditor Agreement”) dated January 14, 2010, to which the 2010 Notes Trustee acceded on August 3, 2010 which was subsequently released as a secured party upon full redemption of the 2010 Notes, to which the 2011 Notes Trustee acceded on March 8, 2011, to which the 2013 Notes Trustee and the facility agent under the 2012 Syndicated Loan Facilities acceded on January 14, 2013, to which the 2014 Notes Trustee and the facility agent under the 2013 Syndicated Loan Facilities acceded on January 22, 2014, to which the facility agent under the 2014 Syndicated Loan Facilities acceded on December 23, 2014, and to which the Trustee will accede on the Original Issue Date, pursuant to which it will agree to (1) share equal priority and *pro rata* entitlement in and to the Collateral; (2) the conditions that are applicable to the release of or granting of any Lien on such Collateral; and (3) the conditions under which their rights with respect to such Collateral and the Indebtedness secured thereby will be enforced.

In connection with the Incurrence of any future Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the holders of such Permitted Pari Passu Secured Indebtedness (or their agent, trustee or representative) will accede to the Intercreditor Agreement and become parties to it.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Agreement, any amendments or modifications thereto, and any future intercreditor agreement required under the Indenture.

Enforcement of Security

The Liens securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors will be granted to the Shared Security Agent, subject to *pari passu* sharing. The Shared Security Agent will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the written instruction of the Holders to exercise remedies under the Security Documents. The Shared Security Agent has agreed to act as secured party on behalf of the Holders under the applicable Security Documents, to follow the instructions provided to it under the Indenture and the Security Documents and to carry out certain other duties.

The Indenture and/or the Security Documents principally provide that, at any time while any of the Notes are outstanding, the Shared Security Agent has the exclusive right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce all privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture.

All payments received and all amounts held by the Shared Security Agent in respect of the Collateral under the Security Documents will be applied as follows:

first, to the Shared Security Agent for any unpaid fees, costs and expenses under the Intercreditor Agreement or the Security Documents;

second, pro rata to each of the Trustee for the benefit of Holders, the 2011 Notes Trustee for the benefit of the holders of the 2011 Notes, the lenders under the 2012 Syndicated Loan Facilities, the 2013 Notes Trustee for the benefit of the holders of the 2013 Notes, the lenders under the 2013 Syndicated Loan Facilities, the 2014 Notes Trustee for the benefit of the holders of the 2014 Notes, the lenders under the 2014 Syndicated Loan Facilities and, to the extent applicable, to holders of future Permitted Pari Passu Secured Indebtedness (or their representative), inclusive of any fees and expenses of each secured party, and the principal, interest and premium thereon and for the benefit of the holders of each thereof in accordance with the terms of the relevant secured party document; and

third, any surplus remaining after such payments will be paid to the Company or the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Shared Security Agent may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification to its satisfaction. In addition, the Shared Security Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Shared Security Agent's Liens on the Collateral. Neither the Trustee, the Shared Security Agent nor any of their respective officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents provide that the Company and the Subsidiary Guarantor Pledgors will indemnify the Trustee and the Shared Security Agent for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Trustee or the Shared Security Agent arising out of the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence or willful misconduct of the Trustee.

This section, "— Enforcement of Security," shall be subject to any amendments to the Intercreditor Agreement, the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with "— Permitted Pari Passu Secured Indebtedness" above.

Release of Security

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under the caption "— Defeasance — Defeasance and Discharge";
- upon certain dispositions of the Collateral in compliance with the covenants under the captions "— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" or "— Limitation on Asset Sales" or in accordance with the provision under the caption "— Consolidation, Merger and Sale of Assets";
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture;
- with respect to a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, the release of the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such New Non-Guarantor Subsidiary;

- in connection with and upon execution of a JV Subsidiary Guarantee to replace a Subsidiary Guarantee with respect to all pledges of Capital Stock granted by such JV Subsidiary Guarantor or its Subsidiaries in its direct and indirect Subsidiaries, in accordance with the terms of the Indenture; and
- with respect to any pledge over any Capital Stock of any Subsidiary Guarantor or JV Subsidiary Guarantor, upon the designation by the Company of such Subsidiary Guarantor or JV Subsidiary Guarantor as an Unrestricted Subsidiary in accordance with the terms of the Indenture.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) and the pledges of the Collateral) in all respects (or in all respects except for the issue date, issue price and the date of the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the “Limitation on Indebtedness and Preferred Stock” covenant described below.

Optional Redemption

At any time and from time to time on or after February 10, 2019, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve-month period beginning on February 10 of the years indicated below.

Period	Redemption Price
2019	104.188%
2020	102.094%
2021 and thereafter	100.000%

At any time and from time to time prior to February 10, 2018, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 108.375% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

At any time prior to February 10, 2019, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

Selection and Notice

The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Notes for redemption will be selected as follows:

- (1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed (if any) or any applicable requirements of the clearing systems through which the Notes are held; or

- (2) if the Notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such other method as the Trustee in its sole and absolute discretion shall deem to be fair and appropriate unless otherwise required by law or by applicable stock exchange or clearing system requirements.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. With respect to any Certificated Note, a new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on the Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a “Change of Control Offer”) at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company’s failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company’s ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company’s and the Subsidiary Guarantor’s then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon a Change of Control Triggering Event.”

The phrase “all or substantially all,” as used with respect to the assets of the Company in the definition of “Change of Control,” will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of “all or substantially all” the assets of the Company has occurred.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption “— Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor or an applicable JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, if applicable, the PRC (each, as applicable, a “Relevant Taxing Jurisdiction”) or any jurisdiction through which payments are made (or any political subdivision or taxing authority thereof or therein) (together with each Relevant Taxing Jurisdiction, as applicable, a “Relevant Jurisdiction”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or the applicable JV Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(1) for or on account of:

- (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;
 - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor or JV Subsidiary Guarantor addressed to the Holder to provide information concerning such Holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;

- (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any withholding or deduction that is required to be made pursuant to European Council Directive 2003/48/EC or any other directive amending, supplementing or replacing such directive, or any law implementing or complying with, or introduced in order to conform to, such directives;
 - (d) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended (“FATCA”), any current or future Treasury Regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, any law, regulation or other official guidance enacted in any jurisdiction implementing such an intergovernmental agreement or FATCA, or any agreement with the U.S. Internal Revenue Service under FATCA; or
 - (e) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b), (c) and (d); or
- (2) with respect to any payment of the principal of, or premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee or JV Subsidiary Guarantee to a Holder, if the Holder is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor, with respect to the fiduciary, a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

As a result of these provisions, there are circumstances in which taxes could be withheld or deducted but Additional Amounts would not be payable to some or all beneficial owners of Notes.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest, on any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days’ nor more than 60 days’ notice to the Holders (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the “Tax Redemption Date”) if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment is proposed and becomes effective (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the

case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will deliver to the Trustee:

- (1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above and shall not be obligated to verify the accuracy or content thereof, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided* that the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Non-Guarantor Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 3.0 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following ("Permitted Indebtedness"):
 - (a) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee and JV Subsidiary Guarantee;
 - (b) any Pari Passu Guarantees;
 - (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d); *provided* that such Indebtedness of Non-Guarantor Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;

- (d) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d), (ii) if the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, in the case of the Company, the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor, or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, in the case of a JV Subsidiary Guarantor; and (iii) if the Indebtedness is owed to the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor, such Indebtedness must be evidenced by an unsubordinated promissory note or a similar instrument under applicable law;
- (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h), (p), (q), (r), (s), (v) or (w) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded, (iii) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor and (iv) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of Indebtedness of any JV Subsidiary Guarantor;
- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (g) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any

Person that owns such real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; *provided* that in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (h) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (r), (s), (u), (v) and (w) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses or this clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;

- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self- insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit, trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;
- (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;
- (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business *provided, however*, that such Indebtedness is extinguished within five Business Days of Incurrence;
- (m) Indebtedness Incurred by the Company constituting a Subordinated Shareholder Loan;
- (n) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant or (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (f) or (h) above or clause (o) below or (iii) Guarantees by any JV Subsidiary Guarantor of Indebtedness of any other JV Subsidiary Guarantor that is a direct or indirect Subsidiary or parent of such JV Subsidiary Guarantor, which Indebtedness was permitted to be Incurred by another provision of this covenant;

- (o) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (o) at any time outstanding does not exceed US\$50.0 million (or the Dollar Equivalent thereof);
- (p) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$30.0 million (or the Dollar Equivalent thereof);
- (q) Indebtedness Incurred by any Restricted Subsidiary which is secured by Investment Properties, and Guarantees thereof by the Company or any such Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (q) (together with refinancings thereof, but excluding any Guarantee Incurred under this clause (q) to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed 50% of the total Value of such Investment Properties;
- (r) Bank Deposit Secured Indebtedness Incurred by the Company or any of its Restricted Subsidiaries, *provided* that on the date of Incurrence of such Indebtedness, the aggregate principal amount outstanding of such Indebtedness permitted by this clause (r) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clause (h) above or clauses (s), (u), (v) and (w) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (r) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
- (s) Indebtedness Incurred or Preferred Stock issued by the Company or any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness or issuance of Preferred Stock and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness and Preferred Stock permitted by this clause (s) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h) and (r) above and clauses (u), (v) and (w) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (s) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
- (t) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement;
- (u) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Minority Interest Staged Acquisition Agreement; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (u) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (r) and (s) above and clauses (v) and (w) below and the

refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (u) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;

- (v) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) by the Company or such Restricted Subsidiary, if the aggregate of all Indebtedness Incurred under this clause (v) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (r), (s), and (u) above and clause (w) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (v) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets; and
 - (w) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Person becomes a Restricted Subsidiary (other than Indebtedness Incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which a Person becomes a Restricted Subsidiary or (ii) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (w) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (r), (s), (u) and (v) above and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (w) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (1), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.
 - (4) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred or Preferred Stock that may be issued pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies, *provided* that such Indebtedness was permitted to be incurred at the time of such Incurrence.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than dividends or distributions payable solely in shares of the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Restricted Subsidiary;

- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Restricted Subsidiary, other than the purchase of Capital Stock of a Person pursuant to a Staged Acquisition Agreement;
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any of the Subsidiary Guarantees or any of the JV Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”; or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Measurement Date, shall exceed the sum of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on October 1, 2006 and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
 - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus
 - (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company’s consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus
 - (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net

Income) after the Measurement Date, (B) the unconditional release of a Guarantee (to the extent such Guarantee when given constituted a Restricted Payment made under this covenant) provided by the Company or a Restricted Subsidiary after the Measurement Date of an obligation of another Person, (C) to the extent that an Investment made after the Measurement Date is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person; plus

(v) US\$20.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence, other than to a Subsidiary of the Company, of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company, any Subsidiary Guarantor or JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or a sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or a sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;
- (5) any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a *pro rata* basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, at least 50% of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;
- (6) dividends paid to, or the purchase of Capital Stock of any Restricted Subsidiary held by any Trust Company Investor in respect of any Indebtedness outstanding on the Original Issue Date or permitted to be Incurred under paragraph (2)(s) of the “Limitation on Indebtedness and Preferred Stock” covenant;
- (7) the purchase by the Company or a Restricted Subsidiary of Capital Stock of any Restricted Subsidiary that is not Wholly Owned, directly or indirectly, by the Company from an Independent Third Party pursuant to an agreement entered into between/among the Company or any Restricted Subsidiary and such Independent Third Party solely for the purpose of acquiring real property or land use rights, *provided* that (x) such purchase occurs within 12 months after such Restricted

Subsidiary acquires the real property or land use rights it was formed to acquire and (y) the Company delivers to the Trustee a Board Resolution set forth in an Officers' Certificate confirming that, in the opinion of the Board of Directors, the purchase price of such Capital Stock is less than or equal to the Fair Market Value of such Capital Stock;

- (8) (A) the repurchase, redemption or other acquisition or retirement for value of the Capital Stock of the Company or any Restricted Subsidiary (directly or indirectly, including through any trustee, agent or nominee) in connection with an employee benefit plan, and any corresponding Investment by the Company or any Restricted Subsidiary in any trust or similar arrangements to the extent of such repurchased, redeemed, acquired or retired Capital Stock, or (B) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing); *provided* that the aggregate consideration paid for all such repurchased, redeemed, acquired or retired Capital Stock shall not exceed US\$50.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (9) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company, *provided, however*, that any such cash payment shall not be for the purpose of evading the limitation of this “— Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company); or
- (10) payments pursuant to a Minority Interest Staged Acquisition Agreement if, on the date that such Minority Staged Acquisition Agreement was entered into, such payments would have complied with the preceding paragraph;

provided that, in the case of clause (2), (3) or (4) of this paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) or (10) of the preceding paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this “— Limitation on Restricted Payments” covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment (other than any Restricted Payments set forth in clauses (5) through (9) above) in excess of US\$10.0 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this “— Limitation on Restricted Payments” covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) declare or pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;

- (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
- (c) make loans or advances to the Company or any other Restricted Subsidiary; or
- (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary;

provided that for the avoidance of doubt the following shall not be deemed to constitute such an encumbrance or restriction: (i) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on Common Stock; (ii) the subordination of loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness Incurred by the Company or any Restricted Subsidiary; and (iii) the provisions contained in documentation governing Indebtedness requiring transactions between or among the Company and any Restricted Subsidiary or between or among any Restricted Subsidiary to be on fair and reasonable terms or on an arm's length basis.

- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
 - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness or Pari Passu Guarantee, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (b) existing under or by reason of applicable law, rule, regulation or government order;
 - (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
 - (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Limitation on Indebtedness and Preferred Stock” and “— Limitation on Asset Sales” covenants;

- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness or issuance of Preferred Stock of the type described under clause (2)(h), (2)(o), (p), (r) or (s) of the “Limitation on Indebtedness and Preferred Stock” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make any required payment on the Notes and, any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
- (g) existing in customary provisions in joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee; or
- (h) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Indenture at the time of such designation and not incurred in contemplation of such designation, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Subsidiary or its subsidiaries or the property or assets of such Subsidiary or its subsidiaries, and any extensions, refinancing, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Restricted Subsidiary;
- (2) to the extent such Capital Stock represents director’s qualifying shares or is required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary;
- (3) for the issuance or sale of the Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the “— Limitation on Restricted Payments” covenant if made on the date of such issuance or sale and *provided* that the Company complies with the “— Limitation on Asset Sales” covenant, *provided further* that, paragraph (v) of clause (16) of the definition of “Permitted Investment” shall not apply if such Restricted Payment would otherwise have been permitted under clause (16) of such definition; or

- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the “— Limitation on Asset Sales” covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness (“Guaranteed Indebtedness”) of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor, unless (1) (a) such Restricted Subsidiary, simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee (in the case of a Subsidiary Guarantor) or JV Subsidiary Guarantee (in the case of a JV Subsidiary Guarantor) of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clause (2)(c), (2)(d), (2)(n)(ii) (other than, in the case of clause (2)(n)(ii), (x) Guarantee by a PRC Restricted Subsidiary of the Indebtedness of a non-PRC Restricted Subsidiary that is not a Subsidiary of such PRC Subsidiary or (y) a Guarantee by a non-PRC Restricted Subsidiary that is not a Subsidiary Guarantor or a JV Subsidiary Guarantor of Indebtedness of a Subsidiary Guarantor or a JV Subsidiary Guarantor) or (2)(r) (in the case of clause (2)(r), with respect to the Guarantee provided by the Company or any Restricted Subsidiary through the pledge of cash deposits, bank accounts or other assets to secure (or the use of any Guarantee, letter of credit or similar instrument to Guarantee) any Bank Deposit Secured Indebtedness) under the caption “— Limitation on Indebtedness and Preferred Stock.”

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness of the Company or any other Restricted Subsidiary unless the aggregate claims of the creditor under such guarantee will be limited to the JV Entitlement Amount. If any JV Subsidiary Guarantor guarantees any Indebtedness of the Company or any other Restricted Subsidiary where the aggregate claims of the creditor under such guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by a Subsidiary Guarantor.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and

- (2) the Company delivers to the Trustee:
- (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees and other compensation to directors of the Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clauses (1), (2) or (3) of the first paragraph of the covenant described above under the caption “— Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme;
- (6) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Restructuring Group entered into in connection with the Hotel Restructuring, including, without limitation, transactions entered into for purposes of any reorganization in connection with the Hotel Restructuring and the entry into, and the performance thereof, of any underwriting agreement or other transaction documents in connection with the Hotel Restructuring;
- (7) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Restructuring Group entered into in the ordinary course of business, on fair and reasonable terms and disclosed in the offering document issued in connection with the Hotel Restructuring, or any amendment or modification or extension or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original transaction described in the offering document issued in connection with the Hotel Restructuring and in compliance with the rules of the relevant Qualified Exchange;
- (8) any purchase of Capital Stock of the type specified in clause (6) or (7) of the second paragraph of the covenant entitled “— Limitation on Restricted Payments” or the purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement; or
- (9) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (8) of the second paragraph of the covenant entitled “— Limitation on Restricted Payments.”

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the “— Limitation on Restricted Payments” covenant, (ii) Investments in any corporation, association or other business entity made under clause (16) of the definition of “Permitted Investment,” *provided* that such Investment is on a *pro rata* basis (or on a basis no less favorable to the Company than on a *pro rata* basis) to the interest the Company or any of its Restricted Subsidiary has in such entity as compared to the other shareholders or partners of such entity, (iii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iv) any transaction between or among the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary or between or among the Company or a Restricted Subsidiary on the one hand and a Minority Joint Venture or an Unrestricted Subsidiary on the other hand; *provided* that in the case of this clause (iv), (a) such transaction is entered into in the ordinary course of business and (b) none of the shareholders or partners (other than the Company or any Restricted Subsidiary) of or in such Minority Joint Venture, Unrestricted Subsidiary or Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such shareholder or partner being an officer or director of such Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary, as the case may be).

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind (other than the Collateral), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or any Restricted Subsidiary could have (a) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described above under “— Limitation on Indebtedness and Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “— Limitation on Liens,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or any Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described below under the caption “— Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investment or Replacement Assets (as defined below); *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$50.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
 - (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion;

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or any Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) acquire Replacement Assets.

Pending application of such Net Cash Proceeds as set forth in clause (1) or (2) above, the Company or any Restricted Subsidiary may make an Investment in cash or Temporary Cash Investments.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1), (2) and (3) in the immediately preceding paragraph will constitute "Excess Proceeds." Excess proceeds of less than US\$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount

of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (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.

Limitation on the Company's Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided, however*, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited when made by the covenant under the caption “— Limitation on Restricted Payments.”

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans as contemplated, under the caption “Use of Proceeds” in this offering memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investment.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) neither the Company nor any Restricted Subsidiary Guarantor provides credit support for the Indebtedness of such Restricted Subsidiary; (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock” or such Lien would violate the covenant described under the caption “— Limitation on Liens”; (5) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (6) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “— Limitation on Restricted Payments” (other than any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Hotel Group in connection with the Hotel Restructuring upon designation of the Subsidiaries in the Hotel Group as Unrestricted Subsidiaries, *provided* that (i) the Board of Directors of the Company has determined in good faith that the designation of the Subsidiaries in the Hotel Group as Unrestricted Subsidiaries is necessary to obtain approval from a Qualified Exchange for the Hotel Restructuring, (ii) at the time of such designation, the members of the Restructuring Group remain Subsidiaries of the Company, and (iii) at the time of such designation, the members of the Restructuring Group remain primarily engaged in the Permitted Businesses).

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock”; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “— Limitation on Liens”; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted

Subsidiary); (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor or a JV Subsidiary Guarantor to the extent required under the caption “— The Subsidiary Guarantees and JV Subsidiary Guarantees”; and (6) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged to the extent required under “— Security.”

Governmental Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee, the relevant JV Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from two of the three Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from at least two of the three Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (2) “— Certain Covenants — Limitation on Restricted Payments”;
- (3) “— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “— Certain Covenants — Limitation on the Company’s Business Activities”;
- (6) “— Certain Covenants — Limitation on Sale and Leaseback Transactions”;
- (7) “— Certain Covenants — Limitation on Asset Sales”; and
- (8) “— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries.”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstituted and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under “— Certain Covenants — Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company’s common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarters of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year ending after the Original Issue Date, an Officers’ Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarter periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company’s external auditors verifying the accuracy and correctness of the calculation and arithmetic computation, *provided* that the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and

(b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Events of Default

The following events will be defined as "Events of Default" in the Indenture with respect to the Notes:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenants described under — Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "— Repurchase of Notes upon a Change of Control Triggering Event" or "— Certain Covenants — Limitation on Asset Sales," or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a Lien on the Collateral (subject to any Permitted Liens) in accordance with the covenant described under the caption "— Security";
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary (other than a Subordinated Shareholder Loan) having an outstanding principal amount of US\$20.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$20.0 million (in excess of amounts which the Company's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any Significant Restricted Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Significant Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any Significant Restricted Subsidiary (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the

appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Significant Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors;

- (9) any Subsidiary Guarantor or any JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee of the Notes or, except as permitted by the Indenture, any Subsidiary Guarantee or any JV Subsidiary Guarantee of the Notes is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;
- (10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Intercreditor Agreement and Security Documents or the Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under the Intercreditor Agreement or any Security Document or, other than in accordance with the Indenture, the Intercreditor Agreement and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Trustee ceases to have a security interest in the Collateral (subject to Permitted Liens).

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture with respect to any Notes, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Significant Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all the Holders of Notes waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders with respect to the Collateral as the Trustee deems appropriate. See “— Security.”

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any

direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders of Notes not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders of Notes.

A Holder of Notes may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity referred to in (2) and (3) above; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

A Holder of Notes may not use the Indenture to prejudice the rights of another Holder of Notes or to obtain a preference or priority over another Holder of Notes.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify, on or before a date not more than 120 days after the end of each fiscal year ending after the Original Issue Date, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee of any default or defaults in the performance of any covenants or agreements under the Indenture. See "— Provision of Financial Statements and Reports."

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong, Bermuda or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;

- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption “— Consolidation, Merger and Sale of Assets,” shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries’ properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than to another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor);
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “— Limitation on Asset Sales” covenant or to any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “— The Subsidiary Guarantees and JV Subsidiary Guarantees — Release of the Subsidiary Guarantees and JV Subsidiary Guarantees.”

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company that may adversely affect Holders.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below has been made, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust and to pay Additional Amounts) if, among other things:

- (1) the Company (a) has deposited with the Trustee, in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity for such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;
- (2) the Company has delivered to the Trustee an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and

- (3) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that (i) the provisions of the Indenture applicable to the Notes will no longer be in effect with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under “— Consolidation, Merger and Sale of Assets” and all the covenants described herein under “— Certain Covenants,” other than as described under “— Certain Covenants — Governmental Approvals and Licenses; Compliance with Law” and “— Certain Covenants — Anti-Layering,” and (ii) clause (3) under “Events of Default” with respect to such clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under “Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in clause (i) above, clause (4) under “Events of Default” with respect to such other covenants in clause (i) above and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (2) of the preceding paragraph.

Defeasance and Certain Other Events of Default

In the event that the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any), the Intercreditor Agreement or any Security Document may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Agreement or any Security Document;
- (2) provide for the assumption of the Company’s or any Subsidiary Guarantor’s obligations pursuant to the provision described under “Consolidation, Merger and Sale of Assets”;
- (3) comply with the provisions described under “Consolidation, Merger and Sale of Assets”;
- (4) evidence and provide for the acceptance of appointment by a successor Trustee;

- (5) add any Subsidiary Guarantor or any JV Subsidiary Guarantor or any Subsidiary Guarantee or any JV Subsidiary Guarantee or release any Subsidiary Guarantor or any JV Subsidiary Guarantor from any Subsidiary Guarantee or any JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (6) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (7) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor as provided or permitted by the terms of the Indenture;
- (8) add additional Collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (9) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (10) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream;
- (11) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee to enter into any amendments to the Intercreditor Agreement, the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture);
- (12) make any other change that does not materially and adversely affect the rights of any Holder of Notes; and
- (13) conform the text of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) or the Intercreditor Agreement to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) or the Intercreditor Agreement.

Amendments With Consent of Holders

Except as provided below, amendments of the Indenture, the Intercreditor Agreement and the Security Documents may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture or the Notes; *provided* that, no such modification, amendment or waiver may, without the consent of each Holder of the Notes affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the currency of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

- (7) release any Subsidiary Guarantor or any JV Subsidiary Guarantor from its Subsidiary Guarantee or its JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) release any Collateral, except as provided in the Indenture and the Security Documents;
- (9) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (10) amend, change or modify any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (11) amend, change or modify any provision of any Security Document, or any provision of the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;
- (13) change the redemption date or the redemption price of the Notes from that stated under the caption “— Optional Redemption” or “— Redemption for Taxation Reasons”;
- (14) amend, change or modify the obligation of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; and
- (15) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company, any of the Subsidiary Guarantors or any of the JV Subsidiary Guarantors in the Indenture, or in any of the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any of the Subsidiary Guarantors or JV Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Trustee, Registrar and the Paying Agent

Citicorp International Limited is to be appointed as Trustee and Citibank, N.A., London Branch is to be appointed as registrar and paying agent (the “Paying Agent”) with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with the Company and its Affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

None of the Trustee, the Paying Agent, the Registrar, the Shared Security Agent, or the security agent nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents or the Intercreditor Agreement, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so, except as a result of the Agent's own fraud, gross negligence or willful misconduct.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive amending, supplementing or replacing such directive, or any law implementing or complying with, or introduced in order to conform to, such directive.

Citibank, N.A. will initially act as the Shared Security Agent under the Security Documents in respect of the Security over the Collateral. The Shared Security Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Shared Security Agent may have obligations under the Security Documents or the Intercreditor Agreement that are in conflict with the interests of the Holders and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the Shared Security Agent will be under any obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have offered to the Trustee and/or the Shared Security Agent indemnity and/or security satisfactory to it against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee and the Shared Security Agent, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee or the Shared Security Agent in respect of such risks.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the "Global Note"). On the Original Issue Date, the Global Note will be deposited with a common depositary and registered in the name of the common depositary or its nominee for the accounts of Euroclear and Clearstream.

Global Note

Ownership of beneficial interests in the Global Note (the "book-entry interests") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under "— Individual Definitive Notes," the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry

registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of Global Note for all purposes under the Indenture and "holders" of book-entry interests will not be considered the owners or "Holders" of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Note

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and Additional Amounts) will be made to the principal paying agent in U.S. dollars. The principal paying agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. The Company will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under "— Additional Amounts."

Under the terms of the Indenture, the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) and the Trustee will treat the registered holder of the Global Note (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Note

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however*, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under "Transfer Restrictions."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Trustee or any of their respective agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

Individual Definitive Notes

If (1) the common depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the Indenture and a successor depositary is not appointed by the Company within 90 days (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “— Events of Default” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depositary or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depositary for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the registrar, through the relevant clearing system, with written instruction and other information required by the Company and the registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or JV Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder’s last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, any JV Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint National Corporate Research, Ltd. for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the Notes” for which no definition is provided.

“2011 Notes” means the 11% Senior Notes due 2018 issued by the Company.

“2012 Syndicated Loan Facilities” means the Company’s US\$610 million and HK\$468 million multicurrency credit facilities pursuant to a credit agreement dated November 26, 2012, as amended or supplemented, among the Company as borrower, The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited, Standard Chartered Bank (Hong Kong) Limited, The Bank of East Asia Limited and Sumitomo Mitsui Banking Corporation as mandated coordinating arrangers and Standard Chartered Bank (Hong Kong) Limited as facility agent.

“2013 Notes” means the 6.625% Senior Notes due 2020 issued by the Company.

“2013 Syndicated Loan Facilities” means the Company’s US\$320 million and HK\$1,950 million multicurrency credit facilities pursuant to a credit agreement dated June 14, 2013, as amended or supplemented, among the Company as borrower, The Hongkong and Shanghai Banking Corporation Limited, Bank of China Limited Macau Branch, Hang Seng Bank Limited, Standard Chartered Bank (Hong Kong) Limited, The Bank of East Asia Limited, Sumitomo Mitsui Banking Corporation, Tai Fung Bank Limited and Deutsche Bank AG, Singapore Branch as mandated coordinating arrangers and Standard Chartered Bank (Hong Kong) Limited as facility agent.

“2014 Notes” means the 8.125% Senior Notes due 2021 issued by the Company.

“2014 Syndicated Loan Facilities” means the Company’s US\$665 million and HK\$555 million multicurrency credit facilities pursuant to a credit agreement dated June 12, 2014, as amended or supplemented, among the Company as borrower, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited as mandated lead arrangers and coordinators, The Bank of East Asia, Limited, Standard Chartered Bank (Hong Kong) Limited, Sumitomo Mitsui Banking Corporation, Tai Fung Bank Limited, Goldman Sachs Bank USA, China CITIC Bank International Limited, JPMorgan Chase Bank, N.A., Hong Kong Branch, Morgan Stanley Senior Funding, Inc. and UBS AG, Hong Kong Branch as mandated lead arrangers, certain financial institutions as specified therein as original lenders and Standard Chartered Bank (Hong Kong) Limited as facility agent.

“Acquired Indebtedness” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“Adjusted Treasury Rate” means, with respect to any redemption date, (i) the yield, under the heading which represents the average for immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities”, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after February 10, 2019, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain

such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (i) the redemption price of such Note on February 10, 2019, (such redemption price being described in the first paragraph in the “— Optional Redemption” section, exclusive of any accrued interest) plus (ii) all required remaining scheduled interest payments due on such Note through February 10, 2019 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Appraised Value” on any Transaction Date means the assessed value of real property by an independent qualified appraiser or valuer as disclosed in the annual report or interim report filed by the Company with the Stock Exchange of Hong Kong Limited.

“Asset Acquisition” means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries; or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale or issuance of Capital Stock of a Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “— Limitation on Restricted Payments” covenant;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;

- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant under the caption “— Consolidation, Merger and Sale of Assets”; and
- (7) any sale, transfer or other disposition to the Company or a Restricted Subsidiary, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary to the Company or any Restricted Subsidiary.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is (i) secured by cash deposits, bank accounts or other assets of the Company or a Restricted Subsidiary and/or (ii) Guaranteed by a Guarantee, letter of credit or similar instruments from or arranged by the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to effect exchange of currencies or remit money onshore or offshore.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York or in London or in Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any “person” (within the meaning of Section 13(d) of the Exchange Act), other than one or more Permitted Holders;

- (2) the Company consolidates with, or merges with or into, any Person (other than one or more Permitted Holders), or any Person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Company outstanding immediately prior to such transaction is converted into or exchanged for (or continues as) Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance) and in substantially the same proportion as before the transaction;
- (3) the Permitted Holders are the beneficial owners of less than 35% of the total voting power of the Voting Stock of the Company;
- (4) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (5) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose nomination for election by the shareholders of the Company was approved by a vote of at least two-thirds of the directors then still in office who were either directors on the Original Issue Date or whose nomination was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (6) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and, *provided* that the Notes are rated by at least one Rating Agency, a Rating Decline.

“Clearstream” means Clearstream Banking, *société anonyme*, Luxembourg.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes or any Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors, other than the Capital Stock of Shimao Property Holdings (BVI) Limited and Peak Castle Assets Limited.

“Commodity Hedging Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to protect against fluctuations in commodity prices.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to February 10, 2019 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to February 10, 2019.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three (or such lesser number as is received by the Trustee) Reference Treasury Dealer Quotations for such redemption date.

“Consolidated Assets” means, with respect to any Restricted Subsidiary at any date of determination, the Company and its Restricted Subsidiaries’ proportionate interest in the total consolidated assets of that

Restricted Subsidiary and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter period for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its reasonably best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements).

“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 not included in the calculation of Consolidated EBITDA), 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 and other than losses on Investment Properties arising from fair value adjustments made in conformity with GAAP), less all non-cash items increasing Consolidated Net Income (other than gains on Investment Properties arising from fair value adjustments made in conformity with GAAP),

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly Owned Restricted Subsidiary.

“Consolidated Interest Expense” means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations and imputed interest expense with respect to Attributable Indebtedness, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees), only to the extent such interest is actually paid by the Company or any Restricted Subsidiary and (7) any capitalized interest, *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“Consolidated Net Income” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except to the extent of the amount of dividends or similar distributions actually paid in cash to the specified Person or a Restricted Subsidiary of the Person during such period;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary or any other Person (including pursuant to a Sale and Leaseback arrangement) which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains or losses,

provided that (A) solely for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the current book value and the cash sale price shall be added to Consolidated Net Income; (B) for purposes of the Consolidated Net Income calculation (but not for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio) any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the original cost basis and the cash sale price shall be added to Consolidated Net Income to the extent not already included in the net income for such period as determined in conformity with GAAP and Consolidated Net Income and (C) solely for the purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains on Investment Properties arising from fair value adjustments made in conformity with GAAP shall be added to Consolidated Net Income.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available fiscal quarter, semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “— Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “— Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event” covenants.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“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 Company.

“Equity Offering” means (i) any bona fide underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date; (ii) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price, in each case to a person other than a Restricted Subsidiary or a Permitted Holder; *provided* that any offering or placing referred to in (A) clause (i) or (B) clause (ii) or (C) any combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank S.A./N.V.

“Exempted Subsidiary” means any Restricted Subsidiary organized in any jurisdiction other than the PRC that is prohibited by applicable law or regulation to provide a Subsidiary Guarantee or a JV Subsidiary Guarantee or create any Lien over its Capital Stock to secure any of the secured obligations subject to the Intercreditor Agreement; *provided* that (x) the Company shall have failed, upon using commercially

reasonable efforts, to obtain any required governmental or regulatory approval or registration with respect to such Subsidiary Guarantee, JV Subsidiary Guarantee or Lien over its Capital Stock, to the extent that such approval or registration is available under any applicable law or regulation and (y) such Restricted Subsidiary shall cease to be an Exempted Subsidiary immediately upon such prohibition ceasing to be in force or apply to such Restricted Subsidiary or upon the Company having obtained such applicable approval or registration.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution, except in case of a determination of Fair Market Value of total assets for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal, or investment banking firm of international standing appointed by the Company.

“Fitch” means Fitch Ratings, Inc. and its affiliates.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarter periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available and have been provided to the Trustee (the “Four Fiscal-Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Fiscal-Quarter Period. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Fiscal-Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Fiscal-Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay such Indebtedness or Preferred Stock;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the four full fiscal quarter periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means generally accepted accounting principles in Hong Kong as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Hotel Group” means the group of Subsidiaries of the Company holding an interest in its hotels, which, as of the Original Issue Date, includes Mudanjiang Shimao Property Co., Ltd., Nanjing Shimao New Way Property Co., Ltd., Shanghai Shimao International Plaza Co., Ltd., Shanghai Shimao North Bund Development and Construction Co., Ltd., Shanghai Shimao Villas Property Co., Ltd., Shaoxing Shimao New Property Development Co., Ltd., Tianjin Shimao New Prospect Property Co., Ltd., Easy Reach Group Limited and all of its Subsidiaries, Shaoxing Shimao New Era Property Co., Ltd., Shanghai Shimao Wonderland Property Co., Ltd., Fujian Shimao New Way Investment and Development Co., Ltd., Wuhan Shimao Splendid River Real Estate Development Co., Ltd., Ningbo Shimao New Era Property Co., Ltd., Ningbo Shimao New Development Property Co., Ltd., Chengdu Shimao Property Development Co., Ltd., Dalian Shimao Carnival Property Co., Ltd. and Hangzhou Shirong Huiying Property Co., Ltd.

“Hotel Restructuring” means the restructuring and Qualified IPO of the common shares of a Subsidiary of the Company through which the Company holds (directly or indirectly) 100% of the Common Stock of Easy Reach Group Limited (易達集團有限公司) immediately prior to the completion of such public offering or listing.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

- (3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, Indebtedness shall not include (1) any capital commitments, deferred payment obligation, pre-sale receipts in advance from customers or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business or (2) any Entrusted Loan; *provided* that such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; provided

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest,
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be (i) zero if Incurred pursuant to paragraph 2(f) under the "Limitation on Indebtedness and Preferred Stock" covenant or (ii) equal to the net amount payable by such Person if the Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Agreement giving rise to such Hedging Obligation were terminated at that time due to default by such Person if not Incurred pursuant to such paragraph, and
- (4) that the contingent obligations arising from letters of credit, bankers' acceptances or other similar instruments of a Restricted Subsidiary to secure Indebtedness of another Restricted Subsidiary shall not be deemed to be Indebtedness" so long as such contingent obligations are used to secure the payment of Indebtedness of another Restricted Subsidiary.

"Independent Third Party" means any Person that is not an Affiliate of the Company.

"Intercreditor Agreement" has the meaning set forth under "— Security."

"Interest Rate Agreement" means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar

agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates, convert a fixed rate of interest into a floating rate of interest, convert a floating rate of interest into a different floating rate of interest, or lower interest currently paid on Indebtedness of any Person.

“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; and
- (4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants, (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the Company’s proportional interest in the assets (net of the Company’s proportional interest in the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns or a rating of “Aaa,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s, or any of its successors or assigns, or a rating of “AAA,” “AA,” “A,” “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody’s or Fitch or two or three of them, as the case may be.

“Investment Property” means any property that is owned and held by any Restricted Subsidiary incorporated under the laws of the PRC for long-term rental yields or for capital appreciation or both, or any hotel owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor and its Subsidiaries, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Guarantor and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Guarantor and its Subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the direct equity ownership percentage of the Company and/or its Restricted Subsidiaries in the Capital Stock of such JV Subsidiary Guarantor and its Subsidiaries.

“JV Subsidiary Guarantee” has the meaning set forth under the caption “— The Subsidiary Guarantees and JV Subsidiary Guarantees.”

“JV Subsidiary Guarantor” means a Restricted Subsidiary that executes a JV Subsidiary Guarantee.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Measurement Date” means November 29, 2006.

“Minority Interest Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Minority Joint Venture” means any corporation, association or other business entity that is accounted for by the equity method of accounting in accordance with GAAP by the Company or a Restricted Subsidiary and primarily engaged in the Permitted Businesses, and such Minority Joint Venture’s Subsidiaries.

“Moody’s” means Moody’s Investors Service, Inc. and its affiliates.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
 - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Non-Guarantor Subsidiary” means any Restricted Subsidiary not providing a Subsidiary Guarantee or JV Subsidiary Guarantee.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;

- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000.

On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers’ Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

“Officers’ Certificate” means a certificate signed by two Officers; *provided, however*, with respect to the Officers’ Certificate required to be delivered by any Subsidiary Guarantor under the Indenture, Officers’ Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor at the time such certificate is required to be delivered.

“Opinion of Counsel” means a written opinion from legal counsel who is reasonably acceptable to the Trustee.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“Pari Passu Guarantee” means a guarantee by the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes), any Subsidiary Guarantor or any JV Subsidiary Guarantor; *provided* that (1) the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor is permitted to Incur such Indebtedness under the covenant under the caption “— Limitation on Indebtedness and Preferred Stock” and (2) such guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under the caption “— Repurchase of Notes upon a Change of Control Triggering Event,” or an Offer to Purchase in the manner described under the caption “— Limitation on Asset Sales” or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

“Permitted Businesses” means any business which is the same as or related, ancillary or complementary to any of the businesses of the Company and its Restricted Subsidiaries on the Original Issue Date, including, without limitation, real estate acquisition, development, leasing and management; hotel acquisition, development, operation and management; and the acquisition, development, management and operation of sports and leisure facilities or infrastructure facilities, in each case associated with real estate projects acquired, or intended in good faith to be acquired, developed or managed by the Company or any Restricted Subsidiary.

“Permitted Holders” means any or all of the following:

- (1) the W.M. Hui Family Trust, any trustee for the W.M. Hui Family Trust, or Mr. Hui Wing Mau (whether directly or indirectly);
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of the Person specified in clause (1); and
- (3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged, directly or indirectly through one or more other Restricted Subsidiaries, in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged, directly or indirectly through one or more other Restricted Subsidiaries, in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged, directly or indirectly through one or more other Restricted Subsidiaries, in a Permitted Business;
- (2) Temporary Cash Investment;
- (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, *provided* that the capital contribution in such other Unrestricted Subsidiary when made constituted a Restricted Payment under the “Limitation on Restricted Payments” covenant;
- (6) any Investment pursuant to a Hedging Obligation entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) any securities or other Investments received as consideration in, or retained in connection with, sales or other dispositions of property or assets, including Asset Dispositions made in compliance with the covenant described under “— Limitation on Asset Sales”;
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “— Limitation on Liens”;
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;
- (11) 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;
- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company’s consolidated balance sheet;
- (13) deposits 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;
- (14) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries, in each case in the ordinary course of business;
- (15) 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 customers;
- (16) any Investment (including any deemed Investment upon the redesignation of a Restricted Subsidiary as an Unrestricted Subsidiary or upon the sale of Capital Stock of a Restricted Subsidiary) by the Company or any Restricted Subsidiary in any Person (other than a Restricted Subsidiary), *provided* that:
 - (i) the aggregate of all Investments made under this clause (16) since the Measurement Date shall not exceed in aggregate an amount equal to 25% of Total Assets. Such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made under this clause (16) since the Measurement 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 Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income),

- (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Measurement Date under this clause of an obligation of any such Person, or
 - (C) to the extent that an Investment made after the Measurement Date under this clause (16) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person pursuant to this clause (16),
- (ii) the Person into which such Investment is made is primarily engaged in the Permitted Businesses;
 - (iii) none of the other shareholders or partners in such Person in which such Investment was made pursuant to this clause (16) is a Person described in clauses (x) or (y) of the first paragraph of the covenant under the caption “— Limitation on Transactions with Shareholders and Affiliates” (other than by reason of such shareholder or partner being an officer or director of the Company or a Restricted Subsidiary or by reason of being a Restricted Subsidiary);
 - (iv) no Default has occurred and is continuing or would occur as a result of such Investment; and
 - (v) in the case of any Investment by the Company or any Restricted Subsidiary in a Person of which less than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by the Company or its Restricted Subsidiaries, at the time of such Investment, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “— Limitation of Indebtedness and Preferred Stock.”

For the avoidance of doubt, the value of each Investment made pursuant to this clause (16) shall be valued at the time such Investment is made;

- (17) any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Hotel Group in connection with the Hotel Restructuring upon designation of the Subsidiaries in the Hotel Group as Unrestricted Subsidiaries, *provided* that (A) (i) the Board of Directors of the Company has determined in good faith that the designation of the Subsidiaries in the Hotel Group as Unrestricted Subsidiaries is necessary to obtain approval from a Qualified Exchange for the Hotel Restructuring, (ii) at the time of such designation, the members of the Restructuring Group remain Subsidiaries of the Company, and (iii) at the time of such designation, the members of the Restructuring Group remain primarily engaged in the Permitted Businesses; and (B) the aggregate of all Investments made under this clause (17) since the Original Issue Date shall not exceed an amount equal to 10% of Total Assets (for the avoidance of doubt, any portion of such Investments exceeding 10% of Total Assets shall not constitute a Permitted Investment pursuant to this item (17) but may be made, characterized and accounted for in accordance with the other provisions of the Indenture); and *provided further* that, at the time when (x) the Company ceases to hold, directly or indirectly, at least 30% of the Voting Stock of any entity so designated as an Unrestricted Subsidiary or (y) any Person or group of Persons other than the Company and its Subsidiaries acquires a higher percentage of the Voting Stock of such entity than the percentage held directly or indirectly by the Company, the Company will be deemed to make an Investment in such entity equal to the Fair Market Value of any Investment that the Company retains, directly or indirectly, in such entity immediately following such event; and
- (18) Guarantees permitted under clause 2(v) of the covenant entitled “— Limitation on Indebtedness and Preferred Stock.”

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (f) of the second paragraph of the covenant under the caption Limitation on Indebtedness and Preferred Stock”;
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled “— Limitation on Indebtedness and Preferred Stock”; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) Liens under the Security Documents;
- (14) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “— Security — Permitted Pari Passu Secured Indebtedness”;

- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee which is permitted to be Incurred under clause (g) of the second paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (17) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (18) Liens (including extensions and renewals thereof) upon real or personal property; *provided* that,
 - (a) such Lien is created solely for the purpose of securing Indebtedness Incurred of the type described under clause (2)(h) of the covenant under the caption entitled “— Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or, completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of such cost and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such acquisition, completion or improvement costs if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company or, if any such property or assets have been acquired since the date of such financial statements (which may be internal consolidated statements), the cost of such property or assets) subject to Liens incurred pursuant to this clause (18) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;
- (19) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (21) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights or personal property (including, without limitation, Capital Stock) by the Company or any of its Restricted Subsidiaries (including, without limitation, by way of acquisition of Capital Stock of a Person) in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (22) Liens on Investment Properties securing Indebtedness of the Company or any Restricted Subsidiary incorporated under the laws of the PRC permitted to be Incurred under clause 2(q) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (23) Liens Incurred on deposits or bank accounts made to secure Bank Deposit Secured Indebtedness of the type described under paragraph (r) of the second paragraph of the “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant;
- (24) Liens on the Capital Stock of a PRC Restricted Subsidiary granted by the Company or any PRC Restricted Subsidiary in favor of any Trust Company Investor in respect of, and to secure, the Indebtedness of the type described under paragraph (s) of the second paragraph of the “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant;

- (25) Liens on current assets securing Indebtedness permitted to be Incurred under clause (2)(o) of the “— Limitation on Indebtedness and Preferred Stock” covenant;
- (26) Liens to secure Entrusted Loans;
- (27) Liens securing Indebtedness permitted to be Incurred under clause (2)(p) of the covenant entitled “— Limitation on Indebtedness and Preferred Stock” covenant;
- (28) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause 2(t) of the “— Limitation on Indebtedness and Preferred Stock” covenant;
- (29) Liens on the Capital Stock of the Person that is to be acquired under the relevant Minority Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause 2(u) of the “— Limitation on Indebtedness and Preferred Stock” covenant;
- (30) Liens securing Indebtedness Incurred under clause (2)(v) of the “— Limitation on Indebtedness and Preferred Stock” covenant; and
- (31) Liens on assets of a Non-Guarantor Subsidiary securing any Permitted Subsidiary Indebtedness of any Non-Guarantor Subsidiary permitted to be Incurred under the proviso in paragraph (1) of the covenant described under “— Limitation on Indebtedness and Preferred Stock.”

“Permitted Pari Passu Secured Indebtedness” has the meaning set forth under “— Security — Permitted Pari Passu Secured Indebtedness.”

“Permitted Subsidiary Indebtedness” means Indebtedness (other than Public Indebtedness) of, and all Preferred Stock issued by, the Non-Guarantor Subsidiaries, taken as a whole (but excluding the amount of any Indebtedness of any Non-Guarantor Subsidiary permitted under clauses 2(a), (b), (d), (f) and (g) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”); *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 does not exceed an amount equal to 15% of Total Assets.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“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 31, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Public Indebtedness” means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

“Qualified Exchange” means either (1) the New York Stock Exchange, the London Stock Exchange, The Stock Exchange of Hong Kong Limited, the Nasdaq Stock Market or Singapore Exchange Securities Trading Limited or (2) a national securities exchange (as such term is defined in Section 6 of the Exchange Act) or a designated offshore securities market (as such term is defined in Rule 902(b) under the Securities Act).

“Qualified IPO” means an initial public offering, and a listing of, common shares of a company on a Qualified Exchange, *provided* that in the case that such listing is on a national securities exchange (as such term is defined in Section 6 of the Exchange Act) or a designated offshore securities market (as such term is defined in Rule 902(b) under the Securities Act), such listing shall result in a public float of not less than the percentage required by the applicable listing rules.

“Rating Agencies” means (1) S&P, (2) Moody’s and (3) Fitch; *provided* that if S&P, Moody’s or Fitch, two of the three or all three of them shall not make a rating of the Notes publicly available, one or more nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody’s, Fitch, two of the three or all three of them, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); (3) with respect to Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (4) the equivalent of any such category of S&P, Moody’s or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P; “1,” “2” and “3” for Moody’s and “+” and “-” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “BB-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under the caption “— Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (2) in connection with actions contemplated under the caption “— Consolidation, Merger and Sale of Assets,” the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by all three of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any two of the three Rating Agencies shall be below Investment Grade;
- (b) in the event the Notes are rated by any two, but not all three, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any of such two Rating Agencies shall be below Investment Grade;
- (c) in the event the Notes are rated by one, and only one, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or

- (d) in the event the Notes are (i) rated by less than three Rating Agencies or (ii) rated below Investment Grade by all three of the Rating Agencies on the Rating Date, the rating of the Notes by any Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. (New York City time) on the third Business Day preceding such redemption date.

“Replacement Assets” means properties and assets that replace the properties and assets that were the subject of an Asset Sale or properties or assets that will be used in the Permitted Businesses (including any shares of Capital Stock in a Person holding such properties or assets that is primarily engaged in a Permitted Business).

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“Restructuring Group” means the company whose common shares are expected to be offered in the Hotel Restructuring, and its Subsidiaries.

“S&P” means Standard & Poor’s Ratings Services and its affiliates.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Security Documents” means, collectively, the pledge agreements and any other agreements or instruments that may evidence or create any security interest in favor of the Trustee and/or any Holders in any or all of the Collateral.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Indenture.

“Significant Restricted Subsidiary” means a Restricted Subsidiary, or group of Restricted Subsidiaries, that would, when taken together, be a “significant subsidiary” within the meaning of the definition of “significant subsidiary” in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the Original Issue Date; *provided* that in each instance in such definition in which the term “10 percent” is used, the term “5 percent” shall be substituted therefor.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire not less than a majority of the Capital Stock of a Person for consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subordinated Shareholder Loan” means any loan to the Company or any Restricted Subsidiary from Permitted Holders which (i) is subordinated in right of payment to the Notes, (ii) by its terms (and by the terms of any security into which it is convertible or for which it is exchangeable) does not mature and is not required to be repaid, pursuant to a sinking fund obligation event of default or otherwise, in whole or in part, on or prior to the date that is one year after the Stated Maturity of the Notes and (iii) does not provide any cash payment of interest.

“Subsidiary” means, with respect to any Person, (i) any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% or less 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 and in each case which is “controlled” and consolidated by such Person in accordance with GAAP.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Subsidiary Guarantor Pledgor” means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that a Subsidiary Guarantor Pledgor will not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency thereof or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency thereof, in each case maturing within one year, which in the case of obligations of, or obligations Guaranteed by, any state of the European Economic Area, shall be rated at least “A” by S&P or Moody’s;
- (2) time deposit accounts, certificates of deposit, demand deposits and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;

- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-2” (or higher) according to Moody’s or “A-2” (or higher) according to S&P;
- (5) securities maturing within one year from the date of acquisition 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;
- (7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with any bank or financial institution organized under the laws of the PRC or Hong Kong; and
- (8) structured deposit products that are principal protected with any bank or financial institution organized under the laws of the PRC or Hong Kong if held to maturity (which shall not be more than one year) and can be withdrawn at any time with no more than six months’ notice.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to clause (2)(h) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness *provided further*, that with respect to Future Subsidiary Guarantors and Future Subsidiary Guarantor Pledgors, Total Assets of any future Restricted Subsidiary shall mean, as of any date, the total assets of such Restricted Subsidiary measured as of the last day of the most recent fiscal quarter period for which financial statements of such Restricted Subsidiary (which the Company shall use its reasonably best efforts to compile on a timely manner) is available.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Trust Company Investor” means an Independent Third Party that is a financial institution or an insurance company, or an Affiliate thereof, that Invests in any Capital Stock of a Restricted Subsidiary.

“Unrestricted Subsidiary” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; and (2) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Value” of Investment Property on any Transaction Date means, with respect to any hotel owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income, the Appraised Value of such hotel, and with respect to other Investment Properties, the value of such Investment Properties as recorded in the most recent consolidated balance sheet of the Company that is available (which the Company shall use its best efforts to compile for each fiscal quarter period in a timely manner) and has been provided to the Trustee.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person are entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain Cayman Islands, British Virgin Islands and PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Cayman Islands

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstance, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, payments of interest, principal or premium on the Notes will not be subject to taxation and no withholding will be required on the payment of interest, principal or premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to any capital gains, income or corporation tax in the Cayman Islands. The Cayman Islands currently have no exchange control restrictions and are not party to any double taxation treaties. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

No stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution and issue of the Notes unless they are executed in or brought within (for example, for the purposes of enforcement) the jurisdiction of the Cayman Islands, in which case stamp duty of 0.25% of the face amount thereof may be payable on each Note (up to a maximum of 250 Cayman Islands dollars ("CI\$")) unless stamp duty of CI\$500 has been paid in respect of the entire issue of Notes.

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (ii) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from November 23, 2004.

British Virgin Islands

There is no income or other tax of the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) pursuant to the Subsidiary Guarantees or JV Subsidiary Guarantees (if any).

PRC

The following summary of certain PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all

categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Taxation on Interest and Capital Gains. Under the PRC EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% (or lower treaty rate, if any) must be withheld from interest payable to investors that are “non-resident enterprises” and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant interest income is not effectively connected with the establishment or place of business, or 20% for “non-resident individuals” investors (or lower treaty rate, if any), if we are deemed to be a PRC “resident enterprise” and the interest is deemed as PRC-source income. Any gain realized on the transfer of the Notes by such “non-resident enterprises” investors would be subject to a 10%, or 20% for “non-resident individuals” investors (or lower treaty rate, if any) PRC income tax if such gain is regarded as income derived from sources within the PRC in the case that we are treated as a PRC “resident enterprise”. As advised by Commerce & Finance Law Offices, PRC legal counsel to the Initial Purchasers, there is uncertainty as to whether we will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. See “Risk Factors — Risks Relating to the Notes — Under the EIT Law we may be classified as a “resident enterprise” of the PRC, which could result in unfavorable tax consequences to us and our non-PRC holders of the Notes.” If we are treated as a PRC “resident enterprise,” the interest we pay in respect of the Notes, and the gain any investor may realize from the transfer of the Notes, might be treated as income derived from sources within the PRC and be subject to PRC income tax.

Stamp duty. No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside the PRC) of a Note.

PLAN OF DISTRIBUTION

Subject to the terms and conditions in the purchase agreement to be dated the date of the offering memorandum (the “Purchase Agreement”), the Initial Purchasers have agreed to purchase from us, and we agree to sell to the Initial Purchasers, US\$800 million aggregate principal amount of the Notes.

The Purchase Agreement provides that the obligation of the Initial Purchasers to purchase the Notes is subject to approval of certain legal matters by counsel and to certain other conditions. The Initial Purchasers must purchase all of the Notes if they purchase any of the Notes.

The Initial Purchasers initially propose to offer the Notes for resale at the issue price that appears on the cover of this offering memorandum. After the initial offering, the Initial Purchasers may change the offering price and any other selling terms. The Initial Purchasers may offer and sell Notes through certain of their affiliates. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be made by the Initial Purchasers or such affiliate on behalf of the issuer in such jurisdiction. In addition, we have agreed with the Initial Purchasers that certain private banks will be paid a commission in connection with the purchase of the Notes by their private bank clients.

In the Purchase Agreement, we and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, or contribute to payments that the Initial Purchasers may be required to make in respect of those liabilities.

The Notes are a new issue of securities, and there is currently no established trading market for the Notes. In addition, the Notes are subject to certain restrictions on resale and transfer as described under “Transfer Restrictions.” Approval in-principle has been received for the listing and quotation of the Notes on the Official List of SGX-ST. However, we cannot assure you that such listing will be maintained. The Initial Purchasers have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The Initial Purchasers may discontinue any market making in the Notes at any time in their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the prices that you receive when you sell will be favorable.

In connection with the offering of the Notes, the Initial Purchasers may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the Notes to be higher than it would otherwise be in the absence of those transactions. If the Initial Purchasers engage in stabilizing or syndicate covering transactions, they may discontinue them at any time.

The Initial Purchasers 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 from time to time enter into hedging or other derivative transactions, including swap agreements, future or forward contracts, option agreements or other similar arrangements, as part of our risk management strategy with the Initial Purchasers or their affiliates, which may include transactions relating to our obligations under the Notes, all to the extent permitted under the Indenture. Our obligations under these transactions may be secured by cash or other collateral to the extent permitted under the Indenture.

The Initial Purchasers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribute.

No action is being taken or is contemplated by us that would permit a public offering of the Notes or possession or distribution of any preliminary offering memorandum or offering memorandum or any amendment thereof, any supplement thereto or any other offering material relating to the Notes in any jurisdiction where, or in any other circumstance in which, action for those purposes is required.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the U.S. Securities Act and 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 U.S. Securities Act.

In addition, until 40 days following the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sell in compliance with an exemption from registration under the Securities Act.

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum, which will be on or about the fifth business day following the pricing date of the Notes (this settlement cycle being referred to as “T+5”). Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or succeeding business days should consult their own legal adviser.

United Kingdom

No invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”) received by the Initial Purchasers in connection with the issue or sale of the Notes may be communicated or caused to be communicated except in circumstances in which section 21(1) of the FSMA does not apply to the Company. All applicable provisions of the FSMA must be complied with respect to anything done or to be done by the Initial Purchasers in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

The Notes will not be offered or sold in Hong Kong, by means of any document, other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) (the “SFO”) and any rules made thereunder; or (ii) in other circumstances which do not result in any such document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and no person has issued or had in their possession for the purposes of issue and will not issue or have in their possession for the purposes of issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No.25 of 1948, as amended; the “FIEL”) and may not be offered or sold directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Notes to be issued from time to time by the Company may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the 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.

Where the Notes are subscribed or purchased in reliance on an exemption under Sections 274 or 275 of the SFA, the Notes shall not be sold within the period of six months from the date of the initial acquisition of the Notes, except to any of the following persons:

- (a) an institutional investor (as defined in Section 4A of the SFA);
- (b) a relevant person (as defined in Section 275(2) of the SFA); or
- (c) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulation 2005 of Singapore (“SFR”).

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six (6) months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or (in the case of such corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of such trust) where the transfer arises from an offer referred to in 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;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the SFR.

TRANSFER RESTRICTIONS

Because of the following restrictions, we encourage you to consult legal counsel prior to making any offer, resale, pledge or other transfer of Notes.

The Notes are subject to restrictions on transfer as summarized below. By purchasing Notes (including the Subsidiary Guarantees), you will be deemed to have made the following acknowledgements, representations to, and agreements with, us and the Initial Purchasers:

1. You understand and acknowledge that:
 - the Notes (including the Subsidiary Guarantees) have not been registered under the U.S. Securities Act or any other applicable securities laws;
 - the Notes (including the Subsidiary Guarantees) are being offered for resale in transactions that do not require registration under the U.S. Securities Act or any other securities laws;
 - the Notes (including the Subsidiary Guarantees) are being offered and sold only outside of the United States, to certain persons, other than U.S. persons, in offshore transactions in reliance on Rule 903 of Regulation S under the U.S. Securities Act; and
 - unless so registered, the Notes (including the Subsidiary Guarantees) may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph 4 below.
2. You represent that you are not an affiliate (as defined in Rule 144 under the U.S. Securities Act) of ours, that you are not acting on our behalf and that you are not a U.S. person (as defined in Regulation S under the U.S. Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes (including the Subsidiary Guarantees) in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers have made any representation to you with respect to us or the offering of the Notes (including the Subsidiary Guarantees), other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase Notes (including the Subsidiary Guarantees) including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing Notes (including the Subsidiary Guarantees) for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes (including the Subsidiary Guarantees) in violation of the U.S. Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes (including the Subsidiary Guarantees) by its acceptance of the Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes (including the Subsidiary Guarantees) may be offered, sold or otherwise transferred only:
 - (a) to us;
 - (b) under a registration statement that has been declared effective under the U.S. Securities Act;
 - (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act; or
 - (d) under any other available exemption from the registration requirements of the Securities Act,

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or account's control and in compliance with applicable state and other securities laws.

5. You also acknowledge that:

- the above restrictions on resale will apply from the closing date until the date that is 40 days after the later of the closing date and the last date that we or any of our affiliates was the owner of the Notes or any predecessor of the Notes (the "Resale Restriction Period"), and will not apply after the applicable Resale Restriction Period ends;
- we and the trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under clause (d) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee; and
- each Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (D) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS NOT A U.S. PERSON NOR IS IT PURCHASING FOR THE ACCOUNT OF A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

6. You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the Initial Purchasers. If you are purchasing any Notes (including the Subsidiary Guarantees) as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

RATINGS

The Notes are expected to be rated BB- by Standard & Poor's Ratings Services, BB+ by Fitch Ratings and Ba3 by Moody's Investors Service. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of ours, or on us. Additionally, we have been assigned a long-term corporate credit rating of BB with a stable outlook by Standard and Poor's Rating Services, a corporate family rating of Ba2 with a stable outlook by Moody's Investors Service and a long-term foreign currency issuer default rating of BB+ with a stable outlook by Fitch Ratings. We cannot assure you that the ratings on the Notes or our corporate credit rating will remain in effect for any given period or that the ratings will not be lowered, put on negative outlook or CreditWatch negative, or otherwise revised or withdrawn entirely by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Sidley Austin as to matters of Hong Kong, United States federal and New York law and Harney Westwood & Riegels as to matters of Cayman Islands law and BVI law. Certain legal matters will be passed upon for the Initial Purchasers by Davis Polk & Wardwell as to matters of United States federal and New York law and Commerce & Finance Law Offices as to matters of PRC law.

INDEPENDENT AUDITOR

Our consolidated financial statements as of and for the years ended December 31, 2012 and 2013 included in this offering memorandum have been audited by PricewaterhouseCoopers, certified public accountants, as stated in their reports appearing herein.

The condensed consolidated interim financial information as of and for the six months ended June 30, 2013 and 2014 were reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. This information is not audited and accordingly the degree of reliance on such information should be restricted in light of the limited nature of the review procedure applied.

GENERAL INFORMATION

Consents

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the BVI and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture and the issue of the Notes have been authorized by a resolution of our board of directors dated December 29, 2014.

Litigation

Except as disclosed in this offering memorandum, 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 Notes or the Subsidiary Guarantees.

No Material Adverse Change

Except as otherwise disclosed in this offering memorandum, 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 since June 30, 2014 that is material in the context of the issue of the Notes.

Documents Available

For so long as any of the Notes is outstanding, copies of the Indenture may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the Paying Agent.

For so long as any of the Notes is outstanding, copies of the independent auditor's reports and/or our published financial statements, if any, including the independent auditor's reports set out in the section entitled "Index to Financial Information" in this offering memorandum, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the Paying Agent.

Clearing Systems and Settlement

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream with International Securities Identification Number of XS1157365070 and Common Code of 115736507.

Only Notes evidenced by a Global Note have been accepted for clearance through Euroclear and Clearstream, and only such Notes may trade on the SGX-ST.

Listing of the Notes

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering memorandum. Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any other subsidiary or associated company of the Company, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any). The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Notes are listed on the SGX-ST.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore where the Notes may be presented or surrendered for payment or redemption in the event that a Global Note is exchanged for definitive Securities. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

INDEX TO FINANCIAL INFORMATION

Unaudited Condensed Consolidated Interim Financial Information as of and for the six months ended June 30, 2014

		2014 Interim Report⁽¹⁾
Independent Auditor's Report.....	F-2	39
Interim Condensed Consolidated Balance Sheet	F-3	40
Interim Condensed Consolidated Statement of Comprehensive Income	F-5	42
Interim Condensed Consolidated Statement of Changes in Equity	F-6	43
Interim Condensed Consolidated Cash Flow Statement	F-7	44
Notes to the Interim Condensed Consolidated Financial Information	F-8	45

Audited Financial Statements as of and for the year ended December 31, 2013

		2013 Annual Report⁽¹⁾
Independent Auditor's Report	F-40	72
Consolidated Balance Sheet	F-42	74
Balance Sheet of the Company	F-44	76
Consolidated Statement of Comprehensive Income	F-45	77
Consolidated Statement of Changes in Equity	F-47	79
Consolidated Cash Flow Statement	F-49	81
Notes to the Consolidated Financial Statements	F-50	82

Audited Financial Statements as of and for the year ended December 31, 2012

		2012 Annual Report⁽¹⁾
Independent Auditor's Report	F-153	61
Consolidated Balance Sheet	F-155	63
Balance Sheet of the Company	F-157	65
Consolidated Statement of Comprehensive Income	F-158	66
Consolidated Statement of Changes in Equity	F-160	68
Consolidated Cash Flow Statement	F-162	70
Notes to the Consolidated Financial Statements	F-163	71

Note:

(1) Our audited consolidated financial statements set out herein have been reproduced from our annual report for the years ended December 31, 2012 and 2013 and page references are references to pages set forth in such annual report. Our unaudited condensed consolidated interim financial information set out herein has been reproduced from our interim report for the six months ended June 30, 2014 and page references are references to pages set forth in such interim report.

Independent Auditor's Report



羅兵咸永道

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF SHIMAO PROPERTY HOLDINGS LIMITED**
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 40 to 76, which comprises the interim condensed consolidated balance sheet of Shimao Property Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2014 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The 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 Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". 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 inquiries, 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 Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 August 2014

Interim Condensed Consolidated Balance Sheet

As at 30 June 2014

	Note	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
ASSETS			
Non-current assets			
Property and equipment	6	10,515,033	10,378,052
Investment properties	6	27,136,376	26,941,944
Land use rights	6	5,507,072	5,645,416
Intangible assets	6	1,841,332	1,847,573
Associated companies	7	1,609,802	1,650,578
Joint ventures	8	6,828,565	5,365,806
Amounts due from related parties	9	2,484,619	2,266,694
Available-for-sale financial assets		330,143	408,440
Deferred income tax assets		1,358,475	1,306,338
Other non-current assets	10	3,810,496	2,008,313
		61,421,913	57,819,154
Current assets			
Properties under development		71,456,523	62,559,873
Completed properties held for sale		15,252,057	11,604,899
Trade and other receivables and prepayments	11	13,088,650	11,217,421
Prepayments for acquisition of land use rights	10	13,063,074	9,632,388
Prepaid income taxes		2,282,228	2,154,779
Amounts due from related parties	9	1,097,041	1,206,095
Restricted cash	12	2,945,389	2,547,231
Cash and cash equivalents	12	18,186,652	17,026,018
		137,371,614	117,948,704
Total assets		198,793,527	175,767,858
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	13	356,275	356,275
Share premium		5,968,228	6,059,274
Reserves			
– Proposed dividend		826,958	2,195,555
– Others		36,441,410	33,131,146
		43,592,871	41,742,250
Non-controlling interests		13,855,292	10,109,612
Total equity		57,448,163	51,851,862

Interim Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2014

	Note	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	14	42,018,031	37,553,681
Deferred income tax liabilities		4,239,001	3,985,242
		<u>46,257,032</u>	<u>41,538,923</u>
Current liabilities			
Trade and other payables	15	24,839,231	20,995,325
Dividend payable		2,232,793	–
Advanced proceeds received		32,405,481	29,900,978
Income tax payable		9,329,210	9,327,098
Borrowings	14	12,680,261	11,775,322
Derivative financial instruments		10,716	36,898
Amounts due to related parties	16	13,585,517	10,336,395
Deferred income		5,123	5,057
		<u>95,088,332</u>	<u>82,377,073</u>
Total liabilities		<u>141,345,364</u>	<u>123,915,996</u>
Total equity and liabilities		<u>198,793,527</u>	<u>175,767,858</u>
Net current assets		<u>42,283,282</u>	<u>35,571,631</u>
Total assets less current liabilities		<u>103,705,195</u>	<u>93,390,785</u>

The notes on pages 45 to 76 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014

		Unaudited Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
Note			
Revenue	5(A)	23,675,412	16,676,901
Cost of sales	17	(15,601,859)	(10,753,275)
Gross profit		8,073,553	5,923,626
Fair value gains on investment properties		1,097,144	855,821
Other income/other gains – net	18	121,606	545,475
Selling and marketing costs	17	(624,925)	(537,456)
Administrative expenses	17	(1,414,891)	(984,253)
Other operating expenses	17	(63,894)	(57,307)
Operating profit		7,188,593	5,745,906
Finance income		65,986	133,436
Finance costs		(178,448)	(153,059)
Finance costs – net	19	(112,462)	(19,623)
Share of results of			
– Associated companies		(69,552)	(45,964)
– Joint ventures		(13,372)	272,357
		(82,924)	226,393
Profit before income tax		6,993,207	5,952,676
Income tax expense	20	(2,334,850)	(2,162,646)
Profit for the period		4,658,357	3,790,030
Other comprehensive loss:			
<i>Item that may be reclassified to profit or loss</i>			
Fair value losses on available-for-sale financial assets, net of tax		(58,723)	(23,542)
Total comprehensive income for the period		4,599,634	3,766,488
Profit for the period attributable to:			
Equity holders of the Company		4,180,298	3,470,158
Non-controlling interests		478,059	319,872
		4,658,357	3,790,030
Total comprehensive income for the period attributable to:			
Equity holders of the Company		4,142,586	3,455,039
Non-controlling interests		457,048	311,449
		4,599,634	3,766,488
Earnings per share for profit attributable to the equity holders of the Company			
– Basic (RMB cents)	22	120.83	100.14
– Diluted (RMB cents)	22	120.67	100.10

The notes on pages 45 to 76 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

		Unaudited					
		Attributable to the equity holders of the Company					
Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2014	356,275	6,059,274	3,105,243	32,221,458	41,742,250	10,109,612	51,851,862
Profit for the period	-	-	-	4,180,298	4,180,298	478,059	4,658,357
Other comprehensive loss							
– Fair value losses on available-for-sale financial assets, net of tax	-	-	(37,712)	-	(37,712)	(21,011)	(58,723)
Total comprehensive income for the period	-	-	(37,712)	4,180,298	4,142,586	457,048	4,599,634
Transactions with owners:							
Capital contribution from non-controlling interests	-	-	-	-	-	3,877,322	3,877,322
Changes in ownership interests in subsidiaries without change of control	-	(15,978)	-	-	(15,978)	(503,014)	(518,992)
Closure of a subsidiary	-	-	-	-	-	(40,516)	(40,516)
Share award scheme							
– Value of employee services	-	-	32,993	-	32,993	-	32,993
– Purchase of shares	-	(75,068)	-	-	(75,068)	-	(75,068)
Profit appropriations	-	-	191,492	(191,492)	-	-	-
2013 final dividend payable	-	-	(2,233,912)	-	(2,233,912)	(45,160)	(2,279,072)
Total transactions with owners	-	(91,046)	(2,009,427)	(191,492)	(2,291,965)	3,288,632	996,667
Balance at 30 June 2014	356,275	5,968,228	1,058,104	36,210,264	43,592,871	13,855,292	57,448,163
Balance at 1 January 2013	356,275	8,311,805	2,054,177	25,184,893	35,907,150	5,020,082	40,927,232
Profit for the period	-	-	-	3,470,158	3,470,158	319,872	3,790,030
Other comprehensive loss							
– Fair value losses on available-for-sale financial assets, net of tax	-	-	(15,119)	-	(15,119)	(8,423)	(23,542)
Total comprehensive income for the period	-	-	(15,119)	3,470,158	3,455,039	311,449	3,766,488
Transactions with owners:							
Capital contribution from non-controlling interests	-	-	-	-	-	651,000	651,000
Share award scheme							
– Value of employee services	-	-	6,443	-	6,443	-	6,443
– Purchase of shares	-	(47,044)	-	-	(47,044)	-	(47,044)
Profit appropriations	-	-	66,086	(66,086)	-	-	-
2012 final dividend payable	-	-	(1,515,899)	-	(1,515,899)	-	(1,515,899)
Total transactions with owners	-	(47,044)	(1,443,370)	(66,086)	(1,556,500)	651,000	(905,500)
Balance at 30 June 2013	356,275	8,264,761	595,688	28,588,965	37,805,689	5,982,531	43,788,220

The notes on pages 45 to 76 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2014

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cash flows from operating activities		
Net cash (used in)/generated from operations	(1,564,126)	2,091,862
Interest received	65,986	133,436
Interest paid	(1,881,217)	(1,550,146)
PRC Income tax paid	(2,238,991)	(1,980,085)
Net cash flows from operating activities	(5,618,348)	(1,304,933)
Cash flows from investing activities		
Additions of property and equipment and investment properties	(1,384,576)	(2,424,244)
Sales of property and equipment	1,212	9,350
Additions of land use rights and other non-current assets	(161,610)	(484,067)
Disposal of subsidiaries	450,789	30,000
Acquisition of a subsidiary	–	(156,000)
Capital injection to joint ventures	(572,170)	(35,000)
Disposal of a joint venture	–	359,780
Advance to joint ventures	(217,925)	(776,751)
Net cash flows from investing activities	(1,884,280)	(3,476,932)
Cash flows from financing activities		
Proceeds from borrowings	20,570,374	17,942,827
Repayments of borrowings	(14,735,634)	(15,151,895)
Repurchases of shares	(75,068)	(47,044)
Capital contribution from non-controlling interests of subsidiaries	3,877,322	651,000
Acquisition of additional interests in subsidiaries	(518,992)	–
Repayment to non-controlling interests due to closure of subsidiary	(40,516)	–
Dividends paid to non-controlling interests	(45,160)	–
Increase in amounts due to non-controlling interests of subsidiary	11,997	1,819,210
(Increase)/decrease in restricted cash pledged for borrowings	(389,392)	616,154
Net cash flows from financing activities	8,654,931	5,830,252
Net increase in cash and cash equivalents	1,152,303	1,048,387
Cash and cash equivalents at the beginning of the period	17,026,018	15,893,845
Exchange gains/(losses)	8,331	(69,616)
Cash and cash equivalents at end of the period	18,186,652	16,872,616

The notes on pages 45 to 76 form an integral part of this interim condensed consolidated financial information.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

1 GENERAL INFORMATION AND BASIS OF PREPARATION

Shimao Property Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 29 October 2004 as an exempted company with limited liability under the Cayman Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries (together, the “Group”) are property development, property investment and hotel operation in the People's Republic of China (the “PRC”).

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 5 July 2006.

This interim condensed consolidated financial information is presented in thousands of Renminbi (“RMB'000”), unless otherwise stated, and was for issue on 26 August 2014.

These condensed consolidated interim financial statements have been reviewed, not audited.

This interim condensed consolidated financial information for the six months ended 30 June 2014 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA.

2 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(A) NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

- The Group has adopted HK(IFRIC)-Int 21 ‘Levies’. HK(IFRIC)-Int 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of HKAS 37 ‘Provisions’. The interpretation addresses what the obligating event is that gives rise to pay a levy, and when should a liability be recognised. The Group is not currently subject to significant levies. The adoption of the interpretation has had no significant effect on the financial statements for earlier periods and on the interim financial information for the period ended 30 June 2014. The Group does not expect HK(IFRIC)-Int 21 to have a significant effect on the results for the financial year ending 31 December 2014.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

2 ACCOUNTING POLICIES (continued)

(B) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards and amendments to standards and interpretations are issued but not effective for annual periods beginning 1 January 2014, and have not been early adopted.

Currently related to the Group:

- Some amendments included in Annual Improvements 2012 and 2013 which are effective for annual periods beginning on or after 1 July 2014, including:
 - Amendment to HKFRS 2 'Share-based payment'
 - Amendment to HKFRS 3, 'Business combinations' and consequential amendments to HKFRS 9, 'Financial instruments', HKAS 37, 'Provisions, contingent liabilities and contingent assets', and HKAS 39, 'Financial instruments – Recognition and measurement'
 - Amendment to HKFRS 8, 'Operating segments'
 - Amendment to HKAS 16, 'Property, plant and equipment' and HKAS 38, 'Intangible assets'
 - Amendment to HKAS 24, 'Related Party Disclosures'
 - Amendment to HKFRS 13, 'Fair value measurement'
 - Amendment to HKAS 40, 'Investment property'
- HKFRS 14, 'Regulatory deferral accounts', describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with HKFRS 14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services. HKFRS 14 requires separate presentation of regulatory deferral account balances in the balance sheet and of movements in those balances in the statement of comprehensive income. Disclosures are required to identify the nature of, and risk associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances. HKFRS 14 is effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- HKFRS 11 (Amendment), 'Joint arrangements', requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' (as defined in HKFRS 3, Business combinations). The amendment is applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained. This amendment is effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- HKAS 16 and HKAS 38 (Amendment), 'Clarification of acceptable methods of depreciation and amortisation', clarify when a method of depreciation or amortisation based on revenue may be appropriate. The amendment to HKAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendment to HKAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. These amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

2 ACCOUNTING POLICIES (continued)

(B) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

- HKFRS 15, 'Revenue from Contracts with Customers', establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction prices; (4) Allocate transaction price to performance obligations; and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control.

HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This amendment is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted.

- HKFRS 9, 'Financial instruments', is the first standard issued as part of a wider project to replace HKAS 39. HKFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in HKAS 39 on impairment of financial assets and hedge accounting continues to apply. This amendment is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

Not currently related to the Group (although they may affect the accounting for future transactions and events):

- Amendment to HKAS 19 regarding defined benefit plans, effective for annual periods beginning on or after 1 July 2014 with early adoption permitted.

3 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

4 FINANCIAL RISK MANAGEMENT

4.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

There have been no significant changes in any risk management policies since the year end.

4.2 LIQUIDITY RISK

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities, except the Company early redeemed on 3 August 2014 the senior notes issued on 3 August 2010 with outstanding principal of US\$500,000,000. The senior notes were originally due on 3 August 2017, which was reclassified from non-current liabilities to current liabilities as at 30 June 2014 (Note 14).

4.3 FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 FAIR VALUE ESTIMATION (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2014 and 31 December 2013.

As at 30 June 2014	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Investment properties	–	–	24,385,294	24,385,294
Available-for-sale financial assets				
– equity securities	330,143	–	–	330,143
Total	330,143	–	24,385,294	24,715,437
Liabilities				
Derivative financial instruments	–	–	10,716	10,716
As at 31 December 2013	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Investment properties	–	–	21,940,369	21,940,369
Available-for-sale financial assets				
– equity securities	408,440	–	–	408,440
Total	408,440	–	21,940,369	22,348,809
Liabilities				
Derivative financial instruments	–	–	36,898	36,898

During the six months ended 30 June 2014, there were no transfers among levels of the fair value hierarchy.

Investment properties included in Level 3 are all completed investment properties and certain investment properties under development. The investment properties, of which the constructions are at a very early stage and the related fair values are not reliably determinable, are measured at cost until either their fair values become reliably determinable or development is completed, whichever is earlier.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 FAIR VALUE ESTIMATION (continued)

	Six months ended 30 June 2014 RMB'000	Year ended 31 December 2013 RMB'000
Investment properties		
At fair value		
Opening balance	21,940,369	19,984,579
Additions	1,347,781	1,335,584
Disposal	—	(411,000)
Fair value gains	1,097,144	1,031,206
	24,385,294	21,940,369
At cost		
Opening balance	5,001,575	6,263,519
Additions	36,138	2,140,581
Transfer to properties under development	(2,130,972)	(3,402,525)
Disposal	(155,659)	—
	2,751,082	5,001,575
Closing balance	27,136,376	26,941,944

The valuations of the investment properties at 30 June 2014 and 31 December 2013 were carried out by an independent firm, Vigers Appraisal and Consulting Limited, who is a fellow member of the Royal Institution of Chartered Surveyors.

For completed investment properties, the fair values were determined on the basis of capitalisation of net rental income derived from the existing tenancies with allowance onto the reversionary interest of the properties and by reference to comparable market transactions. The valuation was determined using discounted cash flow ("DCF") projections based on significant unobservable inputs. These inputs include future rental cash inflows, discount rates, estimated vacancy rates, capitalisation rates and terminal value.

For investment properties under development, the valuation was primarily determined using residual method of valuation involving the gross development value assessment of the hypothetical development to be erected on the property based on the latest development scheme. The estimated development costs for the hypothetical development, including construction costs and professional fees together with allowances on interest payments and developer's profits, are deducted from the established gross development value thereof. The resultant figure is then adjusted back to present value as at the valuation date to reflect the existing state of the property. The valuation was based on a DCF model taking costs to complete and discount rates into account in addition to the inputs noted above.

Available-for-sale financial assets included in Level 1 is the equity securities traded in Shanghai Stock Exchange, the fair value of which is based on quoted market prices at the balance sheet date.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 FAIR VALUE ESTIMATION (continued)

Derivative financial instruments included in Level 3 are two interest rate swap contracts entered into with a commercial bank, the fair value of which is determined using valuation models for which not all inputs are market observable prices or rates.

There were no changes in valuation techniques during the period.

4.4 FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

Investment properties at fair value

	Six months ended 30 June 2014		
	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
Opening balance	16,403,370	5,536,999	21,940,369
Additions	184,477	1,163,304	1,347,781
Net gains from fair value adjustment	304,166	792,978	1,097,144
Closing balance	<u>16,892,013</u>	<u>7,493,281</u>	<u>24,385,294</u>

	Six months ended 30 June 2013		
	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
Opening balance	15,777,119	4,207,460	19,984,579
Additions	–	352,720	352,720
Net gains from fair value adjustment	390,394	465,427	855,821
Closing balance	<u>16,167,513</u>	<u>5,025,607</u>	<u>21,193,120</u>

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) (continued)

Derivatives at fair value through profit or loss

	Six-months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Opening balances	36,898	42,572
(Gain)/losses recognised in the income statement	(26,182)	15,919
Closing balances	10,716	58,491
Changes in unrealised (gain)/losses, under 'Other income/other gains – net'/'Other operating expenses'	(26,182)	15,919

4.5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTISED COST

The fair value of senior notes is as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Non-current	11,058,106	10,288,035
Current	3,218,005	–
	14,276,111	10,288,035

The fair value of other financial assets and liabilities approximate their carrying amount.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

5 SEGMENT INFORMATION

The chief operation decision-maker (the "CODM") has been identified as the management committee. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

As majority of the Group's consolidated revenue and results are attributable to the market in the PRC and most of the Group's consolidated assets are located in the PRC, therefore no geographical information is presented.

The CODM assesses the performance of the operating segments based on a measure of revenue and operating profit. The information provided to the CODM is measured in a manner consistent with that in the financial statements.

(A) REVENUE

Turnover of the Group consists of the following revenue recognised during the period:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Sales of properties	22,604,611	15,689,453
Hotel operation income	537,545	460,173
Rental income from investment properties	260,007	235,776
Others	273,249	291,499
	23,675,412	16,676,901

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

5 SEGMENT INFORMATION (continued)

(B) SEGMENT INFORMATION

The segment results for the six months ended 30 June 2014 are as follows:

	Property development and investment				
	Shanghai Shimao Co., Ltd. ("Shanghai Shimao")*	Others	Hotel Operation	Unallocated**	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
– Sales of properties	5,617,399	16,987,212	–	–	22,604,611
– Hotel operation income	52,752	–	484,793	–	537,545
– Rental income from investment properties	182,101	77,906	–	–	260,007
– Others	238,245	35,004	–	–	273,249
Total revenue	<u>6,090,497</u>	<u>17,100,122</u>	<u>484,793</u>	<u>–</u>	<u>23,675,412</u>
Operating profit/(loss)	2,343,599	5,087,739	90,614	(333,359)	7,188,593
Finance income	11,934	43,153	370	10,529	65,986
Finance costs	(62,015)	(58,979)	(18,229)	(39,225)	(178,448)
Share of results of					
– Associated companies	35	(69,587)	–	–	(69,552)
– Joint ventures	(25,965)	12,593	–	–	(13,372)
Profit/(loss) before income tax	<u>2,267,588</u>	<u>5,014,919</u>	<u>72,755</u>	<u>(362,055)</u>	<u>6,993,207</u>
Income tax expense					<u>(2,334,850)</u>
Profit for the period					<u><u>4,658,357</u></u>
Other segment items are as follows:					
Capital and property development expenditure	6,826,916	18,869,290	38,849	–	25,735,055
Fair value gains on investment properties	811,014	286,130	–	–	1,097,144
Fair value gain on derivative financial instrument	–	26,182	–	–	26,182
Write-off of intangible assets	–	6,241	–	–	6,241
Depreciation	16,173	88,772	74,689	18,889	198,523
Amortisation of land use rights	3,983	1,000	22,427	–	27,410
(Write back of)/provision for impairment of receivables	<u>(1,103)</u>	<u>27</u>	<u>–</u>	<u>–</u>	<u>(1,076)</u>

* The Group owns an effective equity interest of 64.22% in Shanghai Shimao.

** Unallocated mainly represent corporate level activities.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

5 SEGMENT INFORMATION (continued)

(B) SEGMENT INFORMATION (continued)

The segment results for the six months ended 30 June 2013 are as follows:

	Property development and investment		Hotel Operation	Unallocated	Total
	Shanghai Shimao RMB'000	Others RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
– Sales of properties	3,768,948	11,920,505	–	–	15,689,453
– Hotel operation income	42,291	–	417,882	–	460,173
– Rental income from investment properties	154,554	81,222	–	–	235,776
– Others	156,887	134,612	–	–	291,499
Total revenue	<u>4,122,680</u>	<u>12,136,339</u>	<u>417,882</u>	<u>–</u>	<u>16,676,901</u>
Operating profit	1,529,029	3,817,655	33,114	366,108	5,745,906
Finance income	14,160	90,774	205	28,297	133,436
Finance costs	(59,148)	(60,163)	(15,694)	(18,054)	(153,059)
Share of results of					
– Associated companies	–	(45,964)	–	–	(45,964)
– Joint ventures	–	272,357	–	–	272,357
Profit before income tax	<u>1,484,041</u>	<u>4,074,659</u>	<u>17,625</u>	<u>376,351</u>	<u>5,952,676</u>
Income tax expense					<u>(2,162,646)</u>
Profit for the period					<u><u>3,790,030</u></u>
Other segment items are as follows:					
Capital and property development expenditure	6,091,194	16,795,230	2,049,068	–	24,935,492
Fair value gains on investment properties	555,521	300,300	–	–	855,821
Fair value loss on derivative financial instrument	–	15,919	–	–	15,919
Write-off of intangible assets	–	19,183	–	–	19,183
Depreciation	54,996	16,293	82,206	12,040	165,535
Amortisation of land use rights	2,065	545	19,939	–	22,549
Provision for/(write back of) impairment of receivables	<u>5,435</u>	<u>(40)</u>	<u>–</u>	<u>–</u>	<u>5,395</u>

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

5 SEGMENT INFORMATION (continued)

(B) SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 30 June 2014 are as follows:

	Property development and investment		Hotel operation	Total
	Shanghai Shimao RMB'000	Others RMB'000	RMB'000	RMB'000
Associated companies	113,563	1,496,239	–	1,609,802
Joint ventures	2,000,115	4,828,450	–	6,828,565
Intangible assets	1,709,730	674	130,928	1,841,332
Other segment assets	61,434,526	113,210,544	11,638,867	186,283,937
Total segment assets	<u>65,257,934</u>	<u>119,535,907</u>	<u>11,769,795</u>	<u>196,563,636</u>
Deferred income tax assets				1,358,475
Available-for-sale financial assets				330,143
Other assets				<u>541,273</u>
Total assets				<u>198,793,527</u>
Borrowings	14,177,290	15,583,441	2,062,000	31,822,731
Other segment liabilities	<u>21,785,224</u>	<u>55,865,626</u>	<u>1,772,238</u>	<u>79,423,088</u>
Total segment liabilities	<u>35,962,514</u>	<u>71,449,067</u>	<u>3,834,238</u>	<u>111,245,819</u>
Corporate borrowings				22,875,561
Deferred income tax liabilities				4,239,001
Derivative financial instruments				10,716
Other liabilities				<u>2,974,267</u>
Total liabilities				<u>141,345,364</u>

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

5 SEGMENT INFORMATION (continued)

(B) SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 31 December 2013 are as follows:

	Property development and investment		Hotel operation	Total
	Shanghai Shimao RMB'000	Others RMB'000	RMB'000	RMB'000
Associated companies	84,752	1,565,826	–	1,650,578
Joint ventures	899,949	4,465,857	–	5,365,806
Intangible assets	1,709,730	6,915	130,928	1,847,573
Other segment assets	47,818,124	104,037,754	12,948,198	164,804,076
Total segment assets	<u>50,512,555</u>	<u>110,076,352</u>	<u>13,079,126</u>	173,668,033
Deferred income tax assets				1,306,338
Available-for-sale financial assets				408,440
Other assets				<u>385,047</u>
Total assets				<u>175,767,858</u>
Borrowings	12,891,450	15,611,636	798,000	29,301,086
Other segment liabilities	<u>11,556,219</u>	<u>51,868,593</u>	<u>6,742,766</u>	<u>70,167,578</u>
Total segment liabilities	<u>24,447,669</u>	<u>67,480,229</u>	<u>7,540,766</u>	99,468,664
Corporate borrowings				20,027,917
Deferred income tax liabilities				3,985,242
Derivative financial instruments				36,898
Other liabilities				<u>397,275</u>
Total liabilities				<u>123,915,996</u>

There are no differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

6 CAPITAL EXPENDITURE

	Property and equipment RMB'000	Investment properties RMB'000	Land use rights RMB'000	Intangible assets RMB'000	Total RMB'000
Opening net book amount as at 1 January 2014	10,378,052	26,941,944	5,645,416	1,847,573	44,812,985
Additions	601,352	1,383,919	102,552	–	2,087,823
Amortisation of land use rights	10,419	–	(10,419)	–	–
Transfer to properties under development	(97,502)	(2,130,972)	(51,201)	–	(2,279,675)
Fair value gains	–	1,097,144	–	–	1,097,144
Write-off of goodwill	–	–	–	(6,241)	(6,241)
Depreciation/amortisation charged to the income statement	(198,523)	–	(27,410)	–	(225,933)
Disposal of subsidiaries	(177,553)	(155,659)	(151,866)	–	(485,078)
Disposals	(1,212)	–	–	–	(1,212)
Closing net book amount as at 30 June 2014	<u>10,515,033</u>	<u>27,136,376</u>	<u>5,507,072</u>	<u>1,841,332</u>	<u>44,999,813</u>
Opening net book amount as at 1 January 2013	9,702,631	26,248,098	4,717,336	2,139,925	42,807,990
Additions	1,833,240	1,044,415	158,213	–	3,035,868
Amortisation of land use rights	7,638	–	(7,638)	–	–
Transfer to properties under development	(995,237)	(1,694,794)	(36,166)	–	(2,726,197)
Fair value gains	–	855,821	–	–	855,821
Write-off of goodwill	–	–	–	(19,183)	(19,183)
Depreciation/amortisation charged to the income statement	(165,535)	–	(22,549)	–	(188,084)
Disposals	(9,350)	–	–	–	(9,350)
Closing net book amount as at 30 June 2013	<u>10,373,387</u>	<u>26,453,540</u>	<u>4,809,196</u>	<u>2,120,742</u>	<u>43,756,865</u>

Intangible assets comprise goodwill from business combinations.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

7 ASSOCIATED COMPANIES

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Opening balance	1,650,578	1,490,441
Transfer from a subsidiary (note (a))	28,776	–
Share of results	(69,552)	(45,964)
Ending balance	<u>1,609,802</u>	<u>1,444,477</u>

Note:

- (a) In February 2014, the Group disposed of 70% equity interest in Jiaxing Shimao New Century Property Co., Ltd., a then wholly owned subsidiary, to a third party at a consideration of RMB164,534,000. The disposal had resulted in a gain of RMB85,110,000 and a net cash inflow of RMB164,323,000.

The Group's share of the results of its associated companies, all of which are unlisted, and its share of the associated companies' aggregated assets and liabilities, are as follows:

	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net loss RMB'000
30 June 2014 and six months ended 30 June 2014	<u>14,580,709</u>	<u>(12,970,907)</u>	<u>650,048</u>	<u>(69,552)</u>

8 JOINT VENTURES

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Opening balance	5,365,806	3,985,956
Capital injection (note (a))	572,170	35,000
Transfer from/(to) subsidiaries (note (b))	903,961	(305,683)
Disposal	–	(225,096)
Share of results	(13,372)	272,357
Ending balance	<u>6,828,565</u>	<u>3,762,534</u>

The Group's share of the results of its joint ventures, all of which are unlisted, and its share of the joint ventures' aggregated assets and liabilities, are as follows:

	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net loss RMB'000
30 June 2014 and six months ended 30 June 2014	<u>17,952,090</u>	<u>(11,123,525)</u>	<u>1,049,294</u>	<u>(13,372)</u>

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

8 JOINT VENTURES (continued)

Notes:

- (a) In the six months ended 30 June 2014, the Group increased share capital of Shanghai Mao Qin Investment Management Co. Ltd., a joint venture, by an amount of RMB572,170,000. The Group's equity interests in the joint venture remained 49% after the capital injection.
- (b) In April 2014, a third party made capital injections into Nantong Shimao New Era Property Development Co., Ltd, at consideration of RMB350,000,000, and the Group's equity interests in the subsidiary was diluted from 100% to 50% accordingly. Pursuant to the revised articles of association, the Group and the third party will jointly control the operation of this entity. The disposal had resulted in a gain of RMB5,799,000 and a net cash outflow of RMB198,999,000.

In January 2014, the Group disposed of 47.67% equity interest in Changshu Shimao New Era Property Co., Ltd., a then wholly owned subsidiary, to a third party at a consideration of RMB280,000,000. In April 2014, the third party made a further capital injection amounting to RMB250,000,000 which led the equity interest hold by the third party in the entity increase to 62.35%. According to the revised articles of association, the Group and the third party would jointly control the operation of the entity. The disposal had resulted in a gain of RMB2,431,000 and a net cash inflow of RMB277,019,000.

In January 2014, the Group disposed of 53.85% equity interest in Suzhou Shimao New Way Property Co., Ltd, a then wholly owned subsidiary, to a third party at a consideration of RMB280,000,000. In March 2014, the third party made a further capital injection amounting to RMB80,000,000 which led the equity interest hold by the third party in the entity increase to 60%. According to the revised articles of association, the Group and the third party will jointly control the operation of the entity. The disposal had resulted in a gain of RMB11,083,000 and a net cash inflow of RMB208,446,000.

9 AMOUNTS DUE FROM RELATED PARTIES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Included in non-current assets		
– Joint ventures	1,950,661	1,632,736
– Associated companies	533,958	633,958
	2,484,619	2,266,694

The Group made advances to several joint ventures and associated companies to finance their acquisition of land use rights. These advances are interest free, unsecured and have no fixed repayment terms. The Group's intention is that the advances will only be recalled when the joint ventures and associated companies have surplus cash.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

9 AMOUNTS DUE FROM RELATED PARTIES (continued)

	30 June 2014 RMB'000	31 December 2013 RMB'000
Included in current assets		
– Companies with common directors	256	632
– Associated companies	1,072,966	1,091,338
– Joint ventures	23,819	114,125
	1,097,041	1,206,095

The balances due from related companies are unsecured, interest-free and have no fixed repayment terms.

The carrying amounts of amounts due from related companies approximate their fair values.

10 OTHER NON-CURRENT ASSETS

Other non-current assets represent the prepayments for acquisition of land and equity interests.

The Group made prepayments for certain lands, the ownership of which have not been obtained as at the balance sheet dates. As at 30 June 2014, prepayments of RMB771,008,000 (31 December 2013: RMB711,950,000) were related to the lands for the purpose to develop hotel buildings, self-used buildings and investment properties, and are included in non-current assets. As at 30 June 2014, prepayments of RMB13,063,074,000 (31 December 2013: RMB9,632,388,000) were related to the lands for the purpose to develop properties for sale, and are included in current assets.

As at 30 June 2014, the Group made prepayments of RMB3,039,488,000 (31 December 2013: RMB1,296,363,000) for acquisition of certain equity interests, including RMB2,186,000,000 as the prepayment for the acquisition of 7.74% equity interest in Shenyin & Wanguo Securities Co., Ltd., which was rejected by China Security and Regulatory Committee in July 2014. As at the approval date of this interim condensed consolidated financial information, the Group was still in the process of communication with original shareholders to settle the repayments.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

11 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Bidding deposits for land use rights (note (a))	2,994,410	2,931,703
Trade receivables (note (b))	4,295,005	3,718,236
Prepaid business taxes on pre-sale proceeds	1,817,693	1,525,849
Prepayments for construction costs	1,885,161	1,247,085
Other receivables	2,096,381	1,794,548
	13,088,650	11,217,421

Notes:

- (a) Bidding deposits for land use rights mainly represented deposits of the Group placed with various municipal government for the participation in various land auctions. These deposits will be deducted against the total land costs to be paid, if the Group wins the bid at the auction. If the Group does not win, the amount will be fully refunded.
- (b) Trade receivables mainly arose from sales of properties. Consideration in respect of properties sold is receivable in accordance with the terms of the related sales and purchase agreements. The ageing analysis of trade receivables at respective balance sheet dates is as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 90 days	2,793,846	2,585,657
Over 90 days and within 365 days	1,139,537	925,691
Over 365 days	361,622	206,888
	4,295,005	3,718,236

As at 30 June 2014, receivables arising from sales of properties was approximately RMB4,111,464,000 (31 December 2013: RMB3,520,625,000).

Trade receivables are analysed as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Fully performing under credit terms	2,674,458	2,477,227
Past due but not impaired	1,620,547	1,241,009
	4,295,005	3,718,236

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

11 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (continued)

The ageing analysis of trade receivables past due but not impaired is as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 90 days	443,565	464,295
Over 90 days and within 365 days	815,360	569,826
Over 365 days	361,622	206,888
	1,620,547	1,241,009

As the Group normally holds collateral of the properties before collection of the outstanding balances and passing the titles to the purchasers, the Directors consider that the past due trade receivables would be recovered and no provision was made against past due receivables as at 30 June 2014 (31 December 2013: Nil).

As at 30 June 2014, provision for impairment of other receivables was approximately RMB32,931,000 (31 December 2013: RMB34,007,000).

As at 30 June 2014, the fair value of trade receivables, bidding deposits for land use rights, and other receivables of the Group approximate their carrying amounts, as the impact of discounting is not significant.

As at 30 June 2014 and 31 December 2013, trade and other receivables of the Group were mainly denominated in RMB.

12 RESTRICTED CASH AND CASH AND CASH EQUIVALENTS

As at 30 June 2014, the Group's bank deposits of approximately RMB526,223,000 (31 December 2013: RMB517,457,000) was restricted and deposited in certain banks as guarantee deposits for mortgage loan facilities granted by the banks to the purchasers of the Group's properties. The Group's cash of approximately RMB2,419,166,000 (31 December 2013: RMB2,029,774,000) were pledged as collateral for the Group's borrowings.

The conversion of RMB denominated balances into foreign currencies and the remittance of the foreign currencies out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The effective interest rate on bank deposits as at 30 June 2014 was 0.34% (31 December 2013: 0.34%).

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

13 SHARE CAPITAL

(A) Details of share capital of the Company are as follows:

	Par value	Number of shares	Nominal value of ordinary shares	Equivalent to
	HK\$	'000	HK\$'000	RMB'000
Authorised:				
At 30 June 2014, and 31 December 2013	0.1	5,000,000	500,000	
Issued and fully paid:				
At 30 June 2014, and 1 January 2014		3,472,572	347,257	356,275
At 30 June 2013, and 1 January 2013		3,472,572	347,257	356,275

(B) SHARE OPTION SCHEME

Pursuant to Shanghai Shimao's shareholders' resolution passed on 27 June 2013, a share option scheme ("A Share Option Scheme") was approved, and will expire at the end of the 36-month period from the date of grant. On 28 June 2013, options for a total of 10,000,000 ordinary shares of Shanghai Shimao ("A share option") under this scheme were granted to Shanghai Shimao's eligible employees with exercise price of RMB9.84 per share. During the six months ended 30 June 2014, 1,400,000 options were cancelled by Shanghai Shimao pursuant to the A Share Option Scheme. As at 30 June 2014, the total number of A shares which would be issued under the options granted under the A Share Option Scheme was 8,600,000 A shares. During the six months ended 30 June 2014, the exercise price of the options granted under the A Share Option Scheme has been adjusted to RMB9.60 per A share as a result of distribution of dividends for the six months ended 30 June 2013 and for the year ended 31 December 2013. The exercise of the granted options is subject to a restriction of 12 months from the date of grant. Subject to the fulfilment of various conditions, including service condition and non-market performance condition, as provided in the A Share Option Scheme, the granted options can be exercised in two batches evenly commencing from (i) the first trading day after the expiry of the 12-month period from the date of grant and (ii) the first trading day after the expiry of the 24-month period from the date of grant, respectively. The weighted average fair value of A share option granted determined using the Black-Scholes valuation model was RMB1.235 per option.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

13 SHARE CAPITAL (continued)

(C) SHARE AWARD SCHEME

The Company's board of directors (the "Board") approved and adopted the Share Award Scheme on 30 December 2011 (the "Share Scheme"). Unless terminated earlier by the Board, the Share Scheme is valid and effective for a term of 8 years commencing on 30 December 2011. The maximum number of shares to be awarded must be not exceed 34,659,508 shares (i.e. 1% of issued shares of the Company as at 30 December 2011).

The Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time), select such employee(s) for participation in the Share Scheme and determine the number of awarded shares.

A Trust was constituted to manage the Share Scheme, and a wholly owned subsidiary of the Company incorporated in the British Virgin Islands was designated as Trustee. Up to 31 December 2013, the Trust purchased 10,757,500 ordinary shares from market, totaling HK\$138,044,000 (equivalent to RMB110,843,000), of which 4,336,654 shares were granted to eligible employees according to the Share Scheme during the year ended 31 December 2013. For the six months ended 30 June 2014, the Trust purchased 6,011,500 ordinary shares from market, totaling HK\$95,168,000 (equivalent to RMB75,068,000), of which 2,527,524 shares were granted to eligible employees according to the Share Scheme. For the six months ended 30 June 2014, there were 2,142,703 shares which have been vested.

The granted shares were subject to several vesting conditions, including 1 year service and non-market performance appraisal before vesting date. The shares granted are held by the Trust before being transferred to the employees when vesting conditions are fully met.

Movements in the number of unvested shares granted during the period are as follows:

	Number of unvested shares granted Six months ended 30 June	
	2014	2013
Unvested shares, beginning	4,336,654	–
Granted	2,527,524	2,142,703
Vested	(2,142,703)	–
Unvested shares, ending	4,721,475	2,142,703

The weighted average fair value of the unvested units granted during the period ended 30 June 2014 is HKD67,233,804 (equivalent to RMB53,504,661).

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

13 SHARE CAPITAL (continued)

(D) Reconciliation of the number of shares outstanding was as follows:

	Six months ended 30 June	
	2014 '000	2013 '000
Shares issued and fully paid at 30 June	3,472,572	3,472,572
Treasury shares at 1 January	(10,758)	(4,000)
Treasury shares purchased for Share Award Scheme	(6,012)	(3,535)
Vested shares under the Share Award Scheme	2,143	–
Shares outstanding at 30 June	3,457,945	3,465,037

14 BORROWINGS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Borrowings included in non-current liabilities		
Long-term bank borrowings		
– secured by assets (note (i))	23,942,037	20,728,780
– secured by shares of subsidiary guarantors (note (iii))	7,158,774	7,412,356
– secured by shares of a listed subsidiary (note (iii))	745,000	680,000
– unsecured	1,012,473	772,443
Long-term borrowings from other financial institutions		
– secured by assets (note (i))	3,300,000	2,556,450
Senior notes – secured (note (iv))	13,770,736	9,901,163
Medium-term notes – unsecured (note (v))	1,000,000	–
	50,929,020	42,051,192
Less: Long-term bank borrowings due within one year	(4,934,495)	(3,568,061)
Senior note due within one year (note (iv))	(3,056,494)	–
Long-term borrowings from other financial institutions due within one year	(920,000)	(929,450)
Amounts due within one year	(8,910,989)	(4,497,511)
	42,018,031	37,553,681
Borrowings included in current liabilities		
Short-term bank borrowings		
– secured by assets (note (i))	1,459,000	2,591,934
– secured by shares of a listed subsidiary (note (iii))	890,000	490,000
– unsecured	1,220,272	1,933,021
Short term borrowings from other financial institutions and non-financial institutions		
– secured by assets (note (i))	200,000	1,455,316
– unsecured (note (vi))	–	807,540
Current portion of long-term borrowings	8,910,989	4,497,511
	12,680,261	11,775,322

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

14 BORROWINGS (continued)

Movement of borrowings is analysed as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Opening balance at 1 January	49,329,003	40,993,941
Additions of borrowings	20,570,374	17,942,827
Acquisition of a subsidiary	–	2,068,449
Amortisation of issuance expenses	63,075	24,734
Reductions of borrowings	(14,735,634)	(15,151,895)
Disposal of subsidiaries	(750,000)	–
Foreign exchange losses/(gains)	221,474	(326,051)
	<u>54,698,292</u>	<u>45,552,005</u>
Closing balance at 30 June		

Notes:

- (i) As at 30 June 2014, the Group's total secured bank borrowings and borrowings from other financial institutions of RMB28,901,037,000 (31 December 2013: RMB27,332,480,000) were secured by its property and equipment, investment properties, land use rights, available-for-sale financial assets, properties under development, completed properties held for sale and restricted cash. As at 30 June 2014, secured borrowings of RMB1,736,150,000 (31 December 2013: RMB1,985,084,000) were further guaranteed by Mr. Hui Wing Mau.

The pledged assets for the Group's borrowings are as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Property and equipment	3,939,813	4,808,965
Investment properties	16,003,347	15,686,452
Land use rights	538,472	852,584
Available-for-sale financial assets	327,387	405,030
Properties under development	25,217,295	21,203,862
Completed properties held for sale	5,760,186	4,442,640
Restricted cash	2,419,166	2,029,774
	<u>54,205,666</u>	<u>49,429,307</u>

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

14 BORROWINGS (continued)

Notes: (continued)

- (ii) On 26 November 2012, the Company entered into a multi-currency loan facility agreement with a syndicate of 6 banks. Pursuant to the agreement, the Company obtained 3-year syndicated loan facilities, including a US\$610,000,000 facility and a HK\$468,000,000 facility at a floating rate of interest. 10% out of the loan principal was repaid in May 2014. 15% out of the loan principal will mature in November 2014 and 75% will mature in 2015. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the share of these subsidiary guarantors. As at 30 June 2014, US\$549,000,000 and HK\$421,200,000 have been drawn down (31 December 2013: US\$610,000,000 and HK\$468,000,000 were drawn down).

On 14 June 2013, the Company entered into a multi-currency loan facility agreement with a syndicate of 8 banks. Pursuant to the agreement, the Company obtained 4-year syndicated loan facilities, including a US\$320,000,000 facility and a HK\$1,950,000,000 facility at a floating rate of interest, 15% out of the loan principal will mature in 2015, 35% will mature in 2016 and 50% will mature in 2017. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the share of these subsidiary guarantors. As at 30 June 2014, US\$320,000,000 and HK\$1,950,000,000 have been drawn down (31 December 2013: US\$320,000,000 and HK\$1,950,000,000 were drawn down).

- (iii) As at 30 June 2014, 338,080,000 (31 December 2013: 231,400,000) shares of Shanghai Shimao have been pledged for a total bank borrowings of RMB1,635,000,000 (31 December 2013: RMB1,170,000,000) for group companies.

- (iv) On 3 August 2010, the Company issued senior notes with total principal of US\$500,000,000 at a fixed interest rate of 9.65% originally due on 3 August 2017, which were early redeemed on 3 August 2014 and were reclassified to current liabilities as at 30 June 2014.

On 8 March 2011, the Company issued senior notes with total principal of US\$350,000,000 at a fixed interest rate of 11% due on 8 March 2018. And on 14 January 2013, the Company issued senior notes with total principal of US\$800,000,000 at a fixed interest rate of 6.625% due on 14 January 2020. And on 22 January 2014, the Company issued senior notes with total principal of US\$600,000,000 at a fixed interest rate of 8.125% due on 22 January 2021. The Company may at its option to redeem these notes, in whole or in part, by certain dates based on the terms of these notes. The notes are senior obligations guaranteed by certain restricted offshore subsidiaries and secured by a pledge of the shares of these offshore restricted subsidiaries.

- (v) On 15 April 2014, Shanghai Shimao issued medium-term notes with total principal of RMB1,000,000,000 at a fixed interest rate of 8.37% due on 15 April 2017.

- (vi) For the year ended 31 December 2013, the Group borrowed certain unsecured loans from a joint venture with total principal of RMB807,540,000, with interest at 6.15% per annum, which was repaid in January 2014.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

15 TRADE AND OTHER PAYABLES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade payables (note (i))	19,889,168	16,796,749
Other taxes payable	1,268,641	1,077,113
Accrued expenses	1,324,718	982,181
Other payables (note (ii))	2,356,704	2,139,282
	24,839,231	20,995,325

Notes:

(i) The ageing analysis from the recorded date of trade payables is as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 90 days	18,929,851	16,410,856
Over 90 days and within 1 year	959,317	385,893
	19,889,168	16,796,749

(ii) Other payables comprise:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Deposits received from customers	1,721,076	1,475,543
Fees collected from customers on behalf of government agencies	80,650	96,644
Deposits from constructors	224,815	348,523
Rental deposits from tenants and hotel customers	119,850	129,709
Others	210,313	88,863
	2,356,704	2,139,282

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

16 AMOUNTS DUE TO RELATED PARTIES

	30 June 2014 RMB'000	31 December 2013 RMB'000
– Company with common directors	1,861	1,861
– Joint ventures	7,435,463	4,162,964
– Associated company	3,064	38,438
– Non-controlling interests	6,145,129	6,133,132
Total	13,585,517	10,336,395

Amounts due to non-controlling interests represent funds injected by the non-controlling shareholders for the development of properties.

The balances due to related parties are unsecured, interest-free and have no fixed repayment terms.

17 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs, administrative expenses and other operating expenses are analysed as follows:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Cost of properties sold and others	14,057,965	9,631,804
Including: interests capitalised	1,250,477	922,106
Business taxes and other levies on sales of properties	1,315,029	906,166
Corporate and office expenses	505,337	349,551
Staff costs – including directors' emoluments	688,743	520,024
Advertising, promotion and commission costs	484,240	333,716
Depreciation	198,523	165,535
Amortisation of land use rights	27,410	22,549
Write-off of intangible assets	6,241	19,183
(Write back of)/provision for impairment of receivables	(1,076)	5,395
Direct expenses arising from hotel operation	187,925	161,646
Direct expenses arising from investment properties	19,173	17,603
Operating lease rental expenses	52,503	41,761
Charitable donations	31,092	2,941
Auditor's remuneration	3,500	3,500
Fair value loss on derivative financial instrument	–	15,919
Others	128,964	134,998
Total cost of sales, selling and marketing costs, administrative expenses and other operating expenses	17,705,569	12,332,291

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

18 OTHER INCOME/OTHER GAINS – NET

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Gain on disposal of subsidiaries/a joint venture (Notes 7 & 8)	104,423	134,684
Government grants received	191,451	135,436
Net exchange (loss)/gain	(224,576)	256,435
Fair value gain on derivative financial instrument	26,182	–
Others	24,126	18,920
	<u>121,606</u>	<u>545,475</u>

19 FINANCE COSTS – NET

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Interest on bank borrowings		
– wholly repayable within five years	828,824	324,340
– not wholly repayable within five years	485,567	371,229
Interest on senior notes		
– wholly repayable within five years	270,747	358,054
– not wholly repayable within five years	305,415	190,835
Interest on borrowings from other financial institutions		
– wholly repayable within five years	188,552	466,774
– not wholly repayable within five years	474	–
	<u>2,079,579</u>	<u>1,711,232</u>
Less: interest capitalised	<u>(1,901,131)</u>	<u>(1,558,173)</u>
Finance costs	178,448	153,059
Finance income	(65,986)	(133,436)
Finance costs – net	<u>112,462</u>	<u>19,623</u>

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

20 INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current income tax		
– PRC enterprise income tax	1,638,717	1,020,632
– PRC withholding income tax	155	–
– PRC land appreciation tax	474,782	849,973
	<u>2,113,654</u>	<u>1,870,605</u>
Deferred income tax		
– PRC enterprise income tax	221,196	292,041
	<u>2,334,850</u>	<u>2,162,646</u>

(A) HONG KONG PROFITS TAX

No Hong Kong profits tax has been provided for as the Group has no estimated assessable profit in Hong Kong for the period.

(B) PRC ENTERPRISE INCOME TAX

PRC enterprise income tax is provided for at 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items which are not assessable or deductible for PRC enterprise income tax purpose.

(C) PRC LAND APPRECIATION TAX

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including cost of land use rights, borrowing costs, business taxes and all property development expenditures. The tax is incurred upon transfer of property ownership.

(D) PRC WITHHOLDING INCOME TAX

According to the new Enterprise Income Tax Law of the PRC, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong.

Gain on disposal of an investment in the PRC by overseas holding companies may also be subject to withholding tax of 10%.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

21 DIVIDENDS

No dividend in respect of the six months ended 30 June 2013 was declared at the Company's board meeting held on 20 August 2013.

A final dividend in respect of the year ended 31 December 2013 of HK81 cents per ordinary share, amounting to approximately HK\$2,812,783,000 (equivalent to RMB2,233,912,000) was proposed at the Company's board meeting held on 25 March 2014, and was approved at the annual general meeting of the Company held on 23 June 2014.

At a meeting held on 26 August 2014, the directors proposed an interim dividend of HK30 cents per ordinary share out of share premium as at 30 June 2014. This proposed dividend is not reflected as a dividend payable in these condensed consolidated financial statements.

22 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2014	2013
Profit attributable to the equity holders of the Company (RMB'000)	4,180,298	3,470,158
Weighted average number of ordinary shares in issue (thousands)	3,459,587	3,465,428
Basic earnings per share (RMB cents)	120.83	100.14

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the shares granted under the share award scheme and the share options granted under the share option schemes assuming they were exercised.

	Six months ended 30 June	
	2014	2013
Profit attributable to the equity holders of the Company (RMB'000)	4,180,298	3,470,158
Weighted average number of ordinary shares in issue (thousands)	3,459,587	3,465,428
Adjustments for shares granted under Share Award Scheme/ share options granted under the Pre-IPO Share Option Scheme (thousands)	4,622	1,172
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,464,209	3,466,600
Diluted earnings per share (RMB cents)	120.67	100.10

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

23 CONTINGENCIES

The Group had the following contingent liabilities:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Guarantees in respect of mortgage facilities for certain purchasers (note (i))	6,051,846	10,054,730
Guarantees in respect of borrowings of joint ventures and associated companies (note (ii))	5,554,429	4,783,509
	<u>11,606,275</u>	<u>14,838,239</u>

Notes:

- (i) The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtains the "property title certificate" for the mortgagees, or when the Group obtains the "master property title certificate" upon completion of construction. The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made for the guarantees.
- (ii) The Group and other shareholders of Guangzhou Li He Property Development Co., Ltd. ("Guangzhou Li He"), an associated company, provided guarantees in proportion of their respective equity interests in Guangzhou Li He for its bank borrowings. The guarantees provided by the Group to Guangzhou Li He amounted to RMB1,514,676,000 as at 30 June 2014 (31 December 2013: RMB1,537,352,000).

The Group and other shareholders of Tianjin Jinnan Xincheng Real Estate Development Co., Ltd. ("Tianjin Jinnan"), a joint venture, provided guarantees in proportion of their respective equity interests in Tianjin Jinnan for its borrowings obtained from other financial institutions. As at 30 June 2014, the Group provided guarantee amounting to RMB156,427,000 (31 December 2013: RMB357,000,000) as well as the pledge of the Group's equity interests in Tianjin Jinnan.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

23 CONTINGENCIES (continued)

Notes: (continued)

The Group and other shareholders of Straits Construction Investment (Holdings) Limited ("Straits Construction"), an associated company, provided guarantees in proportion of their respective equity interests in Straits Construction for its mezzanine facilities borrowed in January 2012. As at 30 June 2014, the respective guarantee provided by the Group to Straits Construction is with a maximum amount of RMB1,613,526,000 (31 December 2013: RMB903,253,000).

The Group provided no guarantees for Nanchang Shimao New Development Property Co., Ltd.'s bank borrowings as at 30 June 2014 (31 December 2013: RMB240,000,000).

The Group provided guarantees for Changsha Shimao Real Estate Co., Ltd.'s bank borrowings amounted to RMB600,000,000 as at 30 June 2014 (31 December 2013: RMB750,000,000).

The Group provided guarantees for Wuxi Shimao Real Estate Development & Construction Co., Ltd.'s bank borrowings amounted to RMB675,800,000 as at 30 June 2014 (31 December 2013: RMB675,800,000).

The Group provided guarantees for Chengdu Shimao Investment Co., Ltd.'s bank borrowings amounted to RMB70,000,000 as at 30 June 2014 (31 December 2013: RMB320,104,000).

The Group provided guarantees for Chengdu Hengyu Real Estate Development Co., Ltd.'s bank borrowings amounted to RMB924,000,000 as at 30 June 2014 (31 December 2013: Nil).

24 COMMITMENTS

(A) COMMITMENTS FOR CAPITAL AND PROPERTY DEVELOPMENT EXPENDITURE

	30 June 2014 RMB'000	31 December 2013 RMB'000
Contracted but not provided for		
– Property and equipment and investment properties	1,255,007	1,453,432
– Land use rights (including those related to associated companies and joint ventures)	14,225,779	17,662,724
– Properties being developed for sale	23,279,164	20,165,097
– Equity interest	–	1,190,000
	38,759,950	40,471,253

(B) OPERATING LEASE COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 1 year	188,712	192,005
After 1 year but within 5 years	533,396	731,440
After 5 years	295,978	363,989
	1,018,086	1,287,434

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2014

25 RELATED PARTY TRANSACTIONS

The Group is controlled by Gemfair Investments Limited (incorporated in the British Virgin Islands), which owns 56.1% of the Company's shares. The ultimate controlling party of the Group is Mr. Hui Wing Mau.

- (A) Other than those disclosed elsewhere in this interim condensed consolidated financial information, the Group had entered into the following major related party transactions during the period:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Operating lease rental expense paid to a related company (note)	2,705	2,705

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Construction material sold to related companies	129	33,886

Note:

On 1 January 2014, the Group renewed a lease agreement with a wholly-owned subsidiary of Shimao International Holdings Limited ("Shimao International"), of which certain directors of the Group are also directors, to lease part of office premises of Shimao International in Hong Kong.

(B) KEY MANAGEMENT COMPENSATION

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Emoluments		
– Salaries and other short-term employee benefits	9,181	8,556
– Retirement scheme contributions	141	135
	9,322	8,691

26 SUBSEQUENT EVENTS

On 12 June 2014, the Company entered into a multi-currency loan facility agreement with a syndicate of 11 banks. Pursuant to the agreement, the Company obtained 4-year syndicated loan facilities, including a US\$665,000,000 facility and a HK\$550,000,000 facility at a floating rate of interest. 15% out of the loan principal will mature in 2016, 35% will mature in 2017 and 50% will mature in 2018. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the share of these subsidiary guarantors. The loan facility was fully drawn down in July 2014.

On 3 August 2014, the Company early redeemed senior notes of US\$500,000,000 as disclosed in Note 14(iv).

Independent Auditor's Report

TO THE SHAREHOLDERS OF SHIMAO PROPERTY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shimaoproperty Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 74 to 184, which comprise the consolidated and Company balance sheets as at 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 25 March 2014

Consolidated Balance Sheet

As at 31 December 2013

		As at 31 December	
		2013	2012
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property and equipment	6	10,378,052	9,702,631
Investment properties	7	26,941,944	26,248,098
Land use rights	8	5,645,416	4,717,336
Intangible assets	9	1,847,573	2,139,925
Associated companies	11	1,650,578	1,490,441
Joint ventures	12	5,365,806	3,985,956
Amount due from related parties	19	2,266,694	1,561,719
Available-for-sale financial assets	13	408,440	369,833
Deferred income tax assets	24	1,306,338	1,248,390
Other non-current assets	14	2,008,313	757,250
		57,819,154	52,221,579
Current assets			
Properties under development	15	62,559,873	37,608,942
Completed properties held for sale	16	11,604,899	7,103,351
Trade and other receivables and prepayments	17	11,217,421	6,638,544
Prepayment for acquisition of land use rights	18	9,632,388	6,676,235
Prepaid income taxes		2,154,779	1,165,244
Amounts due from related parties	19	1,206,095	1,316,027
Restricted cash	20	2,547,231	2,204,028
Cash and cash equivalents	20	17,026,018	15,893,845
		117,948,704	78,606,216
Total assets		175,767,858	130,827,795
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	21	356,275	356,275
Reserves			
– Proposed final dividend	22	2,195,555	1,548,559
– Others	22	39,190,420	34,002,316
		41,742,250	35,907,150
Non-controlling interests		10,109,612	5,020,082
Total equity		51,851,862	40,927,232

Consolidated Balance Sheet

As at 31 December 2013

		As at 31 December	
		2013	2012
	Note	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	23	37,553,681	28,613,297
Deferred income tax liabilities	24	3,985,242	3,775,578
		41,538,923	32,388,875
Current liabilities			
Trade and other payables	25	20,995,325	14,316,430
Advanced proceeds received		29,900,978	20,578,024
Income tax payable		9,327,098	7,259,690
Borrowings	23	11,775,322	12,380,644
Derivative financial instruments	26	36,898	42,572
Amounts due to related parties	27	10,336,395	2,897,713
Deferred income		5,057	36,615
		82,377,073	57,511,688
Total liabilities		123,915,996	89,900,563
Total equity and liabilities		175,767,858	130,827,795
Net current assets		35,571,631	21,094,528
Total assets less current liabilities		93,390,785	73,316,107

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

The notes on pages 82 to 184 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2013

		As at 31 December 2013 RMB'000	2012 RMB'000
	Note		
ASSETS			
Non-current assets			
Interests in subsidiaries	10	25,070,179	23,438,485
Current assets			
Other receivables and prepayments		1,082	1,117
Dividend receivable from subsidiaries	10	94,250	267,000
Cash and cash equivalents	20	59,503	38,954
		154,835	307,071
Total assets		25,225,014	23,745,556
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	21	356,275	356,275
Reserves			
– Proposed final dividend	22	2,195,555	1,548,559
– Others	22	4,735,388	7,405,755
Total equity		7,287,218	9,310,589
LIABILITIES			
Non-current liabilities			
Borrowings	23	16,291,756	10,810,720
Current liabilities			
Borrowings	23	1,021,763	3,146,369
Derivative financial instruments	26	36,898	42,572
Trade and other payables		356,577	239,635
Amounts due to subsidiaries	10	230,802	195,671
		1,646,040	3,624,247
Total liabilities		17,937,796	14,434,967
Total equity and liabilities		25,225,014	23,745,556
Net current liabilities		(1,491,205)	(3,317,176)
Total assets less current liabilities		23,578,974	20,121,309

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

		Year ended 31 December	
		2013	2012
	Note	RMB'000	RMB'000
Revenue	5	41,502,660	28,652,243
Cost of sales	29	(26,861,772)	(19,046,444)
Gross profit		14,640,888	9,605,799
Fair value gains on investment properties	7	1,031,206	2,362,880
Other income/other gains – net	28	845,063	1,196,104
Selling and marketing costs	29	(1,305,735)	(1,046,841)
Administrative expenses	29	(2,283,303)	(1,815,871)
Other operating expenses	29	(592,136)	(266,706)
Operating profit		12,335,983	10,035,365
Finance income		190,850	146,055
Finance costs		(312,211)	(168,170)
Finance costs – net	30	(121,361)	(22,115)
Share of results of			
– Associated companies	11	(51,443)	(210,938)
– Joint ventures	12	895,649	363,125
		844,206	152,187
Profit before income tax		13,058,828	10,165,437
Income tax expense	32	(4,833,504)	(3,580,949)
Profit for the year		8,225,324	6,584,488
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Fair value gains on available-for-sale financial assets, net of tax		28,955	76,853
Total comprehensive income for the year		8,254,279	6,661,341

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

		Year ended 31 December	
		2013	2012
	Note	RMB'000	RMB'000
Profit for the year attributable to:			
Equity holders of the Company		7,389,857	5,764,632
Non-controlling interests		835,467	819,856
		8,225,324	6,584,488
Total comprehensive income for the year attributable to:			
Equity holders of the Company		7,408,452	5,813,987
Non-controlling interests		845,827	847,354
		8,254,279	6,661,341
Earnings per share for profit attributable to the equity holders of the Company			
– Basic (RMB cents)	33	213.3	166.3
– Diluted (RMB cents)	33	213.2	166.2

The notes on pages 82 to 184 are an integral part of these consolidated financial statements.

		Year ended 31 December	
		2013	2012
		RMB'000	RMB'000
Dividends	34	2,195,555	1,548,559

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Note	Attributable to the equity holders of the Company		Non-controlling interests	Total
		Share capital RMB'000	Reserves RMB'000 (Note 22)		
Balance at 1 January 2013		356,275	35,550,875	5,020,082	40,927,232
Profit for the year		–	7,389,857	835,467	8,225,324
Other comprehensive income for the year					
<i>Items that may be reclassified to profit or loss</i>					
Fair value gains on available-for-sale financial assets		–	24,793	13,814	38,607
Tax on fair value gains on available-for-sale financial assets		–	(6,198)	(3,454)	(9,652)
Total comprehensive income for the year		–	7,408,452	845,827	8,254,279
Transactions with owners:					
Capital contribution from non-controlling interests of subsidiaries		–	–	4,305,600	4,305,600
Disposal of subsidiaries		–	–	(27,789)	(27,789)
Share award scheme					
– Value of employee services	21(d)	–	32,183	–	32,183
– Purchase of shares		–	(89,636)	–	(89,636)
2012 final dividend payable	34	–	(1,515,899)	(34,108)	(1,550,007)
Total transactions with owners		–	(1,573,352)	4,243,703	2,670,351
Balance at 31 December 2013		356,275	41,385,975	10,109,612	51,851,862

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Note	Attributable to the equity holders of the Company		Non-controlling interests	Total
		Share capital RMB'000	Reserves RMB'000 (Note 22)		RMB'000
Balance at 1 January 2012		355,737	30,235,943	4,426,397	35,018,077
Profit for the year		–	5,764,632	819,856	6,584,488
Other comprehensive income for the year					
<i>Items that may be reclassified to profit or loss</i>					
Fair value gains on available-for-sale financial assets		–	65,807	36,664	102,471
Tax on fair value gains on available-for-sale financial assets		–	(16,452)	(9,166)	(25,618)
Total comprehensive income for the year		–	5,813,987	847,354	6,661,341
Transactions with owners:					
Acquisition of additional interests of subsidiaries		–	–	(330,000)	(330,000)
Capital contribution from non-controlling interests		–	–	124,502	124,502
Employee share option scheme					
– Proceeds from shares issued	21(b)	538	29,703	–	30,241
Share award scheme					
– Purchase of shares		–	(21,207)	–	(21,207)
2011 final dividend payable	34	–	(507,551)	(48,171)	(555,722)
Total transactions with owners		538	(499,055)	(253,669)	(752,186)
Balance at 31 December 2012		356,275	35,550,875	5,020,082	40,927,232

The notes on pages 82 to 184 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2013

		Year ended 31 December	
		2013	2012
	Note	RMB'000	RMB'000
Cash flow from operating activities			
Net cash (used in)/generated from operations	35	(3,901,786)	14,513,221
Interest received		190,850	146,055
Interest paid		(3,486,576)	(3,169,479)
PRC income tax paid		(3,613,568)	(3,095,484)
Net cash (used in)/generated from operating activities		(10,811,080)	8,394,313
Cash flow from investing activities			
Additions of property and equipment and investment properties		(3,749,751)	(3,627,887)
Sales of property and equipment		5,664	2,444
Additions of land use rights and other non-current assets		(1,034,007)	(647,046)
Disposal of subsidiaries with loss of control	11,12	637,816	161,070
Acquisition of a subsidiary	12	(156,101)	–
Capital injection to associated companies	11	(126,830)	(393,098)
Capital injection to joint ventures	12	(65,000)	–
Disposal of a joint venture	12	359,780	–
Prepayment for acquisition of equity interests	14	(1,296,363)	–
(Advance to)/payment from joint ventures	19	(704,975)	1,223,327
Net cash used in investing activities		(6,129,767)	(3,281,190)
Cash flow from financing activities			
Proceeds from borrowings		39,191,116	28,259,939
Repayments of borrowings		(29,756,334)	(28,702,243)
Repurchases of shares		(89,636)	(21,207)
Issue of new shares		–	30,241
Capital contribution from non-controlling interests of subsidiaries		4,305,600	124,502
Dividends paid to equity holders of the Company		(1,515,899)	(507,551)
Dividends paid to non-controlling interests		(34,108)	(48,171)
Increase in amounts due to non-controlling interests of subsidiary	27	6,133,132	–
Increase in restricted cash pledged for borrowings		(48,127)	(665,512)
Net cash generated from/(used in) financing activities		18,185,744	(1,530,002)
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		15,893,845	12,312,740
Effect of foreign exchange rate changes		(112,724)	(2,016)
Cash and cash equivalents at end of the year	20	17,026,018	15,893,845

The notes on pages 82 to 184 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

Shimao Property Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 29 October 2004 as an exempted company with limited liability under the Cayman Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries (together, the “Group”) are property development, property investment and hotel operation in the People’s Republic of China (the “PRC”).

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 5 July 2006.

These consolidated financial statements are presented in Renminbi, unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and derivative financial instruments which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) New and amended standards adopted by the Group

HKAS 1 (Amendment) ‘Presentation of financial statements’. The main change resulting from these amendments is a requirement for entities to group items presented in ‘other comprehensive income’ (“OCI”) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

HKFRS 10, ‘Consolidated financial statements’, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

HKFRS 11, ‘Joint Arrangements’ reduced the types of joint arrangements to two: joint operations and joint ventures and proportional consolidation of joint ventures is no longer allowed.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group (continued)

HKFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. See Note 11 and Note 12 for the impact.

HKFRS 13, 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs or US GAAP. See Note 3 and Note 7 for the impact.

HKAS 27 (revised 2011), 'Separate financial statements', includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10.

HKAS 28 (revised 2011), 'Associates and joint ventures' includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11.

There are no other amended standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 that would be expected to have a material impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are issued but not effective for annual periods beginning 1 January 2013, and have not been early adopted

Currently related to the Group:

- HKAS 32 (Amendment) 'Financial instruments: Presentation-on asset and liability offsetting'. These amendments are to the application guidance in HKAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.
- HKFRS 10, HKFRS 12 and HKAS 27 (revised 2011) (Amendment), 'Consolidation for investment entities'. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made HKFRS 12 to introduce disclosures that an investment entity needs to make. These amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted (continued)

- HKAS 36 (Amendment) 'Impairment of assets – Recoverable amount disclosures for non-financial assets'. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.
- HK (IFRIC) Interpretation 21 'Levies'. This is an interpretation of HKAS 37, 'Provisions, contingent liabilities and contingent assets'. HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This interpretation is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.
- HKFRS 9, 'Financial instruments', is the first standard issued as part of a wider project to replace HKAS 39. HKFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in HKAS 39 on impairment of financial assets and hedge accounting continues to apply. This amendment is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted.
- Some amendments included in Annual Improvements 2012 and 2013, including:
 - Amendment to HKFRS 2 'Share-based payment';
 - Amendment to HKFRS 3, 'Business combinations' and consequential amendments to HKFRS 9, 'Financial instruments', HKAS 37, 'Provisions, contingent liabilities and contingent assets', and HKAS 39, 'Financial instruments – Recognition and measurement';
 - Amendment to HKFRS 8, 'Operating segments';
 - Amendment to HKAS 16, 'Property, plant and equipment' and HKAS 38, 'Intangible assets';
 - Amendment to HKAS 24, 'Related Party Disclosures'
 - Amendment to HKFRS 13, 'Fair value measurement'
 - Amendment to HKAS 40, 'Investment property'

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted (continued)

Not currently related to the Group (although they may affect the accounting for future transactions and events):

- Amendment to HKAS 39 'Financial Instruments: Recognition and Measurement' – 'Novation of derivatives', effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.
- Amendment to HKAS 19 regarding defined benefit plans, effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

As at 31 December 2013, the Company's current liabilities exceed current assets by approximately RMB1,491,205 since the Company borrowed short term bank loans to finance its property development subsidiaries in the mainland China, while subsidiaries did not declare adequate dividends to the Company. The Company has prepared cash flow projections for the twelve months subsequent to 31 December 2013 and has assessed the compliance of loan covenants. The directors of the Company, having taken into consideration of long-term senior notes issued in early 2014, operation cash flows and available financial resources of the Group, are confident that the Company has adequate resources to continue in operations, to repay its liabilities when they fall due. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Further information of the Company's borrowings is given in Note 23.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 9).

Intra-group transactions, balances, and unrealized gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Joint ventures and associates

Joint ventures are entities which operate under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Associated companies are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in joint ventures and associated companies are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in joint ventures and associated companies includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in a joint venture or an associated company is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a joint venture or an associated company equals or exceeds its interest in the investee, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture or the associated company.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture or the associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture or the associated company and its carrying value and recognises the amount adjacent to 'share of results of joint ventures or associated companies' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its joint ventures or associated companies are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the joint ventures or associated companies. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures and associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in joint ventures and associated companies are recognised in the income statement.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the management committee that makes strategic decisions.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Buildings comprise hotel buildings and self-use buildings.

Assets under construction are stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, borrowing costs and professional fees incurred during the development period. On completion, the assets are transferred to buildings within property and equipment.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property and equipment (*continued*)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their costs less their residual values and impairment loss over their estimated useful lives, as follows:

Buildings	50 years or the remaining lease period of the land use rights, whichever is shorter
Building improvements	10 to 20 years
Furniture and equipment	5 years
Jet plane and motor vehicles	5 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within "other income/other gains – net" in the income statement.

2.7 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as 'fair value gains/losses on investment properties'.

If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Investment property (*continued*)

If an investment property becomes owner-occupied or commences development with a view to sale, it is reclassified as property and equipment or as properties under development or completed properties held for sale, and the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

If an item of property and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property and equipment in equity under HKAS 16. If a property commences an operating lease to another party, it is transferred from properties under development or completed properties held for sale to investment property, and any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

2.8 Intangible assets – goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/associated companies/joint ventures at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies/joint ventures is included in investments in associated companies/joint ventures. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

2.9 Impairment of investments in subsidiaries, associated companies, joint ventures and non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries, associated companies or joint ventures is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries, associated companies or joint ventures in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'amounts due from related companies', 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the balance sheet.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'Other gains/(losses)-net'.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of 'other income' when the Group's right to receive payments is established.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (*continued*)

(c) Impairment of financial assets

- Loans and receivables

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivable category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(c) Impairment of financial assets (continued)

- Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria set out in 'loans and receivables' above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of item being hedged.

For derivative financial instruments do not qualify for hedge accounting, changes in fair value are recognized immediately in the consolidated income statement within 'other gain' or 'other operating expenses'.

The Group has entered into transactions which will mature after 7 years, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is not recognised immediately in the consolidated income statement.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the consolidated income statement without reversal of deferred day one profit and loss.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Development cost of properties comprises cost of land use rights, construction costs, borrowing costs and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2.13 Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for properties sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, call deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to equity holders of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.19 Borrowings cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, associated companies and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(iii) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the shares/options is recognised as costs of assets or expenses to whichever the employee service is attributable.

Under the long term incentive scheme, the fair value of shares granted to eligible employees for their services is based on the share price at the grant date.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits (continued)

(iii) Equity-settled share-based payment transactions (continued)

Under the share option scheme, the fair value of the options granted to the eligible employees for their services rendered is determined by reference to:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total cost/expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares/options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When shares are vested, the Company issues shares from treasury shares. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.22 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Provisions and contingent liabilities (continued)

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of properties and services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Group companies. Revenue is recognised as follows:

(i) **Sales of properties**

Revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectibility of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet under current liabilities.

(ii) **Property management services**

Revenue arising from property management services is recognised in the accounting period in which the services are rendered.

(iii) **Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) **Rental income**

Rental income from properties letting under operating leases is recognised on a straight line basis over the lease terms.

(v) **Hotel operation income**

Hotel operation income which includes rooms rental, food and beverage sales and other ancillary services is recognised when the services are rendered.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (continued)

(vi) Sales of goods

The Group operates certain retail department stores. Sales of goods are recognized when the Group sells goods to the customers.

(vii) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.24 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property and equipment and land use rights are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the expected lives of the related assets.

2.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) The Group is the lessee other than operating lease of land use rights

Payments made under operating leases (net of any incentives received from the lessor), are charged to the income statement on a straight-line basis over the period of the lease.

(ii) The Group is the lessee under operating lease of land use rights

The Group made upfront payments to obtain operating leases of land use rights on which properties will be developed.

For land use rights to be developed for investment properties and properties for sale, the upfront payments are included in the cost of investment properties and properties under development or completed properties held for sale respectively.

For land use rights to be developed for hotel properties and self-use buildings, the upfront payments are separately recorded in balance sheet as 'land use rights', and amortised over the leasing periods on a straight line basis. The amortisation during the period of construction of the properties is capitalised as the cost of assets under construction.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Leases (continued)

(iii) The Group is the lessor

Assets leased out under operating leases are included in investment property in the consolidated balance sheet.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors.

2.27 Insurance contracts

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is a pre-existing risk transferred from the policyholder to the insurer, and is significant only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The Group assesses at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the consolidated income statement.

The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers and financial guarantee contracts provided to its related parties as insurance contracts.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB, except that certain receipts of proceeds from sales of properties, public share and notes offerings and certain bank borrowings are in other foreign currencies. The major non-RMB assets and liabilities are borrowings and bank deposits denominated in Hong Kong dollar ("HK dollar", or "HK\$") and the United States dollar ("US dollar", or "US\$").

The Company and all of its subsidiaries' functional currency is RMB, so that the fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. Given the general expectations about the strengthening of RMB and net foreign currency liabilities, the Group has not entered into any forward exchange contracts to hedge its exposure to foreign exchange risk.

As at 31 December 2013, if RMB had strengthened/weakened by 5%, against US dollar and HK dollar with all other variables held constant, post-tax profit for the year would have been RMB720,428,000 (2012: RMB749,468,000) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of US dollar and HK dollar denominated bank deposits, senior notes and bank borrowings.

(ii) Price risk

The Group is exposed to equity securities price risk from the Group's available-for-sale financial assets which are publicly traded. The performance of the listed equity securities of the Group is closely monitored.

(iii) Cash flow and fair value interest rate risk

Except for cash deposits in the banks, the Group has no other significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, especially long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 23. The Group manages certain of its fair value interest rate risk by using fixed-to-floating interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from fixed rates to floating rates. As at 31 December 2013, the Group converted borrowings of US\$300,000,000 (2012: US\$300,000,000) from fixed rate to floating rate through interest rate swap (Note 26).

The Group analyses its interest rate exposure taking into consideration of refinancing, and renewal of existing position. Based on the above consideration, the Group calculates the impact on profit and loss of a defined interest rate change.

The Group does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates as the interest rates of bank deposits are not expected to change significantly.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

If interest rates on RMB denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB173,559,900 (2012: RMB129,547,020) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2013. If interest rates on US dollar and HK dollar denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB72,510,000 (2012: RMB54,706,515) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2013.

(b) Credit risk

The Group has no concentrations of credit risk. The extent of the Group's credit exposure is represented by the aggregate balance of restricted cash, cash and cash equivalents, trade and other receivables and amounts due from related parties.

Cash transactions are limited to high-credit-quality institutions. The table below shows the bank deposit balances of the major counterparties as at 31 December 2013.

Counterparty	Rating (note)	As at 31 December	
		2013 RMB'000	2012 RMB'000
Bank A	A-	5,654,411	4,265,122
Bank B	BBB	2,802,173	2,864,095
Bank C	A	2,238,566	–
Bank D	A-	1,677,715	1,727,726
Bank E	B	1,568,346	568,090

Note: The source of credit rating is from Standard and Poor's or Moody's.

The Group has policies in place to ensure that sales of properties are made to buyers with an appropriate financial strength and appropriate percentage of down payment. Meanwhile, the Group has the right to cancel the sales contract in the event that the buyers default in payment, and put the underlying properties back to the market for re-sales. Therefore, the credit risk from sales of properties is limited. Other receivables mainly comprise bidding deposits for land use rights and prepaid tax with limited credit risk.

(c) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operation needs and commitments in respect of property projects.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Cash flow forecast is performed by management of the Group. Management monitors the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecast mainly takes into consideration the Group's operational cash flows, construction of investment properties and hotel projects, committed payments for land use rights and contracted development expenditures, the Group's debt financing plans, covenant compliance and internal balance sheet ratio targets.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2013					
Borrowings and interest					
payments (note)	14,910,053	11,923,962	21,495,622	12,579,771	60,909,408
Trade and other payables	19,828,750	20,675	40,491	28,296	19,918,212
Amounts due to related parties	10,336,395	–	–	–	10,336,395
Derivative financial instruments	36,898	–	–	–	36,898
	45,112,096	11,944,637	21,536,113	12,608,067	91,200,913
As at 31 December 2012					
Borrowings and interest					
payments (note)	15,152,613	8,714,961	18,678,245	9,372,340	51,918,159
Trade and other payables	13,656,136	14,557	21,597	14,490	13,706,780
Amounts due to related parties	2,897,713	–	–	–	2,897,713
Derivative financial instruments	42,572	–	–	–	42,572
	31,749,034	8,729,518	18,699,842	9,386,830	68,565,224

Note: The interest on borrowings is calculated based on borrowings outstanding as at 31 December 2013 and 2012 without taking into account of future issues. Floating-rate interest is estimated using the applicable interest rate as at 31 December 2013 and 2012 respectively.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, issue new shares or sell assets/subsidiaries to reduce debt.

(e) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2013. See Note 7 for disclosures of the investment properties that are measured at fair value.

As at 31 December 2013	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– equity securities	408,440	–	–	408,440
Liabilities				
Derivative financial instruments	–	–	36,898	36,898

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012.

As at 31 December 2012	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– equity securities	369,833	–	–	369,833
Liabilities				
Derivative financial instruments	–	–	42,572	42,572

There were no transfers between levels 1 and 2 during the year.

Available-for-sale financial assets included in Level 1 is the equity securities traded in Shanghai Stock Exchange, the fair value of which is based on quoted market prices at the balance sheet date.

Derivative financial instruments included in Level 3 are two interest rate swap contracts entered into with a commercial bank, the fair value of which is determined using valuation models for which not all inputs are market observable prices or rates.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value estimation (continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2013.

	Trading derivative's at fair value through profit or loss RMB'000	Total RMB'000
Opening balance	42,572	42,572
Gains recognised in profit or loss	(5,674)	(5,674)
Closing balance	36,898	36,898
Total gains or losses for the year included in profit or loss for assets held at the end of the year	(5,674)	(5,674)
Changes in unrealised gains or losses for the year included in profit or loss at the end of the year	(5,674)	(5,674)

The following table presents the changes in level 3 instruments for the year ended 31 December 2012.

	Trading derivative's at fair value through profit or loss RMB'000	Total RMB'000
Opening balance	52,115	52,115
Gains recognised in profit or loss	(9,543)	(9,543)
Closing balance	42,572	42,572
Total gains or losses for the year included in profit or loss for assets held at the end of the year	(9,543)	(9,543)
Changes in unrealised gains or losses for the year included in profit or loss at the end of the year	(9,543)	(9,543)

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Financial instruments by category

Group

	As at 31 December	
	2013	2012
Financial assets	RMB'000	RMB'000
Loans and receivables		
– Trade and other receivables	5,512,784	3,719,176
– Amounts due from related parties	3,472,789	2,877,746
– Restricted cash	2,547,231	2,204,028
– Cash and cash equivalents	17,026,018	15,893,845
Available-for-sale financial assets	408,440	369,833
Total	28,967,262	25,064,628

	As at 31 December	
	2013	2012
Financial liabilities	RMB'000	RMB'000
Liabilities at fair value through the profit and loss:		
– Derivative financial instruments	36,898	42,572
Other financial liabilities at amortised cost:		
– Borrowings	49,329,003	40,993,941
– Trade and other payables	19,918,212	13,706,780
– Amounts due to related parties	10,336,395	2,897,713
Total	79,620,508	57,641,006

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Financial instruments by category (continued)

Company

	As at 31 December	
	2013	2012
Financial assets	RMB'000	RMB'000
Loans and receivables		
– Trade and other receivables	1,082	1,117
– Dividend receivable from subsidiaries	94,250	267,000
– Cash and cash equivalents	59,503	38,954
Total	154,835	307,071
	As at 31 December	
	2013	2012
Financial liabilities	RMB'000	RMB'000
Liabilities at fair value through the profit and loss:		
– Derivative financial instruments	36,898	42,572
Other financial liabilities at amortised cost:		
– Borrowings	17,313,519	13,957,089
– Trade and other payables	356,577	239,635
– Amounts due to subsidiaries	230,802	195,671
Total	17,937,796	14,434,967

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes and deferred taxation

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Land appreciation tax

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies among 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 and its related tax. The Group recognised the land appreciation tax based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the current income tax and deferred income tax provisions in the periods in which such tax is finalised with local tax authorities.

(c) Impairment of goodwill

The Group tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value (less cost to sell) and value in use calculation of the underlying assets, mainly properties. The fair value of the properties, when applicable, is determined by independent valuers. For a listed cash-generating unit ("CGU"), the fair value less cost to sell is determined by the quoted price in an active market. These valuations and calculations require the use of estimates.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (continued)

(d) Fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 7.

(e) Provision for properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and completed properties held for sale according to their net realisable value based on the realisability of these properties, taking into account costs to completion based on past experience and net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgement and estimates.

(f) Fair value of derivatives financial instruments

The Group's derivative financial instruments are interest rate swap contracts entered into with commercial bank, the fair value of which is determined using valuation models for which not all inputs are market observable prices or rates.

(g) Impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows to determine impairment loss. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective increase rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an impairment loss may arise.

4.2 Critical judgements in applying the Group's accounting policy

(a) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement.

Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION

The Group's chief operating decision-maker (the "CODM") has been identified as the management committee. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

As majority of the Group's consolidated revenue and results are attributable to the market in the PRC and most of the Group's consolidated assets are located in the PRC, therefore no geographical information is presented.

The CODM assesses the performance of the operating segments based on a measure of revenue and profit before tax. The information provided to the CODM is measured in a manner consistent with that in the financial statements.

(a) Revenue

Turnover of the Group consists of the following revenue recognised during the year:

	During the year ended	
	31 December	
	2013	2012
	RMB'000	RMB'000
Sales of properties	39,503,409	26,607,120
Hotel operation income	978,603	999,134
Rental income from investment properties	555,888	507,415
Others	464,760	538,574
	41,502,660	28,652,243

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information

Year ended 31 December 2013

	Property development and investment				
	Shanghai Shimao Co., Ltd ("Shanghai Shimao")*	Others	Hotel operation	Unallocated**	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
– Sales of properties	9,395,284	30,108,125	–	–	39,503,409
– Hotel operation income	97,733	–	880,870	–	978,603
– Rental income from investment properties	395,933	159,955	–	–	555,888
– Others	295,193	169,567	–	–	464,760
Total revenue	10,184,143	30,437,647	880,870	–	41,502,660
Operating profit	3,528,318	8,419,080	72,244	316,341	12,335,983
Finance income	23,956	135,663	518	30,713	190,850
Finance costs	(145,462)	(147,283)	(19,466)	–	(312,211)
Share of results of					
– Associated companies	–	(51,443)	–	–	(51,443)
– Joint ventures	(51)	895,700	–	–	895,649
Profit before income tax	3,406,761	9,251,717	53,296	347,054	13,058,828
Income tax expense					(4,833,504)
Profit for the year					8,225,324
Other segment items are as follows:					
Capital and property development expenditure	16,268,785	37,357,847	1,960,815	–	55,587,447
Fair value gains on investment properties	720,906	310,300	–	–	1,031,206
Fair value gain on derivative financial instrument	–	5,674	–	–	5,674
Write-off of intangible assets	–	292,352	–	–	292,352
Depreciation	98,608	39,205	210,588	24,179	372,580
Amortisation of land use rights	9,932	903	33,907	–	44,742
Provision for impairment of receivables	17,449	29	–	–	17,478

* The Group owns an effective equity interest of 64.22% in Shanghai Shimao.

** Unallocated mainly represent corporate level activities.

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

The segment assets and liabilities at 31 December 2013 are as follows:

	Property development and investment		Hotel operation	Total
	Shanghai Shimao RMB'000	Others RMB'000		
Associated companies	–	1,650,578	–	1,650,578
Joint ventures	899,949	4,465,857	–	5,365,806
Intangible assets	1,709,730	6,915	130,928	1,847,573
Other segment assets	47,902,876	103,953,002	12,948,198	164,804,076
Total segment assets	50,512,555	110,076,352	13,079,126	173,668,033
Deferred income tax assets				1,306,338
Available-for-sale financial assets				408,440
Other assets				385,047
Total assets				175,767,858
Borrowings	12,891,450	15,611,636	798,000	29,301,086
Other segment liabilities	11,556,219	51,868,593	6,742,766	70,167,578
Total segment liabilities	24,447,669	67,480,229	7,540,766	99,468,664
Corporate borrowings				20,027,917
Deferred income tax liabilities				3,985,242
Derivative financial instruments				36,898
Other liabilities				397,275
Total liabilities				123,915,996

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

Year ended 31 December 2012

	Property development and investment		Hotel operation	Unallocated	Total
	Shanghai Shimao RMB'000	Others RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
– Sales of properties	5,438,466	21,168,654	–	–	26,607,120
– Hotel operation income	101,792	–	897,342	–	999,134
– Rental income from investment properties	341,963	165,452	–	–	507,415
– Others	454,168	84,406	–	–	538,574
Total revenue	6,336,389	21,418,512	897,342	–	28,652,243
Operating profit	3,604,949	6,476,474	81,470	(127,528)	10,035,365
Finance income	37,593	102,977	2,516	2,969	146,055
Finance costs	(121,816)	(36,120)	(10,234)	–	(168,170)
Share of results of					
– Associated companies	–	(210,938)	–	–	(210,938)
– Joint ventures	–	363,125	–	–	363,125
Profit before income tax	3,520,726	6,695,518	73,752	(124,559)	10,165,437
Income tax expense					(3,580,949)
Profit for the year					6,584,488
Other segment items are as follows:					
Capital and property development expenditure	6,846,674	15,293,612	1,740,616	1,138	23,882,040
Fair value gains on investment properties	1,706,887	655,993	–	–	2,362,880
Fair value gain on derivative financial instrument	–	9,543	–	–	9,543
Write-off of intangible assets	–	124,102	–	–	124,102
Depreciation	76,495	31,602	216,872	22,062	347,031
Amortisation of land use rights	9,154	–	33,214	–	42,368
Provision for/(write back of) impairment of receivables	8,064	(13,708)	–	–	(5,644)

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

The segment assets and liabilities at 31 December 2012 are as follows:

	Property development and investment		Hotel operation	Total
	Shanghai Shimao RMB'000	Others RMB'000	RMB'000	RMB'000
Associated companies	–	1,490,441	–	1,490,441
Joint ventures	–	3,985,956	–	3,985,956
Intangible assets	1,709,730	299,267	130,928	2,139,925
Other segment assets	35,968,004	73,858,285	11,373,946	121,200,235
Total segment assets	37,677,734	79,633,949	11,504,874	128,816,557
Deferred income tax assets				1,248,390
Available-for-sale financial assets				369,833
Other assets				393,015
Total assets				130,827,795
Borrowings	11,339,454	14,103,317	414,368	25,857,139
Other segment liabilities	10,649,375	28,517,163	5,636,560	44,803,098
Total segment liabilities	21,988,829	42,620,480	6,050,928	70,660,237
Corporate borrowings				15,136,802
Deferred income tax liabilities				3,775,578
Derivative financial instruments				42,572
Other liabilities				285,374
Total liabilities				89,900,563

Total segment assets consist primarily of property and equipment, investment properties, land use rights, other non-current assets, properties under development, completed properties held for sale, receivables, prepayments and cash balances. They also include goodwill recognised arising from acquisition of subsidiaries relating to respective segments. They exclude corporate assets, deferred income tax assets and available-for-sale financial assets.

Total segment liabilities comprise operating liabilities. They exclude corporate liabilities, derivative financial instrument, corporate borrowings and deferred income tax liabilities.

Notes to the Consolidated Financial Statements

6 PROPERTY AND EQUIPMENT – GROUP

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2013	4,577,950	5,417,664	294,515	456,810	507,485	11,254,424
Additions	1,650,766	7,935	65,004	8,614	406,054	2,138,373
Amortisation of land use rights	20,283	-	-	-	-	20,283
Disposals	-	(46,654)	(13,262)	(8,286)	(9,234)	(77,436)
Transfer to properties under development and completed properties held for sale	(1,045,221)	-	-	-	(62,003)	(1,107,224)
Transfer upon completion	(586,857)	586,857	-	-	-	-
At 31 December 2013	4,616,921	5,965,802	346,257	457,138	842,302	12,228,420
Accumulated depreciation						
At 1 January 2013	-	1,326,414	98,531	87,924	38,924	1,551,793
Charge for the year	-	273,977	44,902	32,789	20,912	372,580
Disposals	-	(44,870)	(11,988)	(6,783)	(8,592)	(72,233)
Transfer to properties under development and completed properties held for sale	-	-	-	-	(1,772)	(1,772)
At 31 December 2013	-	1,555,521	131,445	113,930	49,472	1,850,368
Net book value						
At 31 December 2013	4,616,921	4,410,281	214,812	343,208	792,830	10,378,052

Notes to the Consolidated Financial Statements

6 PROPERTY AND EQUIPMENT – GROUP (CONTINUED)

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2012	3,064,683	5,395,075	234,294	459,495	411,792	9,565,339
Additions	1,546,742	22,589	70,604	3,994	180,794	1,824,723
Amortisation of land use rights	20,268	–	–	–	–	20,268
Disposals	–	–	(10,383)	(6,679)	–	(17,062)
Transfer to properties under development and completed properties held for sale	(53,743)	–	–	–	(85,101)	(138,844)
At 31 December 2012	4,577,950	5,417,664	294,515	456,810	507,485	11,254,424
Accumulated depreciation						
At 1 January 2012	–	1,064,100	66,380	60,454	48,616	1,239,550
Charge for the year	–	262,314	40,537	32,785	11,395	347,031
Disposals	–	–	(8,386)	(5,315)	–	(13,701)
Transfer to properties under development and completed properties held for sale	–	–	–	–	(21,087)	(21,087)
At 31 December 2012	–	1,326,414	98,531	87,924	38,924	1,551,793
Net book value						
At 31 December 2012	4,577,950	4,091,250	195,984	368,886	468,561	9,702,631

Depreciation charge of RMB372,580,000 for the year ended 31 December 2013 (2012: RMB347,031,000) has been recorded in cost of sales and administrative expenses in the consolidated income statement (Note 29).

As at 31 December 2013, assets under construction and buildings of the Group with a total carrying amount of RMB4,808,965,000 (2012: RMB5,747,018,000) were pledged as collateral for certain borrowings of the Group (Note 23).

During the year ended 31 December 2013, the Group has capitalised borrowing costs amounting to RMB187,646,000 (2012: RMB131,231,000) on assets under construction. Borrowing costs were capitalised at the weighted average rate of 7.43% (2012: 7.48%).

Notes to the Consolidated Financial Statements

7 INVESTMENT PROPERTIES – GROUP

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
At fair value		
Opening balance at 1 January	19,984,579	16,747,699
Additions – Transfer from properties under development	193,196	242,937
Additions – Construction cost and others	1,142,388	631,063
Disposal	(411,000)	–
Fair value gains	1,031,206	2,362,880
	21,940,369	19,984,579
At cost		
Opening balance at 1 January	6,263,519	3,819,280
Additions – Construction cost and others	2,140,581	2,444,239
Transfer to properties under development	(3,402,525)	–
	5,001,575	6,263,519
Closing balance at 31 December	26,941,944	26,248,098

As at 31 December 2013, investment properties under construction of approximately RMB5,001,575,000 were measured at cost, because their constructions were at very early stage and related fair values were not reliably determinable (31 December 2012: approximately RMB6,263,519,000). These investment properties under development shall be measured at cost until either their fair values become reliably determinable or development is completed, whichever is earlier.

(a) Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Rental income	555,888	507,415
Direct operating expenses from properties that generated rental income	40,532	33,119
Direct operating expenses from properties that did not generate rental income	2,154	5,415

Notes to the Consolidated Financial Statements

7 INVESTMENT PROPERTIES – GROUP (CONTINUED)

(b) Valuation

Independent valuations of the Group's investment properties were performed by the valuer, Vigers Appraisal & Consulting Limited ("Vigers") and Shanghai Zhonghua Asssets Appraisal Co., Ltd. ("Shanghai Zhonghua"), to determine the fair value of the investment properties as at 31 December 2013 and 2012. The following table analyses the investment properties carried at fair value, by valuation method.

Fair value hierarchy

Description	Fair value measurements at 31 December 2013 using		
	Quoted prices in active markets for identical assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Recurring fair value measurements			
Investment properties:			
– Commercial buildings-China	–	–	21,940,369

There were no transfers between Levels 1, 2 and 3 during the year.

Fair value measurements using significant unobservable inputs (Level 3)

	Significant unobservable Inputs-Commercial buildings-China (Level 3)		
	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
Opening balance	15,777,119	4,207,460	19,984,579
Additions	–	1,335,584	1,335,584
Disposal	–	(411,000)	(411,000)
Net gains from fair value adjustment	626,251	404,955	1,031,206
Closing balance	16,403,370	5,536,999	21,940,369
Total gains or losses for the year included in profit or loss for assets held at the end of the year	626,251	404,955	1,031,206
Change in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	626,251	404,955	1,031,206

Notes to the Consolidated Financial Statements

7 INVESTMENT PROPERTIES – GROUP (CONTINUED)

(b) Valuation (continued)

Valuation processes of the group

The Group's investment properties were valued at 31 December 2013 by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the best use.

The Group's finance department includes a team that review the valuations performed by the independent valuers for financial reporting purposes. Discussions of valuation processes and results are held between the financial department and the valuation team at least once every six months, in line with the Group's interim and annual reporting dates. This team reports directly to the executive director(ED) and the audit committee (AC). As at 31 December 2013, the fair values of the properties have been determined by Vigers and Shanghai Zhonghua.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assess property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

Valuation techniques

For completed investment properties, the fair values were determined on the basis of capitalization of net rental income derived from the existing tenancies with allowance onto the reversionary interest of the properties and by reference to comparable market transactions. The valuation was determined using discounted cash flow ("DCF") projections based on significant unobservable inputs. These input include:

Future rental cash inflows	Based on the actual location, type and quality of the properties and supported by the terms of any existence lease, other contracts and external evidence such as current market rents for similar properties;
Discount rates	Reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
Estimated vacancy rates	Based on current and expected future market conditions after expiry of any current lease;
Capitalisation rates	Based on actual location, size and quality of the properties and taking into account market data at the valuation date;
Terminal value	Taking into account assumptions regarding maintenance costs, vacancy rates and market rents.

Notes to the Consolidated Financial Statements

7 INVESTMENT PROPERTIES – GROUP (CONTINUED)

(b) Valuation (continued)

Valuation techniques (continued)

For investment properties under development, the valuation was primarily determined using residual method of valuation involving the gross development value assessment of the hypothetical development to be erected on the property based on the latest development scheme. The estimated development costs for the hypothetical development, including construction costs and professional fees together with allowances on interest payments and developer's profits, are deducted from the established gross development value thereof. The resultant figure is then adjusted back to present value as at the valuation date to reflect the existing state of the property. The valuation was based on a DCF model taking into account the following estimates (in addition to the inputs noted above):

Costs to complete	Estimated costs to completion and profit margin required, which are largely consistent with the budgets developed internally by the Group based on management's experience and knowledge of market conditions. The higher the estimated costs or profit margin, the lower the fair values of the investment properties.
Discount rates	Discount rates, which are on the weighted average cost of capital of public companies that are comparable with the businesses being valued. The higher the discount rates used, the lower the fair values of the investment properties.

There were no changes to the valuation techniques during the year.

Notes to the Consolidated Financial Statements

7 INVESTMENT PROPERTIES – GROUP (CONTINUED)

(b) Valuation (continued)

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value at 31 Dec 2013 (RMB'000)	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Completed commercial buildings-China	16,422,540	Discounted cash flow	Rental value	RMB53-RMB725 per month per square meter (RMB195 per month per square meter)	The higher the rental value, the higher the fair value
			Discount rate	5%-6.07% (5.57%)	The higher the discount rate, the lower the fair value
			Capitalisation rate	1.3%-4.63% (2.85%)	The higher the capitalisation rate, the lower the fair value
Commercial buildings- China (under development)	5,517,829	Discounted cash flows with estimated costs to complete	Rental value	RMB11,477-RMB34,350 per square meter (RMB20,534 per square meter)	The higher the rental value, the higher the fair value
			Discount rate	5%-6.4% (5.88%)	The higher the discount rate, the lower the fair value
			Capitalisation rate	5.6%-6.4% (6.09%)	The higher the capitalisation rate, the lower the fair value
			Estimated costs to completion	RMB2,375,246- RMB978,046,986 (RMB291,447,180)	The higher the estimated costs, the lower the fair value.
			Estimated profit margin required to hold and develop property to completion	10%-20% (13.25%) of property value	The higher the profit margin required, the lower the fair value.

There are inter-relationships between unobservable inputs. For investment property under construction, increases in construction costs that enhance the property's features may result in an increase of future rental values. An increase in future rental income may be linked with higher costs. If the remaining lease term increases, the yield may decrease.

Notes to the Consolidated Financial Statements

7 INVESTMENT PROPERTIES – GROUP (CONTINUED)

(c) Pledge

As at 31 December 2013, the Group's investment properties were held in the PRC on leases of between 10 to 50 years. Investment properties with a carrying amount of RMB15,686,452,000 (2012: RMB15,261,100,000) were pledged as collateral for the Group's borrowings (Note 23).

(d) Leasing arrangements

Some of the investment properties are leased to tenants under long term operating leases with rentals receivable monthly. Minimum lease rental receivable under non cancellable operating leases of investment properties not recognised in the financial statements are as follows:

	As at 31 December 2013	2012
Within one year	308,405	325,370
Later than one year but no later than 5 years	923,827	863,981
Later than 5 years	782,118	707,087
	2,014,350	1,896,438

Notes to the Consolidated Financial Statements

8 LAND USE RIGHTS – GROUP

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Land use rights relating to property and equipment under non-current assets		
Opening balance	4,717,336	2,475,068
Additions	1,072,977	2,422,593
Amortisation		
– Capitalised in property and equipment (Note 6)	(20,283)	(20,268)
– Recognised as expenses (Note 29)	(44,742)	(42,368)
Transfer to properties under development and completed properties held for sale	(79,872)	(117,689)
Ending balance	5,645,416	4,717,336
Outside Hong Kong, held on leases of:		
Over 50 years	78,102	79,103
Between 10 to 50 years	5,567,314	4,638,233
	5,645,416	4,717,336

Land use rights comprise cost of acquiring rights to use certain land, which are all located in the PRC, for assets under construction, hotel buildings and self-use buildings over fixed periods.

As at 31 December 2013, land use rights of RMB852,584,000 (2012: of RMB1,877,321,000) were pledged as collateral for the Group's borrowings (Note 23).

Notes to the Consolidated Financial Statements

9 INTANGIBLE ASSETS – GROUP

Intangible assets comprise goodwill arising from acquisitions:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Opening balance	2,139,925	2,264,027
Write-off of intangible assets (Note 29)	(292,352)	(124,102)
Ending balance	1,847,573	2,139,925

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. A segment level summary of the goodwill is presented below:

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Property development and investment – Shanghai Shimao	1,709,730	1,709,730
Property development and investment – Others	6,915	299,267
Hotel operation	130,928	130,928
	1,847,573	2,139,925

The recoverable amounts of CGUs are determined based on their fair values (less cost to sell). The fair value of CGU – Property development and investment – Shanghai Shimao is determined according to the quoted price of Shanghai Shimao's equity shares in the PRC share capital market with adjustment of control premium. The fair values of other CGUs are determined according to the value of the underlying properties and decrease along with the sales of underlying properties, and the attributable goodwill is written off accordingly in other operating expenses in the consolidated income statement.

Notes to the Consolidated Financial Statements

10 INTERESTS IN SUBSIDIARIES – COMPANY

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Interests in subsidiaries		
– Unlisted shares, at cost	738,078	290,902
– Amounts due from subsidiaries(note)	24,332,101	23,147,583
	25,070,179	23,438,485
Dividends receivable from subsidiaries	94,250	267,000
Amounts due to subsidiaries (note)	230,802	195,671

Note: The amounts due from/to subsidiaries are interest-free, unsecured and have no specific repayment terms. The Company's intention is that the amounts due from subsidiaries will only be recalled when the subsidiaries have surplus cash.

Details of the principal subsidiaries of the Group as at 31 December 2013 are set out in Note 36.

11 ASSOCIATED COMPANIES – GROUP

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Share of net assets:		
Opening balance	1,490,441	1,308,281
Capital injection (Note (a))	126,830	393,098
Transfer from a subsidiary (Note (b))	84,750	–
Share of results	(51,443)	(210,938)
Ending balance	1,650,578	1,490,441

(a) In year 2013, the Group set up several associate companies with total capital injections of RMB126,830,000.

(b) In June 2013, the Group disposed 90% equity interest in Hangzhou Shimao Century Property Co., Ltd., a then wholly owned subsidiary, to a third part at a consideration of RMB756,000,000. The disposal had resulted in a net loss of RMB188,091,000 and the net cash inflow on the disposal was RMB719,395,000.

Notes to the Consolidated Financial Statements

11 ASSOCIATED COMPANIES – GROUP (CONTINUED)

The Group's share of the results of its associated companies, all of which are unlisted, and the shares of aggregated assets and liabilities at year end, are as follows:

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group (%)
2013						
Guangzhou Li He Property Development Co., Ltd. ("Guangzhou Li He") *	PRC	4,599,547	(4,538,983)	259,813	(49,571)	20%
Straits Construction Investment (Holdings) Limited ("Straits Construction")	British Virgin Islands	5,871,255	(4,568,593)	414,847	2,980	49%
Chengdu Heng Yu Property Development Co., Ltd. ("Chengdu Heng Yu")	PRC	1,332,511	(1,339,409)	–	(558)	33%
Others	PRC	544,064	(249,814)	8,259	(4,294)	
		12,347,377	(10,696,799)	682,919	(51,443)	
2012						
Guangzhou Li He	PRC	4,578,300	(4,468,164)	296,544	(94,627)	20%
Straits Construction	British Virgin Islands	4,331,884	(3,023,202)	–	(98,965)	49%
Others	British Virgin Islands	90,471	(9,848)	10,370	(17,346)	33%
		9,000,655	(7,501,214)	306,914	(210,938)	

* Guangzhou Li He is an associate company of the Group in which the Group holds 20% equity interest. The land of the property development project of Guangzhou Li He consists of three phases. According to the previously agreed payment schedule of land premium, the third phase land premium of RMB10,200,000,000 should be settled in December 2011. As at 30 June 2013, land premium totaling RMB7,700,000,000 remained unsettled. In October 2013, Guangzhou Li He entered into a supplemental agreement with the relevant government authorities on the payment schedule of the above RMB7,700,000,000 of outstanding land premium. According to the payment schedule stated in the supplemental agreement, RMB4,500,000,000 of land premium was settled in 2013, while the remaining land premium will need to be settled by November 2014. Based on the fact that Guangzhou Li He has agreed the payment schedule with the relevant government authorities on the outstanding land premium and the communication with the relevant government authorities, the directors of the Company consider that the delay in payment of land premium does not render significant adverse impact on the operation results and financial position of the Group as at 31 December 2013.

There is no individually material associated company of the Group as at 31 December 2013 and 2012.

Notes to the Consolidated Financial Statements

12 JOINT VENTURES – GROUP

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Share of net assets:		
Opening balance	3,985,956	1,522,831
Capital injection (note (a))	65,000	–
Transfer from subsidiaries (note(b))	949,980	2,100,000
Transfer to a subsidiary (note(c))	(305,683)	–
Disposal (note(d))	(225,096)	–
Share of result	895,649	363,125
Ending balance	5,365,806	3,985,956

(a) In year 2013, the Group set up several jointly controlled entities with total capital contributions of RMB65,000,000.

(b) In December 2013, the Group disposed 46% equity interest in a then wholly owned subsidiary, to a third party at a consideration of RMB46,920,000. According to the revised articles of association, the Group and the third party will jointly control the operation of the entity. The disposal had resulted in a net gain of RMB38,480,000 and the net cash outflow of RMB77,645,000.

In December 2013, two third parties made capital injections into two subsidiaries of the Group unilaterally at consideration of RMB1,200,000,000 and RMB104,000,000 respectively, where the Group's equity interests in these two subsidiaries were diluted from 100% to 40% and from 100% to 49% accordingly. Pursuant to the revised articles of association, the Group and the third party will jointly control the operation of these two entities. The fair value of the Group's retained interests in these two entities approximate their carrying value. A net cash outflow of approximately RMB3,934,000 from these transactions was recognised as a cash outflow from investing activities in the cash flow statement.

(c) In January 2013, the Group paid cash consideration of RMB290,000,000 to acquire 50% equity interest in Qingdao Shimao New City Property Development Co., Ltd. ("Qingdao New City"). After the acquisition, Qingdao New City became a wholly owned subsidiary of the Group. The acquisition consideration approximated the fair value of the acquired net assets of Qingdao New City. The identifiable assets acquired included cash and cash equivalents amounting to RMB134,000,000, properties under development amounting to RMB2,847,000,000 and other assets amounting to RMB357,000,000. The identifiable liabilities assumed included borrowings amounting to RMB1,130,000,000, advanced proceeds received amounting to RMB815,000,000 and other liabilities amounting to RMB1,103,000,000. The acquisition had resulted in the net cash outflow of RMB156,101,000.

(d) In January 2013, the Group disposed all its interests in Huizhou Fumao Property Development Co., Ltd. at total consideration of RMB359,780,000. The disposal gain of RMB134,684,000 was recognised in the income statement as other gains (Note 28).

Notes to the Consolidated Financial Statements

12 JOINT VENTURES – GROUP (CONTINUED)

The Group's share of the results of its joint ventures, all of which are unlisted, and the shares of aggregated assets and liabilities at year end, are as follows:

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group (%)
2013						
Tianjin Jinnan Xincheng Real Estate Development Co., Ltd. ("Tianjin Jinnan")	PRC	2,414,835	(1,527,793)	104,605	(17,096)	25%
Nanchang Shimao New Development Property Co., Ltd. ("Nanchang New Development")	PRC	2,408,778	(1,469,324)	698,258	106,144	50%
Changsha Shimao Real Estate Co., Ltd. ("Changsha Real Estate")	PRC	1,300,286	(802,152)	319,800	7,019	25%
Chengdu Shimao Investment Co., Ltd. ("Chengdu Investment")	PRC	990,118	(200,901)	262,165	412	50%
Fast Right Investments Limited*	Hong Kong	1,788,184	(903,041)	2,490,342	604,402	50%
Kingtron Enterprises Limited*	Hong Kong	825,426	(452,832)	1,126,219	199,791	50%
Guangzhou Cheng Yu Property – Development Co. Ltd. ("Guangzhou Cheng Yu")	PRC	2,575,136	(2,547,878)	–	(2,742)	50%
Wuxi Shimao Real Estate Development & Construction Co., Ltd. ("Wuxi Shimao")	PRC	1,222,334	(1,192,167)	–	(1,575)	49%
Others	PRC	1,017,739	(80,942)	–	(706)	
		14,542,836	(9,177,030)	5,001,389	895,649	

* Fast Right Investments Limited and Kingtron Enterprises Limited holds 100% equity interest in two PRC property development entities, i.e. Hangzhou Shimao Shiyang Property Development Co., Ltd. and Haishu Property Development (Hangzhou) Co., Ltd..

Notes to the Consolidated Financial Statements

12 JOINT VENTURES – GROUP (CONTINUED)

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group (%)
2012						
Tianjin Jinnan	PRC	2,162,776	(1,284,996)	182,297	(2,177)	25%
Huizhou Fumao Property Development Co., Ltd.	PRC	724,268	(499,171)	–	(13,583)	50%
Qingdao New City	PRC	1,624,482	(1,315,140)	–	(16,530)	50%
Nanchang New Development	PRC	1,933,964	(1,083,519)	251,542	50,443	50%
Changsha Real Estate	PRC	700,030	(196,488)	378,876	3,542	50%
Chengdu Investment	PRC	1,250,100	(449,596)	–	504	50%
Fast Right Investments Limited	Hong Kong	2,459,077	(2,181,777)	956,341	252,557	50%
Kingtron Enterprises Limited	Hong Kong	1,228,694	(1,088,843)	631,592	88,804	50%
Others		728,458	(499,171)	–	(14,453)	
		12,085,486	(8,099,530)	2,400,648	363,125	

Details of the principal joint ventures of the Group as at 31 December 2013 are set out in Note 36.

There is no individually material joint venture of the Group as at 31 December 2013 and 2012.

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Opening balance	369,833	267,362
Fair value gains recognised in other comprehensive income	38,607	102,471
Ending balance	408,440	369,833

Available-for-sale financial assets represented investment in listed equity securities in the PRC which were stated at market value based on the quoted price.

As at 31 December 2013, available-for-sale financial assets with a carrying amount of RMB405,030,000 (2012: RMB82,000,000) were pledged as collateral for the Group's borrowings (Note 23).

Notes to the Consolidated Financial Statements

14 OTHER NON-CURRENT ASSETS – GROUP

As at 31 December 2013, the Group has made prepayments of RMB711,950,000 (2012: RMB757,250,000) for certain land use rights for the purpose to develop hotel buildings, self-used buildings and investment properties, the ownership certificates of which have not been obtained.

As at 31 December 2013, the Group made prepayments of RMB1,296,363,000 for acquisition of certain equity interests, including RMB996,000,000 as the prepayment for the acquisition of 7.74% interest equity in Shenyin & Wanguo Securities Co., Ltd. According to the sales and purchase agreements signed between Shanghai Shimao (the purchaser) with China Everbright Group (the seller) on 19 December 2013 and 28 January 2014, the total consideration for the acquisition is RMB2,186,000,000. Till the approval date of these consolidation financial statements, the acquisition is still pending for the approval from China Security and Regulatory Committee.

15 PROPERTIES UNDER DEVELOPMENT – GROUP

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Properties under development comprise:		
Land use rights	40,118,968	21,881,174
Construction costs and capitalised expenditures	18,371,350	12,384,879
Interests capitalised	4,069,555	3,342,889
	62,559,873	37,608,942

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Land use rights		
Outside Hong Kong, held on leases of:		
Over 50 years	35,226,600	17,729,216
Between 10 to 50 years	4,892,368	4,151,958
	40,118,968	21,881,174

The properties under development are all located in the PRC. The relevant land use rights are on leases of 40 to 70 years.

As at 31 December 2013, properties under development of approximately RMB21,203,862,000 (2012: RMB15,341,479,000) were pledged as collateral for the Group's borrowings (Note 23).

Notes to the Consolidated Financial Statements

15 PROPERTIES UNDER DEVELOPMENT – GROUP (CONTINUED)

The capitalisation rate of borrowings was 7.43% for the year ended 31 December 2013 (2012: 7.48%).

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Properties under development:		
Expected to be completed and available for sale		
after more than 12 months	18,360,724	15,793,008
Expected to be completed and available for sale within 12 months	44,199,149	21,815,934
	62,559,873	37,608,942

16 COMPLETED PROPERTIES HELD FOR SALE – GROUP

All completed properties held for sale are located in the PRC. Included in completed properties held for sale are land use rights as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Outside Hong Kong, held on leases of:		
Over 50 years	2,267,370	1,020,287
Between 10 to 50 years	215,992	133,839
	2,483,362	1,154,126

As at 31 December 2013, completed properties held for sale of RMB4,442,640,000 (2012: RMB1,159,357,000) were pledged as collateral for the Group's borrowings (Note 23).

For the year ended 31 December 2013, the Group recognized impairment losses of RMB103,551,000 (2012: Nil) on completed properties held for sale.

Notes to the Consolidated Financial Statements

17 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS -GROUP

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Bidding deposits for land use rights (note (a))	2,931,703	1,179,136
Trade receivables (note (b))	3,718,236	2,407,832
Prepaid business tax on pre-sale proceeds	1,525,849	1,074,301
Prepayments for construction costs	1,247,085	665,931
Other receivables	1,794,548	1,311,344
	11,217,421	6,638,544

- (a) Bidding deposits for land use rights mainly represented deposits of the Group placed with various municipal government for the participation in miscellaneous land auctions. These deposits will be deducted against the total land costs to be paid if the Group wins the bid at the auction. If the Group does not win the bid, the amount will be fully refunded.
- (b) Trade receivables mainly arise from sales of properties. Consideration in respect of properties sold is paid in accordance with the terms of the related sales and purchase agreements. The ageing analysis of trade receivables at respective balance sheet dates is as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within 90 days	2,585,657	1,608,555
Over 90 days and within 365 days	925,691	566,032
Over 365 days	206,888	233,245
	3,718,236	2,407,832

As at 31 December 2013, receivables arising from sales of properties was approximately RMB3,520,625,000 (2012: RMB2,217,761,000).

Trade receivables are analysed as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Fully performing under credit terms	2,477,227	1,454,429
Past due but not impaired	1,241,009	953,403
	3,718,236	2,407,832

Notes to the Consolidated Financial Statements

17 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS -GROUP

(CONTINUED)

The ageing analysis of trade receivables past due but not impaired is as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within 90 days	464,295	326,277
Over 90 days and within 365 days	569,826	393,881
Over 365 days	206,888	233,245
	1,241,009	953,403

As the Group normally holds collateral of the properties before collection of the outstanding balances and passing the titles to the purchasers, the Directors consider that the past due trade receivables would be recovered and no provision was made against past due receivables as at 31 December 2013 (2012: Nil).

As at 31 December 2013, provision for impairment of other receivables was approximately RMB34,007,000 (2012: RMB16,529,000).

As at 31 December 2013, the fair value of trade receivables, bidding deposits for land use rights, and other receivables of the Group approximate their carrying amounts, as the impact of discounting is not significant.

As at 31 December 2013 and 2012, trade and other receivables of the Group were mainly denominated in RMB.

18 PREPAYMENT FOR ACQUISITION OF LAND USE RIGHTS

Prepayments for acquisition of land use rights are related to acquisition of land for property development purposes, the ownership certificates of which have not been obtained as at 31 December 2013.

Notes to the Consolidated Financial Statements

19 AMOUNTS DUE FROM RELATED COMPANIES – GROUP

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Included in non-current assets		
– Joint ventures	2,266,694	1,561,719

The Group made advances to several joint ventures to finance their acquisition of land use rights. These advances are interest free, unsecured and have no fixed repayment terms. The Group's intention is that the advances will only be recalled when the joint ventures have surplus cash.

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Included in current assets		
– Companies with common directors	632	647
– Associated companies	1,091,338	1,151,448
– Joint ventures	114,125	163,932
	1,206,095	1,316,027

The balances due from related companies are unsecured, interest-free and have no fixed repayment terms.

The carrying amounts of amounts due from related companies approximate their fair values.

Notes to the Consolidated Financial Statements

20 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH – GROUP AND COMPANY

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Group		
Bank balances and cash		
– denominated in RMB	18,800,939	17,932,852
– denominated in US dollar	648,832	100,201
– denominated in HK dollar	123,478	64,820
Less: Restricted cash	(2,547,231)	(2,204,028)
	17,026,018	15,893,845
	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Company		
Bank balances and cash – unrestricted		
– denominated in HK dollar	42,049	6,247
– denominated in US dollar	8,790	32,707
– denominated in RMB	8,664	–
	59,503	38,954

As at 31 December 2013, the Group's cash of approximately RMB517,457,000 (2012: RMB222,381,000) was restricted and deposited in certain banks as guarantee deposits for the benefit of mortgage loan facilities granted by the banks to the purchasers of the Group's properties (Note 37). The Group's cash of approximately RMB2,029,774,000 (2012: RMB1,981,647,000) was pledged as collateral for the Group's borrowings (Note 23).

The conversion of RMB denominated balances into foreign currencies and the remittance of the foreign currencies out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The effective interest rate on bank deposits as at 31 December 2013 was 0.34% (2012: 0.35%).

Notes to the Consolidated Financial Statements

21 SHARE CAPITAL – GROUP AND COMPANY

(a) Details of share capital of the Company are as follows:

	Note	Par value HK\$	Number of shares '000	Nominal value of ordinary shares Equivalent HK\$'000 to RMB'000
Authorised:				
At 31 December 2013 and 2012		0.1	5,000,000	500,000
Issued and fully paid:				
At 1 January 2012			3,465,951	346,595 355,737
Employee share option scheme				
– Shares issued	(b)		6,621	662 538
At 31 December 2012			3,472,572	347,257 356,275
Employee share option scheme				
– Shares issued	(b)		–	– –
At 31 December 2013			3,472,572	347,257 356,275

(b) Pre-IPO Share Option Scheme

Pursuant to the shareholders' resolution passed on 9 June 2006 for approval of the Pre-IPO Share Option Scheme, options for a total of 63,920,000 ordinary shares of the Company were conditionally granted to directors and selected employees. The exercise price of HK\$5.625 per share under the Pre-IPO Share Option Scheme was determined at a 10% discount to the global offering price, which was HK\$6.25 per share, excluding brokerage, Securities and Futures Commission transaction levy and the Stock Exchange trading fee. Each option has 6-year exercise period from the date of grant, with 30% vested on 31 March 2007, another 30% vested on 31 March 2008 and the remaining 40% vested on 31 March 2009. Options are conditional on the employee completing the services up to the respective vesting dates and evaluation of performance as specified in the scheme, and become exercisable immediately after each vesting date. The Group has no legal or constructive obligation to repurchase or settle the options in cash. These options expired on 8 June 2012.

Notes to the Consolidated Financial Statements

21 SHARE CAPITAL – GROUP AND COMPANY (CONTINUED)

(b) Pre-IPO Share Option Scheme (continued)

Movements in the number of share options outstanding are as follows:

	Year ended 31 December	
	2013 '000	2012 '000
Balance at beginning of the year	–	8,024
Exercised	–	(6,621)
Expired	–	(1,403)
Balance at end of the year	–	–

There were no outstanding options at 31 December 2013.

(c) Share Option Scheme

Pursuant to Shanghai Shimao's shareholders' resolution passed on 27 June 2013, a share option scheme ("A Share Option Scheme") was approved, and will expire at the end of the 36-month period from the date of grant. On 28 June 2013, options for a total of 10,000,000 ordinary shares of Shanghai Shimao ("A share option") under this scheme were granted to Shanghai Shimao's eligible employees with exercise price of RMB9.84 per share. The exercise of the granted options is subject to a restriction of 12 months from the date of grant. Subject to the fulfilment of various conditions, including service condition and non-market performance condition, as provided in the A Share Option Scheme, the granted options can be exercised in two batches evenly commencing from (i) the first trading day after the expiry of the 12-month period from the date of grant and (ii) the first trading day after the expiry of the 24-month period from the date of grant, respectively. The weighted average fair value of A share option granted determined using the Black-Scholes valuation model was RMB1.235 per option.

(d) Share Award Scheme

The Company's board of directors (the "Board") approved and adopted the Share Award Scheme on 30 December 2011 (the "Share Scheme"). Unless terminated earlier by the Board, the Share Scheme is valid and effective for a term of 8 years commencing on 30 December 2011. The maximum number of shares to be awarded must not exceed 34,659,508 shares (i.e. 1% of issued shares of the Company as at 30 December 2011).

The Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time), select such employee(s) for participation in the Share Scheme and determine the number of awarded shares.

Notes to the Consolidated Financial Statements

21 SHARE CAPITAL – GROUP AND COMPANY (CONTINUED)

(d) Share Award Scheme (continued)

A Trust was constituted to manage the Share Scheme, and a wholly owned subsidiary of the Company incorporated in BVI was designated as Trustee. Up to 31 December 2013, the Trust purchased 10,757,500 ordinary shares from market, totaling HK\$138,044,000 (equivalent to RMB110,843,000), of which 4,336,654 shares were granted to eligible employees according to the Share Scheme during the year ended 31 December 2013.

The granted shares were subject to several vesting conditions, including 1 year service and non-market performance appraisal before vesting date. The shares granted are held by the Trust before being transferred to the employees when vesting conditions are fully met.

Movements in the number of unvested shares granted during the period are as follows:

	Number of unvested shares granted	
	Year ended 31 December	
	2013	2012
Unvested shares, beginning	–	–
Granted	4,336,654	–
Vested	–	–
Expired	–	–
Unvested shares, ending	4,336,654	–

The weighted average fair value of the unvested units granted during the year ended 31 December 2013 is HK\$77,279,174 (equivalent to RMB60,756,887).

(e) Reconciliation of the number of shares outstanding was as follows:

	Year ended 31 December	
	2013	2012
	'000	'000
Shares issued	3,472,572	3,472,572
Less: treasury shares purchased for the Share Award Scheme	(10,758)	(4,000)
Shares outstanding	3,461,814	3,468,572

(f) Material non-controlling interests

There is no individual material non-controlling interests of the Group as at 31 December 2013 and 2012.

Notes to the Consolidated Financial Statements

22 RESERVES – GROUP AND COMPANY

Group

	Merger reserve RMB'000 (note (a))	Share premium RMB'000 (note (b))	Share-based compensation reserve RMB'000 (note (c))	Statutory reserve RMB'000 (note (d))	Capital redemption reserve RMB'000	Available-for- sale financial assets RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2012	(185,787)	10,254,302	105,117	630,872	4,949	(117,130)	19,543,620	30,235,943
Profit for the year	-	-	-	-	-	-	5,764,632	5,764,632
Other comprehensive gains for the year, net of tax	-	-	-	-	-	49,355	-	49,355
Employee share option scheme								
– Value of employee services	-	105,117	(105,117)	-	-	-	-	-
– proceeds from shares issued	-	29,703	-	-	-	-	-	29,703
Share award scheme								
– Purchase of shares (Note 21(d))	-	(21,207)	-	-	-	-	-	(21,207)
Profit appropriations	-	-	-	123,359	-	-	(123,359)	-
2011 final dividend payable	-	(507,551)	-	-	-	-	-	(507,551)
Balance at 31 December 2012	(185,787)	9,860,364	-	754,231	4,949	(67,775)	25,184,893	35,550,875
Balance at 1 January 2013	(185,787)	9,860,364	-	754,231	4,949	(67,775)	25,184,893	35,550,875
Profit for the year	-	-	-	-	-	-	7,389,857	7,389,857
Other comprehensive gains for the year, net of tax	-	-	-	-	-	18,595	-	18,595
Equity-settled share-based payment								
– Value of employee services	-	-	32,183	-	-	-	-	32,183
– Purchase of shares (Note 21(d))	-	(89,636)	-	-	-	-	-	(89,636)
Profit appropriations	-	-	-	353,292	-	-	(353,292)	-
2012 final dividend payable	-	(1,515,899)	-	-	-	-	-	(1,515,899)
Balance at 31 December 2013	(185,787)	8,254,829	32,183	1,107,523	4,949	(49,180)	32,221,458	41,385,975
Representing:								
Proposed final dividend		2,195,555						2,195,555
Others		6,059,274						6,059,274
		8,254,829						8,254,829

Notes to the Consolidated Financial Statements

22 RESERVES – GROUP AND COMPANY (CONTINUED)

Company

	Share premium RMB'000 (note (b))	Share-based compensation reserve RMB'000 (note (c))	Capital redemption reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2012	10,254,302	105,117	4,949	162,536	10,526,904
Loss for the year	–	–	–	(1,073,535)	(1,073,535)
Employee share option scheme					
– Value of employee services	105,117	(105,117)	–	–	–
– proceeds from shares issued	29,703	–	–	–	29,703
Share award scheme					
– Purchase of shares (Note 21(d))	(21,207)	–	–	–	(21,207)
2011 final dividend	(507,551)	–	–	–	(507,551)
Balance at 31 December 2012	9,860,364	–	4,949	(910,999)	8,954,314
Balance at 1 January 2013	9,860,364	–	4,949	(910,999)	8,954,314
Loss for the year	–	–	–	(447,616)	(447,616)
Share award scheme					
– Value of employee services	–	29,780	–	–	29,780
– Purchase of shares (Note 21(d))	(89,636)	–	–	–	(89,636)
2012 final dividend	(1,515,899)	–	–	–	(1,515,899)
Balance at 31 December 2013	8,254,829	29,780	4,949	(1,358,615)	6,930,943
Representing:					
Proposed final dividend	2,195,555				2,195,555
Others	6,059,274				6,059,274
	8,254,829				8,254,829

Notes:

- Merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiary purchased pursuant to the reorganisation and the nominal value of the shares of the Company issued in exchange effected prior to the listing of the Company's shares on the Stock Exchange in 2006.
- Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company.
- Share-based compensation reserve represents value of employee services in respect of share options granted under the share option schemes and shares granted under the Share Award Scheme (Note 21).
- According to the Articles of Association of the respective subsidiaries established in the PRC, which are foreign investment enterprises, the subsidiaries shall set aside certain percentage of their net income after offsetting accumulated losses from prior years as reported in their statutory accounts for the reserve fund, enterprise expansion fund and staff bonus and welfare fund. The reserve fund and enterprise expansion fund form part of the shareholders' funds. The staff bonus and welfare fund are accounted for as liabilities. Certain subsidiaries have made appropriation to such funds during the year.

Notes to the Consolidated Financial Statements

23 BORROWINGS – GROUP AND COMPANY

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Group		
Borrowings included in non-current liabilities		
Long-term bank borrowings		
– secured by assets (note (i))	20,728,780	17,483,356
– secured by shares of subsidiary guarantors (note (iii))	7,412,356	3,419,577
– secured by shares of a listed subsidiary (note (iii))	680,000	500,000
– unsecured	772,443	376,840
Long-term borrowings from other financial institutions		
– secured by assets (note (i))	2,556,450	4,778,246
– secured by shares of a listed subsidiary (notes (iii))	–	1,131,969
– unsecured	–	50,000
Senior notes – secured (note (iv))	9,901,163	7,391,143
	42,051,192	35,131,131
Less: Long-term bank borrowings due within one year	(3,568,061)	(3,058,668)
Long-term borrowings from other financial institutions due within one year	(929,450)	(3,459,166)
	(4,497,511)	(6,517,834)
Amounts due within one year	(4,497,511)	(6,517,834)
	37,553,681	28,613,297
Borrowings included in current liabilities		
Short-term bank borrowings		
– secured by assets (notes (i))	2,591,934	3,869,063
– secured by shares of a listed subsidiary (note (iii))	490,000	–
– unsecured	1,933,021	273,000
Short-term borrowings from other financial institutions and non-financial institutions		
– secured by assets (note (i))	1,455,316	293,867
– secured by shares of a listed subsidiary (note (iii))	–	1,426,880
– unsecured (note (v))	807,540	–
Current portion of long-term borrowings	4,497,511	6,517,834
	11,775,322	12,380,644

Notes to the Consolidated Financial Statements

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Company		
Borrowings included in non-current liabilities		
Long-term bank borrowings		
– secured by shares of subsidiary guarantors (note (ii))	7,412,356	3,419,577
Senior notes – secured (note (iv))	9,901,163	7,391,143
	17,313,519	10,810,720
Less: Long-term bank borrowings due within one year		
– secured by shares of subsidiary guarantors (note (ii))	(1,021,763)	–
Amounts due within one year	(1,021,763)	–
	16,291,756	10,810,720
Borrowings included in current liabilities		
Short term bank borrowings – secured by assets (note (i))	–	2,903,129
Short term bank borrowings – unsecured	–	243,240
Current portion of long-term borrowing	1,021,763	–
	1,021,763	3,146,369

Notes:

(i) As at 31 December 2013, the Group's total secured bank borrowings and borrowings from other financial institutions of RMB27,332,480,000 (2012: RMB26,424,532,000) were secured by its assets under construction and buildings (Note 6), investment properties (Note 7), land use rights (Note 8), properties under development (Note 15), completed properties held for sale (Note 16), available-for-sale financial assets (Note 13) and restricted cash (Note 20). As at 31 December 2013, secured borrowings of RMB1,985,084,000 (2012: RMB4,794,664,000) were further guaranteed by Mr. Hui Wing Mau.

(ii) On 14 May 2010, the Company entered into a multi-currency loan facility agreement with a syndicate of 14 banks. Pursuant to the agreement, the Company obtained 3-year syndicated loan facilities, including a US\$440,000,000 facility and a HK\$156,000,000 facility at a floating rate of interest, 10% out of the loan principal matured in 2011, 45% matured in 2012 and remaining 45% will mature in 2013. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the share of certain subsidiary guarantors. All the facilities have been drawn down as of 31 December 2011. On 7 December 2012, the Company early repaid the remaining 45% of the borrowings (approximately RMB1,303,016,000).

On 26 November 2012, the Company entered into a multi-currency loan facility agreement with a syndicate of 6 banks. Pursuant to the agreement, the Company obtained 3-year syndicated loan facilities, including a US\$610,000,000 facility and a HK\$468,000,000 facility at a floating rate of interest, 25% out of the loan principal will mature in 2014 and 75% will mature in 2015. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the share of these subsidiary guarantors. As at 31 December 2013, US\$610,000,000 and HK\$468,000,000 have been drawn down (31 December 2012: US\$510,000,000 and HK\$391,278,689 were drawn down).

On 14 June 2013, the Company entered into a multi-currency loan facility agreement with a syndicate of 8 banks. Pursuant to the agreement, the Company obtained 4-year syndicated loan facilities, including a US\$320,000,000 facility and a HK\$1,950,000,000 facility at a floating rate of interest, 15% out of the loan principal will mature in 2015, 35% will mature in 2016 and 50% will mature in 2017. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the share of these subsidiary guarantors. As of 31 December 2013, US\$320,000,000 and HK\$1,950,000,000 have been drawn down.

Notes to the Consolidated Financial Statements

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

Notes: (continued)

- (iii) As at 31 December 2013, 231,400,000 (31 December 2012: 107,200,000) shares of Shanghai Shimao have been pledged for a total bank borrowings of RMB1,170,000,000 (31 December 2012: RMB500,000,000) for group companies.

As at 31 December 2012, 575,050,000 shares of Shanghai Shimao have been pledged for a total borrowings from other financial institutions of RMB2,558,849,000 for group companies.

- (iv) On 29 November 2006, the Company issued a total of US\$600,000,000 senior notes, including US\$250,000,000 at a floating interest rate due on 1 December 2011 and US\$350,000,000 at a fixed interest rate due on 1 December 2016. The Company may at its option to redeem the notes, in whole or in part, by certain dates based on the terms of the notes. The notes are senior obligations guaranteed by certain subsidiaries other than those established under the laws of the PRC ("Subsidiary Guarantors"), and secured by a pledge of the shares of these subsidiary guarantors. On 3 May 2011, the Company early redeemed senior notes of US\$250,000,000, which was originally due in December 2011. On 17 July 2013, the Company early redeemed senior notes of US\$350,000,000, which was originally due on 1 December 2016.

On 3 August 2010, the Company issued senior notes with total principal of US\$500,000,000 at a fixed interest rate of 9.65% due on 3 August 2017. On 8 March 2011, the Company issued senior notes with total principal of US\$350,000,000 at a fixed interest rate of 11% due on 8 March 2018. And on 14 January 2013, the Company issued senior notes with total principal of US\$800,000,000 at a fixed interest rate of 6.625% due on 14 January 2020. The Company may at its option to redeem these notes, in whole or in part, by certain dates based on the terms of these notes. The notes are senior obligations guaranteed by certain restricted offshore subsidiaries and secured by a pledge of the shares of these offshore restricted subsidiaries.

- (v) For the year ended 31 December 2013, the Group borrowed certain unsecured loans from a joint venture with total principal of RMB807,540,000, with interest at 6.15% per annum and repayable within one year.

The interest-bearing bank borrowings, including the term loans repayable on demand, are carried at amortised cost. RMB1,798,830,000 of the term loans due for repayment after one year which contain a repayment on demand clause were classified as current liabilities as at 31 December 2013 (2012: RMB1,538,087,600), none of these loans are expected to be settled within one year.

Notes to the Consolidated Financial Statements

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity whichever is the earlier date is as follows:

	6 months or less RMB'000	6-12 months RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
Borrowings included in non-current liabilities:					
At 31 December 2013	24,635,518	3,017,000	5,102,976	4,798,187	37,553,681
At 31 December 2012	17,385,104	1,276,000	7,793,233	2,158,960	28,613,297
Borrowings included in current liabilities:					
At 31 December 2013	8,937,917	2,837,405	–	–	11,775,322
At 31 December 2012	8,614,533	3,766,111	–	–	12,380,644
Company					
Borrowings included in non-current liabilities:					
At 31 December 2013	6,390,593	–	5,102,976	4,798,187	16,291,756
At 31 December 2012	3,419,577	–	5,232,183	2,158,960	10,810,720
Borrowings included in current liabilities:					
At 31 December 2013	1,021,763	–	–	–	1,021,763
At 31 December 2012	2,903,129	243,240	–	–	3,146,369

Notes to the Consolidated Financial Statements

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

The maturity of the borrowings included in non-current liabilities is as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Group		
Bank borrowings:		
Between 1 and 2 years	9,141,065	4,537,491
Between 2 and 5 years	11,114,883	8,941,013
Over 5 years	5,769,570	5,242,600
Borrowings from other financial institution and non-financial institution:		
Between 1 and 2 years	247,000	2,181,050
Between 2 and 5 years	836,000	320,000
Over 5 years	544,000	–
Senior notes:		
Between 2 and 5 years	5,102,976	5,232,183
Over 5 years	4,798,187	2,158,960
	37,553,681	28,613,297
Company		
Bank borrowings:		
Between 1 and 2 years	3,507,226	880,713
Between 2 and 5 years	2,883,367	2,538,864
Senior notes:		
Between 2 and 5 years	5,102,976	5,232,183
Over 5 years	4,798,187	2,158,960
	16,291,756	10,810,720

Notes to the Consolidated Financial Statements

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

The effective interest rates at the balance sheet date were as follows:

	As at 31 December	
	2013	2012
Group		
Bank borrowings – RMB	7.35%	8.57%
Bank borrowings – US dollar	4.59%	2.87%
Bank borrowings – HK dollar	3.92%	2.91%
Senior notes – US dollar	8.94%	10.02%
Borrowings from other financial institutions – RMB	8.06%	10.78%
Borrowings from non-financial institution – RMB	6.15%	–
Company		
Bank borrowings – US dollar	5.04%	2.87%
Bank borrowings – HK dollar	5.04%	2.87%
Senior notes – US dollar	8.94%	10.02%

The carrying amounts of bank borrowings, borrowings from other financial institution and borrowings from a related party approximate their fair values. The fair values of senior notes as at 31 December 2013 amounted to RMB10,288,000,000, which were calculated using the market price of the traded senior notes on the balance sheet date. The fair values of senior notes are within level 1 of the fair value hierarchy.

The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Group		
RMB	29,301,086	25,857,139
HK dollar	3,350,660	3,393,929
US dollar	16,677,257	11,742,873
	49,329,003	40,993,941
Company		
HK dollar	1,742,239	2,214,216
US dollar	15,571,280	11,742,873
	17,313,519	13,957,089

Notes to the Consolidated Financial Statements

24 DEFERRED INCOME TAX – GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes relate to the same tax authority. The net deferred income tax balances after offsetting are as follows:

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	840,960	842,944
– to be recovered within 12 months	465,378	405,446
	1,306,338	1,248,390
Deferred income tax liabilities		
– to be recovered after more than 12 months	3,767,321	3,547,521
– to be recovered within 12 months	217,921	228,057
	3,985,242	3,775,578
Net deferred income tax liabilities	2,678,904	2,527,188

The gross movement on the net deferred income tax account is as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Opening balance	2,527,188	1,858,906
Charged to the consolidated income statement (Note 32)	142,064	642,664
Charged to other comprehensive income	9,652	25,618
Ending balance	2,678,904	2,527,188

Notes to the Consolidated Financial Statements

24 DEFERRED INCOME TAX – GROUP (CONTINUED)

Movement in deferred income tax assets and liabilities for the year ended 31 December 2013, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Provision for land appreciation tax deductible for future income tax clearance RMB'000	Unrealized profit on intra-group transaction RMB'000	Tax loss and temporary difference on recognition of expenses RMB'000	Total RMB'000
At 1 January 2012	854,633	223,725	175,172	1,253,530
Credited/(charged) to the consolidated income statement	(83,848)	(81,232)	93,862	(71,218)
At 31 December 2012	770,785	142,493	269,034	1,182,312
Credited to the consolidated income statement	104,869	14,223	6,294	125,386
At 31 December 2013	875,654	156,716	275,328	1,307,698

Deferred income tax liabilities

	Fair value gains on investment properties RMB'000	Fair value adjustments on assets and liabilities upon acquisition of subsidiaries RMB'000	Withholding tax on the retained earnings of certain subsidiaries RMB'000	Total RMB'000
At 1 January 2012	1,943,994	955,021	213,421	3,112,436
Charged/(credited) to the consolidated income statement	590,720	(39,579)	20,305	571,446
Credited to other comprehensive income	–	25,618	–	25,618
At 31 December 2012	2,534,714	941,060	233,726	3,709,500
Charged to the consolidated income statement	257,802	9,648	–	267,450
Charged to other comprehensive income	–	9,652	–	9,652
At 31 December 2013	2,792,516	960,360	233,726	3,986,602

Notes to the Consolidated Financial Statements

24 DEFERRED INCOME TAX – GROUP (CONTINUED)

Deferred income tax arose as a result of differences in timing of recognising certain revenue, costs and expenses between the tax based financial statements and the HKFRS financial statements. This constitutes temporary differences, being the differences between the carrying amounts of the assets or liabilities in the consolidated balance sheets and their tax bases in accordance with HKAS 12.

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB40,030,000 (2012: RMB47,741,000) in respect of accumulated losses amounting to RMB160,119,000 (2012: RMB190,965,000). Accumulated losses amounting to RMB21,792,000, RMB5,591,000, RMB101,434,000, RMB17,445,000 and RMB13,857,000, as at 31 December 2013 will expire in 2014, 2015, 2016, 2017 and 2018 respectively.

25 TRADE AND OTHER PAYABLES – GROUP

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade payables (note (a))	16,796,749	11,595,770
Other taxes payable	1,077,113	609,650
Accrued expenses	982,181	732,484
Other payables (note (b))	2,139,282	1,378,526
	20,995,325	14,316,430

Notes:

(a) The ageing analysis from the recorded date of trade payables is as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within 90 days	16,410,856	11,140,635
Over 90 days and within 1 year	385,893	455,135
	16,796,749	11,595,770

Notes to the Consolidated Financial Statements

25 TRADE AND OTHER PAYABLES – GROUP (CONTINUED)

Notes: (continued)

(b) Other payables comprise:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Deposits received from customers	1,475,543	955,517
Fees collected from customers on behalf of government agencies	96,644	85,470
Deposits from constructors	348,523	94,178
Rental deposits from tenants and hotel customers	129,709	154,546
Others	88,863	88,815
	2,139,282	1,378,526

26 DERIVATIVE FINANCIAL INSTRUMENTS – GROUP AND COMPANY

Derivative financial instruments liabilities as at balance sheet date are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Interest rate swap contracts	36,898	42,572

On 6 January 2011, the Group entered into two interest rate swap contracts with The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), with an aggregate notional amount of US\$300,000,000 (the "Swap Contracts"). The Swap contracts took effective from 3 August 2010, and will terminate on 3 August 2017. Pursuant to the Swap Contracts, the Group receives interest at a fixed rate of 9.65%, and pays interest at floating rate with reference to the HSBC Vol-Budgeted Dynamic Term Premium Index as published on Bloomberg but subject to a ceiling of 12.1%, semi-annually on 3 February and 3 August commencing from 3 February 2011 and up to termination.

The Swap Contracts do not qualified for hedge accounting, so that they are classified as derivative financial instruments held for trading as current assets or current liabilities, and with fair value changes recognized in the consolidated income statement.

There is a day-one loss of approximately RMB125,306,000 arising from the Swap Contracts, which is deferred and amortised in the consolidation income statement based on the straight line method within the effective lives of the Swap Contracts. For the year ended 31 December 2013, the fair value gains of the Swap Contracts amounted to RMB20,583,000, net off against the amortization of day-one loss with RMB14,909,000, is recognized in "other gains" (2012: net gain of RMB9,543,000, recognized in "other gains").

Notes to the Consolidated Financial Statements

27 AMOUNTS DUE TO RELATED PARTIES – GROUP

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
– Company with common directors	1,861	–
– Joint ventures	4,162,964	2,897,713
– Associated companies	38,438	–
– Non-controlling interests	6,133,132	–
	10,336,395	2,897,713

Amounts due to non-controlling interests represent funds injected by the non-controlling shareholders for the development of properties.

The balances due to related parties are unsecured, interest-free and have no fixed repayment terms.

28 OTHER INCOME/OTHER GAINS – NET

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Gain on deemed disposal of subsidiaries with loss of control	–	545,135
Net (loss)/gain on disposal of subsidiaries with loss of control (Note 11(b) and 12(b))	(149,611)	240,089
Gain on disposal of a joint venture (Note 12(d))	134,684	–
Government grants received	318,304	344,301
Fair value gain on derivative financial instruments (Note 26)	5,674	9,543
Net exchange gain	480,996	26,793
Others	55,016	30,243
	845,063	1,196,104

Notes to the Consolidated Financial Statements

29 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs, administrative expenses and other operating expenses are analysed as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Cost of properties sold and others	24,147,734	16,904,213
Business taxes and other levies on sales of properties (note (a))	2,381,374	1,669,597
Staff costs – including directors' emoluments (note (b))	1,032,506	883,934
Advertising, promotion and commission costs	1,024,544	800,926
Direct expenses arising from hotel operation	507,905	496,190
Corporate and office expenses	545,333	475,223
Depreciation (Note 6)	372,580	347,031
Write off of intangible assets (Note 9)	292,352	124,102
Operating lease rental expenses	75,032	88,053
Amortisation of land use rights (Note 8)	44,742	42,368
Direct expenses arising from investment properties	42,686	38,534
Charitable donations	14,914	10,039
Provision for/(write back of) impairment of receivables (Note 17)	17,478	(5,644)
Auditor's remuneration	7,000	6,000
Provision of impairment losses on completed properties held for sale (Note 16)	103,551	–
Other expenses	433,215	295,296
Total cost of sales, selling and marketing costs, administrative expenses and other operating expenses	31,042,946	22,175,862

(a) Business tax and other levies

The Group's companies incorporated in the PRC are subject to business taxes of 5% and other levies on their revenue from sales of properties.

(b) Staff costs (including directors' emoluments) comprise:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Wages and salaries	770,478	652,419
Pension costs – statutory pension (note (c))	74,813	64,480
Other allowances and benefits	187,215	167,035
	1,032,506	883,934

Notes to the Consolidated Financial Statements

29 EXPENSES BY NATURE (CONTINUED)

(c) Pensions-defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on a certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

30 FINANCE COSTS- NET

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Interest on bank borrowings		
– wholly repayable within five years	1,332,566	1,040,899
– not wholly repayable within five years	391,964	212,364
Interest on senior notes		
– wholly repayable within five years	631,812	481,333
– not wholly repayable within five years	468,979	262,933
Interest on borrowing from other financial institutions and non-financial institutions		
– wholly repayable within five years	766,726	1,227,056
– not wholly repayable within five years	13,451	–
	3,605,498	3,224,585
Less: interest capitalised	(3,293,287)	(3,056,415)
Finance costs	312,211	168,170
Finance income	(190,850)	(146,055)
Finance costs – net	121,361	22,115

Notes to the Consolidated Financial Statements

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The remuneration of each of the directors of the Company for the year ended 31 December 2013 is set out as follows:

Name of directors	Salaries, allowances and benefits		Bonuses	Retirement benefit contributions	Employee share award schemes	Total
	Fees	in kind				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Mr. Hui Wing Mau	–	4,789	1,596	12	–	6,397
Mr. Hui Sai Tan, Jason	–	4,674	2,033	12	–	6,719
Mr. Liu Sai Fei	–	2,727	3,458	12	–	6,197
Mr. Xu Younong	–	1,366	1,318	80	–	2,764
Ms. Tang Fei (Note 1)	–	1,200	627	80	–	1,907
Mr. Liao Lujang (Note 2)	–	1,680	845	80	–	2,605
Independent non-executive directors						
Ms. Kan Lai Kuen, Alice	192	–	–	–	–	192
Mr. Lu Hong Bing	192	–	–	–	–	192
Mr. Lam Ching Kam	192	–	–	–	–	192
	576	16,436	9,877	276	–	27,165

Notes:

1. Ms. Tang Fei was appointed as an executive director with effect from 6 February 2013.
2. Mr. Liao Lujang was appointed as an executive director with effect from 6 February 2013.

Notes to the Consolidated Financial Statements

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(CONTINUED)

(a) Directors' emoluments (continued)

The remuneration of each of the directors of the Company for the year ended 31 December 2012 is set out as follows:

Name of directors	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement benefit contributions RMB'000	Employee share award schemes RMB'000	Total RMB'000
Executive directors						
Mr. Hui Wing Mau	–	4,880	1,627	11	–	6,518
Mr. Hui Sai Tan, Jason	–	3,909	2,852	11	782	7,554
Ms. Yao Li (Note)	–	–	–	–	–	–
Mr. Liu Sai Fei	–	2,201	2,780	11	–	4,992
Mr. Xu Younong	–	2,070	1,862	56	–	3,988
Independent non-executive directors						
Ms. Kan Lai Kuen, Alice	195	–	–	–	–	195
Mr. Lu Hong Bing	195	–	–	–	–	195
Mr. Lam Ching Kam	195	–	–	–	–	195
	585	13,060	9,121	89	782	23,637

Note: Ms. Yao Li was transferred from executive director to non-executive director on 18 June 2012 and she resigned from non-executive director on 6 February 2013.

Notes to the Consolidated Financial Statements

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(CONTINUED)

(b) Five highest paid individuals

Four of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2013 are directors (2012: four). The aggregate amounts of emoluments of the five highest paid individuals are set out below:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Salaries and allowances	15,236	14,520
Bonuses	9,250	9,434
Retirement scheme contributions	196	100
Share options granted	–	2,103
	24,682	26,157

The emoluments fell within the following bands:

	Number of individuals	
	2013	2012
RMB2,500,000 – RMB3,000,000	2	–
RMB3,000,001 – RMB3,500,000	–	1
RMB3,500,001 – RMB4,000,000	–	1
RMB4,000,001 – RMB4,500,000	–	–
RMB4,500,001 – RMB5,000,000	–	1
RMB5,000,001 – RMB5,500,000	–	–
RMB6,000,001 – RMB6,500,000	2	–
RMB6,500,001 – RMB7,000,000	1	1
RMB7,500,001 – RMB8,000,000	–	1

- (c) No emolument was paid or payable by the Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2013 and 2012.

Notes to the Consolidated Financial Statements

32 INCOME TAX EXPENSE

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Current income tax		
– PRC enterprise income tax	2,519,429	1,985,703
– PRC withholding income tax	64,809	26,700
– PRC land appreciation tax	2,107,202	925,882
	4,691,440	2,938,285
Deferred income tax (Note 24)		
– PRC enterprise income tax	142,064	622,359
– PRC withholding income tax	–	20,305
	142,064	642,664
	4,833,504	3,580,949

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies within the Group as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Profit before income tax	13,058,828	10,165,437
Less: Share of results of associated companies and joint ventures	(844,206)	(152,187)
Land appreciation tax	(2,107,202)	(925,882)
	10,107,420	9,087,368
Calculated at PRC enterprise income tax rate of 25% (2012: 25%)	2,526,855	2,271,842
Effect of different tax rates in other countries or regions	(57,771)	–
Expenses not deductible for income tax purposes (note (a))	356,906	374,963
Income not subject to tax (note (b))	(167,961)	(43,212)
Tax losses not recognised	3,464	4,469
PRC enterprise income tax charge	2,661,493	2,608,062
PRC land appreciation tax	2,107,202	925,882
Current income tax – PRC withholding income tax	64,809	26,700
Deferred income tax – PRC withholding income tax	–	20,305
	4,833,504	3,580,949

Notes to the Consolidated Financial Statements

32 INCOME TAX EXPENSE (CONTINUED)

Notes:

- (a) Expenses not deductible for income tax purposes mainly resulted from expenses incurred by the Company and its subsidiaries established in the British Virgin Islands which are not deductible for tax purpose.
- (b) Income not subject to tax arose mainly from interest income and net exchange gains earned by companies incorporated in Cayman Islands, the British Virgin Islands and Hong Kong.

Hong Kong profits tax

No Hong Kong profits tax has been provided for as the Group has no assessable profit in Hong Kong for the year ended 31 December 2013 (2012: Nil).

PRC enterprise income tax

PRC enterprise income tax is provided for at 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items, which are not assessable or deductible for the PRC enterprise income tax purposes.

PRC land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including cost of land use rights, borrowing costs, business taxes and all property development expenditures. The tax is incurred upon transfer of property ownership.

PRC withholding income tax

According to the new Enterprise Income Tax Law of the PRC, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangements between the PRC and Hong Kong.

Gain on disposal of an investment in the PRC by overseas holding companies and intra-group charges to the PRC subsidiaries by overseas subsidiaries may also be subject to withholding tax of 10%.

Notes to the Consolidated Financial Statements

33 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Profit attributable to the equity holders of the Company (RMB'000)	7,389,857	5,764,632
Weighted average number of ordinary shares in issue (thousands)	3,464,638	3,466,759
Basic earnings per share (RMB cents)	213.3	166.3

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the shares granted under the Share Award Scheme and the share options granted under the share option schemes assuming they were exercised.

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Profit attributable to the equity holders of the Company (RMB'000)	7,389,857	5,764,632
Weighted average number of ordinary shares in issue (thousands)	3,464,638	3,466,759
Adjustment for shares granted under Share Scheme/share options granted under the Pre-IPO Share Option Scheme (thousands)	2,114	1,264
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,466,752	3,468,023
Diluted earnings per share (RMB cents)	213.2	166.2

Notes to the Consolidated Financial Statements

34 DIVIDENDS

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Interim dividend paid of HK0 cent (2012: Nil)		
per ordinary share (note(a))	–	–
Proposed final dividend of HK81 cents (2012: HK55 cents)		
per ordinary share (note (b))	2,195,555	1,548,559
	2,195,555	1,548,559

Notes:

- (a) No dividend in respect of the six months ended 30 June 2013 (2012: Nil) was declared at the Company's board meeting held on 27 August 2013.
- (b) At a meeting held on 25 March 2014, the directors proposed a final dividend of HK81 cents per ordinary share out of share premium as at 31 December 2013. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2013 upon approval by the shareholders at the forthcoming annual general meeting of the Company. A final dividend in respect of 2012 of HK55 cents per ordinary share, amounting to approximately HK\$1,909,914,000 (equivalent to RMB1,548,559,000) was proposed at the Company's board meeting held on 26 March 2013, and was approved at the annual general meeting of the Company held on 17 June 2013.

Notes to the Consolidated Financial Statements

35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Net cash generated from operations:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Profit before income tax	13,058,828	10,165,437
Adjustments for:		
Interest income	(190,850)	(146,055)
Finance costs	312,211	168,170
Provision for/(written-back of) impairment of receivables	17,478	(5,644)
Provision for impairment loss on completed properties held for sale	103,551	–
Depreciation	372,580	347,031
Gain on disposal of property and equipment	(904)	(92)
Share of results of associated companies	51,443	210,938
Share of results of joint ventures	(895,649)	(363,125)
Net loss/(gain) on disposal of subsidiaries with loss of control	149,611	(240,089)
Gain on deemed disposal of subsidiaries	–	(545,135)
Gain on disposal of a joint venture	(134,684)	–
Amortisation of land use rights	44,742	42,368
Fair value gain on derivative financial instruments	(5,674)	(9,543)
Fair value gains on investment properties	(1,031,206)	(2,362,880)
Write-off of intangible assets	292,352	124,102
Value of employee services arising from share award scheme	32,183	–
Net exchange gain	(480,996)	(26,793)
	11,695,016	7,358,690
Changes in working capital:		
Properties under development, completed properties held for sale and prepayment for acquisition of land use rights	(25,978,825)	105,869
Restricted cash	(295,076)	142,706
Trade and other receivables and prepayments	(4,938,302)	(2,135,921)
Amount due from related companies	109,932	135,564
Trade and other payables	3,556,939	(3,419,350)
Advanced proceeds received from customers	9,842,980	9,458,781
Amount due to related companies	2,105,550	2,866,882
Net cash (used in)/generated from operations	(3,901,786)	14,513,221

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

Particulars of the principal subsidiaries, associated companies and joint ventures of the Group as at 31 December 2013 are as follows:

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – established and operation conducted in the PRC					
上海世茂股份有限公司 (Shanghai Shimao Co., Ltd.)	1 July 1992	Foreign investment enterprise	Registered capital RMB1,170,595,338	64.2%	Property development
上海世茂房地產有限公司 (Shanghai Shimao Real Estate Co., Ltd.)	15 March 2000	Foreign investment enterprise	Registered capital US\$75,000,000	100%	Property development
上海世茂國際廣場有限責任公司 (Shanghai Shimao International Plaza Co., Ltd.)	15 September 1994	Foreign investment enterprise	Registered capital RMB1,600,000,000	100%	Hotel and shopping mall
上海世茂建設有限公司 (Shanghai Shimao Jianshe Co., Ltd.)	16 March 2001	Foreign investment enterprise	Registered capital RMB540,000,000	100%	Investment holding
上海世茂莊園置業有限公司 (Shanghai Shimao Manor Real Estate Co., Ltd.)	19 June 2002	Foreign investment enterprise	Registered capital US\$18,400,000	100%	Property development and hotel
上海世茂北外灘開發建設有限公司 (Shanghai Shimao North Bund Co., Ltd.)	17 May 2002	Foreign investment enterprise	Registered capital HK\$650,000,000	100%	Hotel
北京世茂投資發展有限公司 (Beijing Shimao Investment and Development Co., Ltd.)	26 December 2000	Foreign investment enterprise	Registered capital RMB755,780,000	100%	Property development
哈爾濱世茂濱江新城開發建設有限公司 (Harbin Shimao Riviera New City Development and Construction Co., Ltd.)	24 March 2004	Foreign investment enterprise	Registered capital HK\$548,000,000	100%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
常熟世茂房地產開發有限公司 (Changshu Shimao Real Estate Development Co., Ltd.)	24 December 2004	Foreign investment enterprise	Registered capital HK\$440,000,000	100%	Property development
昆山世茂蝶湖灣開發建設有限公司 (Kunshan Shimao Butterfly Bay Development and Construction Co., Ltd.)	10 November 2003	Foreign investment enterprise	Registered capital RMB412,410,000	100%	Property development
武漢世茂錦繡長江房地產開發有限公司 (Wuhan Shimao Splendid River Real Estate Development Co., Ltd.)	6 June 2005	Foreign investment enterprise	Registered capital US\$114,269,000	96.1%	Property development
昆山世茂房地產開發有限公司 (Kunshan Shimao Real Estate Development Co., Ltd.)	24 December 2003	Domestic enterprise	Registered capital RMB547,668,147	64.2%	Property development
嘉興世茂新城房地產開發有限公司 (Jiaxing Shimao New City Real Estate Development Co., Ltd.)	28 September 2006	Foreign investment enterprise	Registered capital US\$70,232,000	100%	Property development
上海世茂新體験置業有限公司 (Shanghai Shimao Wonderland Real Estate Co., Ltd.)	6 March 2006	Domestic enterprise	Registered capital RMB391,092,834	64.2%	Property development
紹興世茂新城房地產開發有限公司 (Shaoxing Shimao New City Real Estate Development Co., Ltd.)	11 July 2006	Foreign investment enterprise	Registered capital US\$52,350,000	100%	Property development
紹興世茂置業有限公司 (Shaoxing Shimao Real Estate Co., Ltd.)	11 July 2006	Foreign investment enterprise	Registered capital US\$79,030,000	100%	Property development
蕪湖世茂房地產開發有限公司 (Wuhu Shimao Real Estate Development Co., Ltd.)	8 September 2006	Foreign investment enterprise	Registered capital US\$56,500,000	100%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
煙台世茂置業有限公司 (Yantai Shimao Real Estate Co., Ltd.)	6 September 2006	Foreign investment enterprise	Registered capital US\$48,500,000	100%	Property development
常州世茂房地產有限公司 (Changzhou Shimao Real Estate Co., Ltd.)	27 November 2006	Foreign investment enterprise	Registered capital US\$313,730,000	100%	Property development
青島世茂新城房地產開發有限公司 (Qingdao Shimao New City Property Development Co., Ltd.)	29 April 2010	Foreign Investment enterprise	Registered capital US\$159,980,000	100%	Property development
杭州世茂置業有限公司 (Hangzhou Shimao Real Estate Development Co., Ltd.)	13 December 2006	Foreign investment enterprise	Registered capital US\$111,900,000	100%	Property development
徐州世茂新城房地產開發有限公司 (Xuzhou Shimao New City Real Estate Development Co., Ltd.)	14 February 2007	Foreign investment enterprise	Registered capital US\$75,980,000	100%	Property development
徐州世茂置業有限公司 (Xuzhou Shimao Property Co., Ltd.)	14 February 2007	Domestic enterprise	Registered capital RMB491,412,600	64.2%	Property development
徐州世茂新紀元房地產開發有限公司 (Xuzhou Shimao New Era Real Estate Development Co., Ltd.)	22 June 2007	Foreign investment enterprise	Registered capital RMB50,000,000	100%	Property development
福州世茂置業有限公司 (Fuzhou Shimao Property Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB430,000,000	100%	Property development
福州世茂新城房地產開發有限公司 (Fuzhou Shimao New City Real Estate Development Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB880,000,000	100%	Property development
蕪湖世茂新發展置業有限公司 (Wuhu Shimao New Development Property Co., Ltd.)	16 May 2007	Domestic enterprise	Registered capital RMB110,000,000	64.2%	Property development
蕪湖世茂新世紀置業有限公司 (Wuhu Shimao New Century Property Co., Ltd.)	26 September 2007	Foreign investment enterprise	Registered capital RMB35,000,000	100%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
瀋陽世茂新世紀房地產開發有限公司 (Shenyang Shimao New Century Real Estate Development Co., Ltd.)	24 May 2007	Domestic enterprise	Registered capital RMB580,058,500	64.2%	Property development
瀋陽世茂新世紀置業有限公司 (Shenyang Shimao New Era Property Co., Ltd.)	24 May 2007	Foreign investment enterprise	Registered capital HK\$257,000,000	100%	Property development
大連世茂龍河發展有限公司 (Dalian Shimao Dragon River Development Co., Ltd.)	9 June 2006	Foreign investment enterprise	Registered capital US\$109,600,000	95.8%	Property development
蘇州世茂投資發展有限公司 (Suzhou Shimao Investment & Development Co., Ltd.)	2 March 2007	Domestic enterprise	Registered capital RMB526,795,630	64.2%	Property development
蘇州世茂置業有限公司 (Suzhou Shimao Property Co., Ltd.)	26 January 2007	Foreign investment enterprise	Registered capital US\$178,000,000	100%	Property development
紹興世茂新世紀置業有限公司 (Shaoxing Shimao New Century Property Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB453,457,740	60%	Property development
紹興世茂新世紀置業有限公司 (Shaoxing Shimao New Era Property Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB245,520,127	64.2%	Property development
紹興世茂新置業發展有限公司 (Shaoxing Shimao New Property Development Co., Ltd.)	13 July 2007	Foreign investment enterprise	Registered capital US\$14,500,000	100%	Property development
嘉興世茂新世紀置業有限公司 (Jiaxing Shimao New Century Property Co., Ltd.)	6 July 2007	Foreign investment enterprise	Registered capital RMB100,000,000	64.2%	Property development
牡丹江世茂置業有限公司 (Mudanjiang Shimao Property Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$16,000,000	95%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
牡丹江世茂新城房地產開發有限公司 (Mudanjiang Shimao New City Real Estate Development Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$29,980,000	100%	Property development
常熟世茂新發展置業有限公司 (Changshu Shimao New Development Property Co., Ltd.)	24 August 2007	Domestic enterprise	Registered capital RMB692,174,000	64.2%	Property development
余姚世茂牟山湖休閒度假區開發有限公司 (Yuyao Shimao Moushanhu Leisure Resort Development Co., Ltd.)	21 October 2010	Domestic enterprise	Registered capital RMB200,000,000	70%	Property development
上海世茂佘山匯置業有限公司 (Shanghai Shimao Sheshan Huiying Property Co., Ltd.)	14 September 2012	Domestic enterprise	Registered capital RMB860,000,000	60%	Property development
南通世茂房地產開發有限公司 (Nantong Shimao Real Estate Development Co., Ltd.)	14 December 2012	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development
南京碩天投資管理有限公司 (Nanjing Shuotian Investment & Management Co., Ltd.)	18 December 2012	Domestic enterprise	Registered capital RMB100,000,000	51%	Property development
天津生態城世茂投資開發有限公司 (Tianjin Eco-City Shimao Investment & Development Co., Ltd.)	12 August 2011	Domestic enterprise	Registered capital RMB36,000,000	75%	Property development
福州世茂新發展房地產開發有限公司 (Fuzhou Shimao New Development Real Estate Co., Ltd.)	18 October 2012	Domestic enterprise	Registered capital RMB878,000,000	100%	Property development
青島世奧投資發展有限公司 (Qingdao Shiao Investment & Development Co., Ltd.)	17 August 2009	Domestic enterprise	Registered capital RMB1,000,000,000	48%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
常州世茂新城房地產開發有限公司 (Changzhou Shimao New City Real Estate Development Co., Ltd.)	12 February 2007	Domestic enterprise	Registered capital RMB269,300,000	64.2%	Property development
張家港世茂房地產開發有限公司 (Zhangjiagang Shimao Real Estate Development Co., Ltd.)	12 July 2013	Domestic enterprise	Registered capital RMB1,500,000,000	51%	Property development
昆山世茂新發展置業有限公司 (Kunshan Shimao New Development Property Co., Ltd.)	12 September 2007	Foreign investment enterprise	Registered capital US\$49,980,000	100%	Property development
成都世盈投資管理諮詢有限公司 (Chengdu Shiying Investment Management Consulting Co., Ltd.)	20 September 2007	Foreign investment enterprise	Registered capital US\$29,980,000	100%	Property development
上海世源建材貿易有限公司 (Shanghai Shine Construction Product Co., Ltd.)	22 January 2007	Foreign investment enterprise	Registered capital HK\$65,000,000	100%	Trading of construction materials
上海世盈投資管理有限公司 (Shanghai Shiying Investment Management Co., Ltd.)	21 August 2007	Domestic enterprise	Registered capital RMB200,000,000	100%	Investment holding
廈門信誠建築裝潢有限公司 (Xiamen Xincheng Building Decoration Co., Ltd.)	6 March 2007	Domestic enterprise	Registered capital RMB10,000,000	100%	Trading of construction materials
北京財富時代置業有限公司 (Beijing Fortune Times Property Co., Ltd.)	18 September 2001	Domestic enterprise	Registered capital RMB1,010,000,000	64.2%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
牡丹江睿智營銷企劃有限公司 (Mudanjiang Ruizhi Marketing Planning Co., Ltd.)	4 December 2007	Domestic enterprise	Registered capital RMB1,000,000	100%	Marketing
牡丹江世拓建材貿易有限公司 (Mudanjiang Shituo Construction Product Co., Ltd.)	3 April 2008	Domestic enterprise	Registered capital RMB1,000,000	100%	Trading of construction materials
青島世茂投資發展有限公司 (Qingdao Shimao Investment & Development Co., Ltd.)	27 May 2011	Domestic enterprise	Registered capital RMB100,000,000	64.2%	Property development
咸陽世茂房地產開發有限公司 (Xianyang Shimao Real Estate Development Co., Ltd.)	29 April 2004	Foreign investment enterprise	Registered capital HK\$30,000,000	100%	Property development
上海碧橙房地產有限公司 (Shanghai Bicheng Real Estate Co., Ltd.)	28 September 2003	Domestic enterprise	Registered capital RMB236,200,000	100%	Property development
福建世茂投資發展有限公司 (Fujian Shimao Investment and Development Co., Ltd.)	17 November 2003	Foreign investment enterprise	Registered capital RMB200,000,000	82.1%	Property development
南京世茂房地產開發有限公司 (Nanjing Shimao Real Estate Development Co., Ltd.)	23 July 2004	Foreign investment enterprise	Registered capital RMB328,000,000	82.1%	Property development
上海星橙房地產有限公司 (Shanghai Xingcheng Real Estate Co., Ltd.)	25 January 2006	Domestic enterprise	Registered capital RMB28,000,000	100%	Property development
上海世茂投資管理有限公司 (Shanghai Shimao Investment Management Co., Ltd.)	11 May 2009	Domestic enterprise	Registered capital RMB50,000,000	100%	Investment holding

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
上海逸景園林景觀工程有限公司 (Shanghai Yijing Landscaping Architect Co., Ltd.)	3 September 2009	Domestic enterprise	Registered capital RMB10,000,000	100%	Architect
福建世茂新里程投資發展有限公司 (Fujian Shimao New Way Investment Development Co., Ltd.)	10 October 2009	Domestic enterprise	Registered capital RMB1,887,000,000	80.9%	Property development
上海世茂企業發展有限公司 (Shanghai Shimao Enterprises Development Co., Ltd.)	22 June 2000	Domestic enterprise	Registered capital RMB101,723,568	50.9%	Investment holding
牡丹江新睿房地產營銷代理有限公司 (Mudanjiang Xinrui Real Estate Marketing Agency Co., Ltd.)	7 March 2008	Domestic enterprise	Registered capital RMB1,000,000	100%	Real Estate Marketing
泰州世茂新發展置業有限公司 (Taizhou Shimao New Development Property Co., Ltd.)	17 January 2008	Foreign investment enterprise	Registered capital US\$20,000,000	100%	Property development
泰州世茂新城房地產開發有限公司 (Taizhou Shimao New City Real Estate Development Co., Ltd.)	22 February 2008	Foreign investment enterprise	Registered capital US\$40,000,000	100%	Property development
武漢世茂嘉年華置業有限公司 (Wuhan Shimao Jianianhua Property Co., Ltd.)	14 December 2009	Domestic enterprise	Registered capital RMB200,000,000	81.7%	Property development
嘉興世茂新里程置業有限公司 (Jiaxing Shimao Xinlicheng Property Co., Ltd.)	6 July 2007	Foreign investment enterprise	Registered capital RMB37,882,640	100%	Property development
寧波世茂房地產開發有限公司 (Ningbo Shimao Real Estate Development Co., Ltd.)	24 December 2007	Foreign investment enterprise	Registered capital US\$99,980,000	100%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
大連世茂嘉年華置業有限公司 (Dalian Shimao Jnianhua Property Co., Ltd.)	4 September 2009	Domestic enterprise	Registered capital US\$100,000,000	100%	Property development
天津世茂新里程置業有限公司 (Tianjin Shimao Xinlichen Property Co., Ltd.)	5 November 2009	Domestic enterprise	Registered capital RMB470,000,000	100%	Property development
成都世茂置業有限公司 (Chengdu Shimao Property Co., Ltd.)	13 October 2009	Domestic enterprise	Registered capital RMB299,021,884	100%	Property development
無錫世茂新發展置業有限公司 (Wuxi Shimao New Development Property Co., Ltd.)	23 November 2009	Domestic enterprise	Registered capital RMB102,000,000	77.8%	Property development
南通世茂新里程房地產開發有限公司 (Nantong Shimao New Way Real Estate Developments Co., Ltd.)	18 June 2013	Domestic enterprise	Registered capital RMB300,000,000	100%	Property development
南通萃泰機電科技有限公司 (Nantong Cuitai electromechanical & technology Co., Ltd.)	18 December 2012	Foreign investment enterprise	Registered capital US\$15,000,000	100%	Research and trading
蘇州世茂新發展房地產開發有限公司 (Suzhou Shimao New Development Real Estate co., Ltd.)	16 April 2013	Domestic enterprise	Registered capital RMB102,000,000	51%	Property development
蘇州世茂新世紀房地產開發有限公司 (Suzhou Shimao New Century Real Estate co., Ltd.)	16 April 2013	Domestic enterprise	Registered capital RMB730,045,820	100%	Property development
張家港尚競投資管理有限公司 (Zhangjiagang Shangjing Investment & Management Co., Ltd.)	20 August 2013	Domestic enterprise	Registered capital RMB10,000,000	100%	Investment holding

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
寧波世茂新世紀房地產開發有限公司 (Ningbo Shimao New Century Real Estate Development Co., Ltd.)	1 March 2013	Domestic enterprise	Registered capital RMB1,429,000,000	51%	Property development
杭州世茂新領域房地產開發有限公司 (Hangzhou Shimao New Domain Real Estate Development Co., Ltd.)	22 March 2013	Domestic enterprise	Registered capital RMB620,000,000	51%	Property development
杭州世融匯置置業有限公司 (Hangzhou Shirong Huiying Property Co., Ltd.)	29 May 2013	Foreign investment enterprise	Registered capital US\$150,000,000	51%	Property development
杭州世茂嘉年華置業有限公司 (Hangzhou Shimao Carnival Property Co., Ltd.)	16 October 2013	Domestic enterprise	Registered capital RMB52,000,000	100%	Property development
黃石世茂房地產開發有限公司 (Huangshi Shimao Real Estate Developments Co., Ltd.)	21 March 2013	Domestic enterprise	Registered capital RMB10,000,000	90%	Property development
南昌水城投資股份有限公司 (Nanchang Shuicheng Investment Co., Ltd.)	8 December 2005	Domestic enterprise	Registered capital RMB18,000,000	100%	Property development
南昌世茂新紀元置業有限公司 (Nanchang Shimao New Era Property Co., Ltd.)	7 November 2013	Domestic enterprise	Registered capital RMB936,735,000	100%	Property development
天津世茂新體驗置業有限公司 (Tianjin Shimao New Experience Property Co., Ltd.)	11 September 2013	Domestic enterprise	Registered capital RMB50,000,000	100%	Property development
山東世盈置業有限公司 (Shandong Shiyong Property Co., Ltd.)	8 March 2013	Domestic enterprise	Registered capital RMB1,220,000,000	50.82%	Property development
北京世承投資管理有限公司 (Beijing Shicheng Investment & Management Co., Ltd.)	21 June 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
上海瓊宇投資管理有限公司 (Shanghai Qiongyu Investment & Management Co., Ltd.)	21 March 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海朋權投資管理有限公司 (Shanghai Pengquan Investment & Management Co., Ltd.)	21 March 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海進環投資管理有限公司 (Shanghai Jinjing Investment & Management Co., Ltd.)	26 April 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海建木投資管理有限公司 (Shanghai Jianmu Investment & Management Co., Ltd.)	24 July 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海西科投資管理有限公司 (Shanghai Xike Investment & Management Co., Ltd.)	24 July 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
泉州諾信投資有限公司 (Quanzhou Nuoxin Investment Co., Ltd.)	22 October 2013	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
大連世茂新領域置業有限公司 (Dalian Shimao New Domain Property Co., Ltd.)	29 October 2013	Foreign investment enterprise	Registered capital US\$136,000,000	100%	Property development
大連世茂新體驗置業有限公司 (Dalian Shimao New Experience Property Co., Ltd.)	29 October 2013	Foreign investment enterprise	Registered capital US\$120,000,000	100%	Property development
石獅世茂房地產開發有限公司 (Shishi Shimao Real Estate Development Co., Ltd.)	16 May 2013	Domestic enterprise	Registered capital RMB639,000,000	58%	Property development
石獅世茂新城房地產開發有限公司 (Shishi Shimao New City Real Estate Development Co., Ltd.)	16 May 2013	Domestic enterprise	Registered capital RMB781,000,000	58%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands					
Shimao Property Holdings (BVI) Limited	23 August 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Advance Assets Holdings Limited	22 June 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Best Empire Investments Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Double Achieve Assets Limited	31 January 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Easy Reach Group Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
East Light Group Limited	12 May 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Everactive Properties Limited	2 May 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Highsharp International Limited	23 February 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Keen View Limited	10 May 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Keenrich Holdings Limited	18 December 2002	Limited liability company	1 ordinary share of US\$1	100%	Trademark registration
Magic Dynasty Investments Limited	15 November 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Mega Make Investments Limited	18 October 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Mega Universe Limited	10 July 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands (continued)					
Peak Castle Assets Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Peak Gain International Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Precise Choice Investments Limited	18 October 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Prime Master Holdings Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Shimao Management (Overseas) Limited	18 December 2002	Limited liability company	1 ordinary share of US\$1	100%	Management services
Shimao Travel Limited	5 November 2010	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Significant Asset Group Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
True Excel Limited	31 March 2010	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Upper Aim International Limited	8 May 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Vicking International Ltd.	19 January 1994	Limited liability company	50,000 ordinary shares of US\$1	100%	Investment holding
Wickfair Investments Limited	8 October 2004	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Year Grant Investments Limited	3 September 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – incorporated and operation conducted in Hong Kong					
Brilliant Architectural and Construction Professional Consultancy Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK\$1	100%	Consultancy services
Bonus Boom Limited	13 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Clear Rise Investments Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Daily Right Holdings Limited	7 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Bonus Goal Investments Limited	13 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Excel Grand Group Limited	22 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Excel Mode Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Faith Joy Investments Limited	7 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Fine Tune Investments Limited	5 June 2006	Limited liability company	1 ordinary share of HK\$1	100%	Holding of trademarks
Full Range International Limited	11 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Future Right Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Global Square Investments Limited	29 October 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – incorporated and operation conducted in Hong Kong (continued)					
Goodie Chance Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Happy Light Group Limited	22 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Lion Kingdom Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Lion Land Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Modern Professional Architectural Design Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK\$1	100%	Design services
Moral Trend Limited	6 September 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Mount Profit Investments Limited	14 December 2006	Limited liability company	2 ordinary share of HK\$1	96.05%	Investment holding
New Sincere Investments Limited	11 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Orient Rise Investments Limited	11 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Power One Holdings Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Profit Forest Investments Limited	11 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Rich Noble Group Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Rise Max International Limited	16 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Principal subsidiaries – incorporated and operation conducted in Hong Kong (continued)					
S Hotels International Management Limited	10 December 2008	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Shimao Holdings Company Limited	3 February 1994	Limited liability company	100 million ordinary shares of HK\$1	100%	Investment holding
Summer Sky Investments Limited	27 November 2007	Limited liability company	100 ordinary shares of HK\$1	51%	Investment holding
Swift Time Limited	18 March 2009	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Time Noble Limited	25 March 2009	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Topwise Limited	29 March 2005	Limited liability company	1 ordinary share of HK\$1	100%	Management services
Associated companies – established and operation conducted in the PRC					
廣州利合房地產開發有限公司 (Guangzhou Li He Property Development Co., Ltd.)	5 February 2010	Foreign Investment enterprise	Registered capital HK\$750,000,000	20%	Property development
成都恒裕房地產開發有限公司 (Chengdu Hengyu Property Development Co., Ltd.)	7 May 2010	Domestic enterprise	Registered capital RMB30,000,000	33.33%	Property development
Associated companies – incorporated and operation conducted in the British Virgin Islands					
Straits Construction Investment (Holdings) Limited	17 November 2009	Limited liability company	45,000 ordinary share of US\$10,000	49%	Investment holdings
Eagle Rights Limited	31 March 2010	Limited liability company	45,000,000 shares with no par value	33.33%	Investment holding

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2013	Principal activities
Joint ventures – established and operation conducted in the PRC					
無錫世茂房地產開發建設有限公司 (Wuxi Shimao Real Estate Development & Construction Co., Ltd.)	20 November 2009	Domestic enterprise	Registered capital RMB102,000,000	49%	Property development
天津津南新城房地產開發有限公司 (Tianjin Jinnan Xincheng Real Estate Development Co., Ltd.)	26 May 2010	Domestic enterprise	Registered capital RMB3,667,300,000	25%	Property development
天津和安投資有限公司 (Tianjin Hean Investment Co., Ltd.)	19 August 2010	Domestic enterprise	Registered capital RMB10,000,000	25%	Investment holding
南昌世茂新發展置業有限公司 (Nanchang Shimao New Development Property Co., Ltd.)	19 October 2010	Domestic enterprise	Registered capital RMB1,200,000,000	50%	Property development
長沙世茂房地產有限公司 (Changsha Shimao Real Estate Co., Ltd.)	21 July 2010	Domestic enterprise	Registered capital RMB500,000,000	50%	Property development
成都世茂投資有限公司 (Chengdu Shimao Investment Co., Ltd.)	17 November 2009	Domestic enterprise	Registered capital RMB1,200,000,000	50%	Property development
廣州誠譽房地產開發有限公司 (Guangzhou Cheng Yu Property Development Co., Ltd.)	25 November 2012	Domestic enterprise	Registered capital RMB60,000,000	50%	Investment holding
Joint ventures – incorporated and operation conducted in Hong Kong					
Fast Right Investments Limited	7 May 2007	Limited liability company	2 ordinary shares of HK\$1	50%	Investment holding
Kingtron Enterprises Limited	14 June 2007	Limited liability company	2 ordinary shares of HK\$1	50%	Investment holding

Notes to the Consolidated Financial Statements

37 CONTINGENCIES

The Group had the following contingent liabilities:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Guarantees in respect of mortgage facilities for certain purchasers (note (a))	10,054,730	8,400,117
Guarantee in respect of borrowings (note (b))	4,783,509	3,902,223
	14,838,239	12,302,340

Note:

- (a) The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to retain the legal title and take over possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees, or when the Group obtained the "master property title certificate" upon completion of construction. The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.
- (b) The Group and other shareholders of Guangzhou Li He, an associated company, provided guarantees in proportion of their respective equity interests in Guangzhou Li He for its bank borrowings. The respective guarantees provided by the Group amounted to RMB1,537,352,000 as at 31 December 2013 (2012: RMB1,570,393,000).

The Group and other shareholders of Tianjin Jinnan, a jointly controlled entity, provided guarantees in proportion of their respective equity interests in Tianjin Jinnan for its borrowings from other financial institutions. As at 31 December 2013, the Group provided guarantees amounted to RMB357,000,000 (2012: RMB550,000,000), as well as the pledge of the Group's equity interest in Tianjin Jinnan.

The Group and other shareholders of Straits Construction Investment Holdings Limited, an associated company, provided guarantees in proportion of their respective equity interests in Straits Construction for its mezzanine facilities borrowed in January 2012. The respective guarantee provided by the Group to Straits Construction amounted to US\$148,149,572 (equivalent to RMB903,253,000) as at 31 December 2013 (2012: RMB931,000,000).

The Group provided guarantees for Nanchang New Development's bank borrowings before it became a jointly controlled entity. The respective guarantees provided by the Group amounted to RMB240,000,000 as at 31 December 2013 (2012: RMB240,000,000).

The Group provided guarantees for Changsha Real Estate's bank borrowings before it became a jointly controlled entity. The respective guarantees provided by the Group amounted to RMB750,000,000 as at 31 December 2013 (2012: RMB120,830,000).

Other than those disclosed elsewhere in the consolidated financial statements, the Group provided guarantees for Chengdu Investment's bank borrowings, which is a joint venture of the Group from certain banks. The respective guarantees provided by the Group amounted to RMB320,104,000 as at 31 December 2013 (2012: RMB490,000,000).

The Group provided guarantees for Wuxi Real Estate's bank borrowings before it became a jointly controlled entity. The respective guarantees provided by the Group amounted to RMB675,800,000 as at 31 December 2013 (2012: Nil).

Notes to the Consolidated Financial Statements

38 COMMITMENTS

(a) Commitments for capital and property development expenditure

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Contracted but not provided for		
– Property and equipment	1,453,432	1,540,532
– Land use rights (including those related to associated companies and joint ventures)	17,662,724	12,117,034
– Properties being developed by the Group for sale	20,165,097	14,056,391
– Equity interest (Note 14)	1,190,000	–
	40,471,253	27,713,957

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within one year	192,005	78,755
Between two to five years	731,440	490,334
After five years	363,989	608,263
	1,287,434	1,177,352

Notes to the Consolidated Financial Statements

39 RELATED PARTY TRANSACTIONS

The group is controlled by Gemfair Investments Limited (incorporated in the British Virgin Islands), which owns 56.1% of the company's shares. The ultimate controlling party of the group is Hui Wing Mau.

- (a) Other than those disclosed elsewhere in the consolidated financial statements, the Group had entered into the following major related party transactions during the year ended 31 December 2013:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Operating lease rental expense charged by a related company (note)	5,411	5,411

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Construction material sold to related companies	50,214	–

Note:

On 1 January 2012, the Group renewed a lease agreement with a wholly-owned subsidiary of Shimao International Holdings Limited ("Shimao International"), of which certain directors of the Company are also directors, to lease part of office premises of Shimao International in Hong Kong.

Notes to the Consolidated Financial Statements

39 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Key management compensation

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Emoluments		
– Salaries and other short-term employee benefits	26,313	28,416
– Retirement scheme contributions	276	122
– Employee share option schemes	–	2,489
	26,589	31,027

40 SUBSEQUENT EVENTS

On 22 January 2014, the Company issued senior notes with total principal of US\$600,000,000 at a fixed interest rate of 8.125% due on 22 January 2021.

41 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on 25 March 2014.

Independent Auditor's Report

TO THE SHAREHOLDERS OF SHIMAO PROPERTY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shimaao Property Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 63 to 164, which comprise the consolidated and Company balance sheets as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 26 March 2013

Consolidated Balance Sheet*As at 31 December 2012*

		As at 31 December	
		2012	2011
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property and equipment	6	9,702,631	8,325,789
Investment properties	7	26,248,098	20,566,979
Land use rights	8	4,717,336	2,475,068
Intangible assets	9	2,139,925	2,264,027
Associated companies	11	1,490,441	1,308,281
Jointly controlled entities	12	5,547,675	4,307,877
Available-for-sale financial assets	13	369,833	267,362
Deferred income tax assets	24	1,248,390	1,313,909
Other non-current assets	14	757,250	3,205,665
		52,221,579	44,034,957
Current assets			
Properties under development	15	37,608,942	37,324,085
Completed properties held for sale	16	7,103,351	7,382,116
Trade and other receivables and prepayments	17	6,638,544	4,472,085
Prepayment for acquisition of land use rights	18	6,676,235	7,634,561
Prepaid income taxes		1,165,244	949,184
Amounts due from related companies	19	1,316,027	1,451,591
Restricted cash	20	2,204,028	1,681,222
Cash and cash equivalents	20	15,893,845	12,312,740
		78,606,216	73,207,584
Total assets		130,827,795	117,242,541
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	21	356,275	355,737
Reserves			
– Proposed final dividend	22	1,548,559	505,772
– Others	22	34,002,316	29,730,171
		35,907,150	30,591,680
Non-controlling interests		5,020,082	4,426,397
Total equity		40,927,232	35,018,077

Consolidated Balance Sheet*As at 31 December 2012*

	Note	As at 31 December	
		2012	2011
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	23	28,613,297	27,577,834
Deferred income tax liabilities	24	3,775,578	3,172,815
		32,388,875	30,750,649
Current liabilities			
Trade and other payables	25	14,316,430	17,317,407
Advanced proceeds received from customers		20,578,024	11,828,902
Income tax payable		7,259,690	7,159,326
Borrowings	23	12,380,644	14,983,419
Derivative financial instruments	26	42,572	52,115
Amounts due to related parties	27	2,897,713	30,831
Deferred income		36,615	101,815
		57,511,688	51,473,815
Total liabilities		89,900,563	82,224,464
Total equity and liabilities		130,827,795	117,242,541
Net current assets		21,094,528	21,733,769
Total assets less current liabilities		73,316,107	65,768,726

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

The notes on pages 71 to 164 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	10	23,438,485	21,216,520
Current assets			
Other receivables and prepayments		1,117	3,248
Dividend receivable from subsidiaries	10	267,000	1,246,430
Cash and cash equivalents	20	38,954	96,470
		307,071	1,346,148
Total assets		23,745,556	22,562,668
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	21	356,275	355,737
Reserves			
– Proposed final dividend	22	1,548,559	505,772
– Others	22	7,405,755	10,021,132
Total equity		9,310,589	10,882,641
LIABILITIES			
Non-current liabilities			
Borrowings	23	10,810,720	8,652,245
Current liabilities			
Borrowings	23	3,146,369	2,561,074
Derivative financial instruments	26	42,572	52,115
Trade and other payables		239,635	223,100
Amounts due to subsidiaries	10	195,671	191,493
		3,624,247	3,027,782
Total liabilities		14,434,967	11,680,027
Total equity and liabilities		23,745,556	22,562,668
Net current liabilities		(3,317,176)	(1,681,634)
Total assets less current liabilities		20,121,309	19,534,886

Hui Wing Mau
DirectorHui Sai Tan, Jason
Director

Consolidated Statement of Comprehensive Income*For the year ended 31 December 2012*

	Note	Year ended 31 December	
		2012 RMB'000	2011 RMB'000
Revenue	5	28,652,243	26,031,426
Cost of sales	29	(19,046,444)	(16,031,376)
Gross profit		9,605,799	10,000,050
Fair value gains on investment properties	7	2,362,880	2,527,013
Other income/other gains – net	28	1,196,104	794,320
Selling and marketing costs	29	(1,046,841)	(769,889)
Administrative expenses	29	(1,815,871)	(1,349,272)
Other operating expenses	29	(266,706)	(192,173)
Operating profit		10,035,365	11,010,049
Finance income		146,055	100,074
Finance costs		(168,170)	(480,420)
Finance costs – net	30	(22,115)	(380,346)
Share of results of			
– Associated companies	11	(210,938)	97,653
– Jointly controlled entities	12	363,125	24,213
		152,187	121,866
Profit before income tax		10,165,437	10,751,569
Income tax expense	32	(3,580,949)	(4,302,640)
Profit for the year		6,584,488	6,448,929
Other comprehensive income:			
Fair value gains/(losses) on available-for-sale financial assets, net of tax		76,853	(60,346)
Total comprehensive income for the year		6,661,341	6,388,583

Consolidated Statement of Comprehensive Income*For the year ended 31 December 2012*

	Note	Year ended 31 December	
		2012	2011
		RMB'000	RMB'000
Profit for the year attributable to:			
Equity holders of the Company		5,764,632	5,722,775
Non-controlling interests		819,856	726,154
		6,584,488	6,448,929
Total comprehensive income for the year attributable to:			
Equity holders of the Company		5,813,987	5,684,021
Non-controlling interests		847,354	704,562
		6,661,341	6,388,583
Earnings per share for profit attributable to the equity holders of the Company			
– Basic (RMB cents)	33	166.3	162.2
– Diluted (RMB cents)	33	166.2	162.1

The notes on pages 71 to 164 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December	
		2012	2011
		RMB'000	RMB'000
Dividends	34	1,548,559	1,145,545

Consolidated Statement of Changes in Equity*For the year ended 31 December 2012*

	Note	Attributable to the equity holders of the Company			Total RMB'000
		Share capital RMB'000	Reserves RMB'000 (Note 22)	Non-controlling interests RMB'000	
Balance at 1 January 2012		355,737	30,235,943	4,426,397	35,018,077
Profit for the year		–	5,764,632	819,856	6,584,488
Other comprehensive income for the year		–	49,355	27,498	76,853
Total comprehensive income for the year		–	5,813,987	847,354	6,661,341
Transactions with owners:					
Acquisition of additional interests of subsidiaries	14	–	–	(330,000)	(330,000)
Capital contribution from non-controlling interests of subsidiaries		–	–	124,502	124,502
Employee share option scheme					
– Proceeds from shares issued	21(b)	538	29,703	–	30,241
Repurchases of shares		–	(21,207)	–	(21,207)
Dividends	34	–	(507,551)	(48,171)	(555,722)
Total transactions with owners		538	(499,055)	(253,669)	(752,186)
Balance at 31 December 2012		356,275	35,550,875	5,020,082	40,927,232

Consolidated Statement of Changes in Equity*For the year ended 31 December 2012*

	Note	Attributable to the equity holders of the Company		Non-controlling interests	Total
		Share capital	Reserves		
		RMB'000	RMB'000	RMB'000	RMB'000
			(Note 22)		
Balance at 1 January 2011		362,384	26,336,450	3,255,150	29,953,984
Profit for the year		–	5,722,775	726,154	6,448,929
Other comprehensive losses for the year		–	(38,754)	(21,592)	(60,346)
Total comprehensive income for the year		–	5,684,021	704,562	6,388,583
Transactions with owners:					
Capital contribution from non-controlling interests of subsidiaries		–	–	466,685	466,685
Employee share option scheme					
– Proceeds from shares issued	21(b)	216	11,996	–	12,212
Repurchases and cancellation of shares		(6,863)	(414,718)	–	(421,581)
Dividends	34	–	(1,381,806)	–	(1,381,806)
Total transactions with owners		(6,647)	(1,784,528)	466,685	(1,324,490)
Balance at 31 December 2011		355,737	30,235,943	4,426,397	35,018,077

The notes on pages 71 to 164 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement*For the year ended 31 December 2012*

		Year ended 31 December	
		2012	2011
	Note	RMB'000	RMB'000
Cash flow from operating activities			
Net cash generated from operations	35	14,513,221	1,197,445
Interest received		146,055	100,074
Interest paid		(3,169,479)	(2,916,023)
PRC income tax paid		(3,095,484)	(2,443,309)
Net cash generated from/(used in) operating activities		8,394,313	(4,061,813)
Cash flow from investing activities			
Additions of property and equipment and investment properties		(3,627,887)	(2,442,537)
Sales of property and equipment		2,444	11,367
Additions of land use rights and other non-current assets		(647,046)	(148,117)
Disposal of a subsidiary		320,000	226,419
Deemed disposal of subsidiaries	12(a)	(158,930)	–
Settlement from/(loans to) jointly controlled entities	12	1,223,327	(52,897)
Capital injection to associated companies		(393,098)	(803,025)
Net cash used in investing activities		(3,281,190)	(3,208,790)
Cash flow from financing activities			
Proceeds from borrowings		28,259,939	21,100,031
Repayments of borrowings		(28,702,243)	(11,981,818)
Repurchases of shares		(21,207)	(421,581)
Issue of new shares		30,241	12,212
Capital contribution from non-controlling interests of subsidiaries		124,502	466,685
Prepayment for acquisition of additional interests in a subsidiary		–	(330,000)
Dividends paid to equity holders of the Company		(507,551)	(1,381,806)
Dividends paid to non-controlling interests		(48,171)	–
(Decrease)/increase in restricted cash for borrowings		(665,512)	32,464
Net cash (used in)/generated from financing activities		(1,530,002)	7,496,187
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		12,312,740	12,139,549
Effect of foreign exchange rate changes		(2,016)	(52,393)
Cash and cash equivalents at end of the year	20	15,893,845	12,312,740

The notes on pages 71 to 164 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

Shimao Property Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 29 October 2004 as an exempted company with limited liability under the Cayman Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries (together, the “Group”) are property development, property investment and hotel operation in the People’s Republic of China (the “PRC”).

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 5 July 2006.

These consolidated financial statements are presented in Renminbi, unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and derivative financial instruments which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The HKICPA has amended HKAS 12, ‘Income taxes’, to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012.

This amendment does not have significant impact on the Group’s consolidated financial statements as the Group has the intention to hold the investment properties for lease rather than sale.

There are no HKFRSs or HK(IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are issued but not effective for annual periods beginning 1 January 2012, and have not been early adopted

Currently related to the Group:

- Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). This standard is effective for annual periods beginning on or after 1 July 2012 with early adoption permitted. The management assessed this standard has no significant impact to the Group's consolidation financial statements.
- HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. This standard is not applicable until 1 January 2015 but is available for early adoption. The Group is yet to assess HKFRS 9's full impact, and will consider the impact of the remaining phases of HKFRS 9 when completed by the Board.
- HKFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard is effective for the accounting period beginning on or after 1 January 2013 with early adoption permitted. The management assessed the impact of HKFRS 10 and considers no change of consolidation scope for the adoption since 1 January 2013.
- HKFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is effective for the accounting period beginning on or after 1 January 2013 with early adoption permitted. The Group is yet to assess HKFRS 12's full impact.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted (continued)

- HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. This standard is effective for the accounting period beginning on or after 1 January 2013 with early adoption permitted. The Group is yet to assess HKFRS 13's full impact.
- HKFRS 11 'Joint Arrangements' reduced the types of joint arrangements to two: joint operations and joint ventures and proportional consolidation of joint ventures is no longer allowed. This standard is effective for the accounting period beginning on or after 1 January 2013 with early adoption permitted. The Group is yet to assess HKFRS 11's full impact.
- HKAS 19 (Amendment) 'Employee benefits' eliminate the corridor approach and calculate finance costs on a net funding basis. This standard is effective for the accounting period beginning on or after 1 January 2013 with early adoption permitted. The Group is yet to assess HKAS 19's full impact.
- HKAS 27 (revised 2011), 'Separate financial statements', includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10. This standard is effective for the accounting periods beginning on or after 1 January 2013. The Group is yet to assess HKAS 27's full impact.
- HKAS 28 (revised 2011) 'Associates and joint ventures' includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11. This standard is effective for the accounting period beginning on or after 1 January 2013. The Group is yet to assess HKAS 28's full impact.
- Fourth 2011 annual improvements project – Changes effective for annual periods beginning on or after 1 January 2013 (subject to HKICPA endorsement) with early adoption permitted.

Not currently related to the Group (although they may affect the accounting for future transactions and events):

- HKAS 32 (Amendment) 'Financial instruments: Presentation – Offsetting financial assets and financial liabilities', effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted (continued)

- HKFRS 7 (Amendment) 'Financial instruments: Disclosures – Offsetting financial assets and financial liabilities' requires new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. This standard is effective for the accounting period beginning on or after 1 January 2013.

As at 31 December 2012, the Company's current liabilities exceed current assets by approximately RMB3,317,176,000 since the Company borrowed more short term bank loans during the year to finance its property development subsidiaries in the mainland China, while subsidiaries did not declare adequate dividends to the Company. The Company has prepared cash flow projections for the twelve months subsequent to 31 December 2012 and has assessed the compliance of loan covenants. The directors of the Company, having taken into consideration of long-term senior notes issued in early 2013, operation cash flows and available financial resources of the Group, are confident that the Company has adequate resources to continue in operations, to repay its liabilities when they fall due. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Further information of the Company's borrowings is given in Note 23.

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.3 Jointly controlled entities and associates

Jointly controlled entities are entities which operate under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Associated companies are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in jointly controlled entities and associated companies are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in jointly controlled entities and associated companies includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in a jointly controlled entity or an associated company is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity or an associated company equals or exceeds its interest in the investee, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity or the associated company.

The Group determines at each reporting date whether there is any objective evidence that the investment in the jointly controlled entity or the associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entity or the associated company and its carrying value and recognises the amount adjacent to 'share of results of jointly controlled entities or associated companies' in the income statement.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Jointly controlled entities and associates (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its jointly controlled entities or associated companies are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the jointly controlled entities or associated companies. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities and associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in jointly controlled entities and associated companies are recognised in the income statement.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the management committee that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Buildings comprise hotel buildings and self-use buildings.

Assets under construction are stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, borrowing costs and professional fees incurred during the development period. On completion, the assets are transferred to buildings within property and equipment.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their costs less their residual values and impairment loss over their estimated useful lives, as follows:

Buildings	50 years or the remaining lease period of the land use rights, whichever is shorter
Building improvements	10 to 20 years
Furniture and equipment	5 years
Jet plane and motor vehicles	10 to 20 years

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within "Other income/other gains – net" in the income statement.

2.7 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as 'fair value gains/losses on investment properties'.

If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

If an investment property becomes owner-occupied or commences development with a view to sale, it is reclassified as property and equipment or as properties under development or completed properties held for sale, and the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

If an item of property and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property and equipment in equity under HKAS 16. If a property commences an operating lease to another party, it is transferred from properties under development or completed properties held for sale to investment property, and any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.8 Intangible assets – goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/associated companies/jointly controlled entities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies/jointly controlled entities is included in investments in associated companies/jointly controlled entities. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

2.9 Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries, associated companies or jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries, associated companies or jointly controlled entities in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'amounts due from related companies', 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the balance sheet.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'Other gains/(losses)-net'.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of 'other income' when the Group's right to receive payments is established.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(c) Impairment of financial assets

- Loans and receivables

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivable category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(c) Impairment of financial assets (continued)

- Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria set out in 'loans and receivables' above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of item being hedged.

For derivative financial instruments do not qualify for hedge accounting, changes in fair value are recognized immediately in the consolidated income statement within 'other gain' or 'other operating expenses'.

The Group has entered into transactions which will mature after 7 years, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is not recognised immediately in the consolidated income statement.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the consolidated income statement without reversal of deferred day one profit and loss.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Development cost of properties comprises cost of land use rights, construction costs, borrowing costs and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2.13 Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for properties sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, call deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to equity holders of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.19 Borrowings cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, associated companies and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits (continued)

(ii) Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(iii) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the shares/options is recognised as costs of assets or expenses to whichever the employee service is attributable.

Under the long term incentive scheme, the fair value of shares granted to eligible employees for their services is based on the share price at the grant date.

Under the share option scheme, the fair value of the options granted to the eligible employees for their services rendered is determined by reference to:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits (continued)

(iii) Equity-settled share-based payment transactions (continued)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total cost/expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares/options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When shares are vested, the Company issues shares from treasury shares. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.22 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of properties and services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Group companies. Revenue is recognised as follows:

(i) **Sales of properties**

Revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectibility of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet under current liabilities.

(ii) **Property management services**

Revenue arising from property management services is recognised in the accounting period in which the services are rendered.

(iii) **Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) **Rental income**

Rental income from properties letting under operating leases is recognised on a straight line basis over the lease terms.

(v) **Hotel operation income**

Hotel operation income which includes rooms rental, food and beverage sales and other ancillary services is recognised when the services are rendered.

(vi) **Sales of goods**

The Group operates certain retail department stores. Sales of goods are recognized when the Group sells goods to the customers.

(vii) **Dividend income**

Dividend income is recognised when the right to receive payment is established.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property and equipment and land use rights are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the expected lives of the related assets.

2.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) The Group is the lessee other than operating lease of land use rights

Payments made under operating leases (net of any incentives received from the lessor), are charged to the income statement on a straight-line basis over the period of the lease.

(ii) The Group is the lessee under operating lease of land use rights

The Group made upfront payments to obtain operating leases of land use rights on which properties will be developed.

For land use rights to be developed for investment properties and properties for sale, the upfront payments are included in the cost of investment properties and properties under development or completed properties held for sale respectively.

For land use rights to be developed for hotel properties and self-use buildings, the upfront payments are separately recorded in balance sheet as 'land use rights', and amortised over the leasing periods on a straight line basis. The amortisation during the period of construction of the properties is capitalised as the cost of assets under construction.

(iii) The Group is the lessor

Assets leased out under operating leases are included in investment property in the consolidated balance sheet.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Insurance contracts

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is a pre-existing risk transferred from the policyholder to the insurer, and is significant only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The Group assesses at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the consolidated income statement.

The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers and financial guarantee contracts provided to its related parties as insurance contracts.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB, except that certain receipts of proceeds from sales of properties, public share and notes offerings and certain bank borrowings are in other foreign currencies. The major non-RMB assets and liabilities are borrowings and bank deposits denominated in Hong Kong dollar ("HK dollar", or "HK\$") and the United States dollar ("US dollar", or "US\$").

The Company and all of its subsidiaries' functional currency is RMB, so that the fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. Given the general expectations about the strengthening of RMB and net foreign currency liabilities, the Group has not entered into any forward exchange contracts to hedge its exposure to foreign exchange risk.

As at 31 December 2012, if RMB had strengthened/weakened by 5%, against US dollar and HK dollar with all other variables held constant, post-tax profit for the year would have been RMB749,468,000 (2011: RMB660,810,000) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of US dollar and HK dollar denominated bank deposits, senior notes and bank borrowings.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(ii) Price risk

The Group is exposed to equity securities price risk from the Group's available-for-sale financial assets which are publicly traded. The performance of the listed equity securities of the Group is closely monitored.

(iii) Cash flow and fair value interest rate risk

Except for cash deposits in the banks, the Group has no other significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, especially long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 23. The Group manages certain of its fair value interest rate risk by using fixed-to-floating interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from fixed rates to floating rates. As at 31 December 2012, the Group converted borrowings of US\$300,000,000 (2011: US\$300,000,000) from fixed rate to floating rate through interest rate swap (Note 26).

The Group analyses its interest rate exposure taking into consideration of refinancing, and renewal of existing position. Based on the above consideration, the Group calculates the impact on profit and loss of a defined interest rate change.

The Group does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates as the interest rates of bank deposits are not expected to change significantly.

If interest rates on RMB denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB23,676,000 (2011: RMB39,732,000) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2012. If interest rates on US dollar and HK dollar denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB8,807,000 (2011: RMB17,403,000) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2012.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

The Group has no concentrations of credit risk. The extent of the Group's credit exposure is represented by the aggregate balance of restricted cash, cash and cash equivalents, trade and other receivables and amounts due from related parties.

Cash transactions are limited to high-credit-quality institutions. The table below shows the bank deposit balances of the major counterparties as at 31 December 2012.

Counterparty	Rating (note)	As at 31 December	
		2012	2011
		RMB'000	RMB'000
Bank A	A	4,265,122	2,629,354
Bank B	BBB+	3,737,371	880,402
Bank C	A	2,864,095	1,710,039
Bank D	A	1,727,726	1,215,683
Bank E	A	1,619,143	1,725,648

Note: The source of credit rating is from Standard and Poor's or Moody's.

The Group has policies in place to ensure that sales of properties are made to buyers with an appropriate financial strength and appropriate percentage of down payment. Meanwhile, the Group has the right to cancel the sales contract in the event that the buyers default in payment, and put the underlying properties back to the market for re-sales. Therefore, the credit risk from sales of properties is limited. Other receivables mainly comprise bidding deposits for land use rights and prepaid tax with limited credit risk.

(c) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operation needs and commitments in respect of property projects.

Cash flow forecast is performed by management of the Group. Management monitors the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecast mainly takes into consideration the Group's operational cash flows, construction of investment properties and hotel projects, committed payments for land use rights and contracted development expenditures, the Group's debt financing plans, covenant compliance and internal balance sheet ratio targets.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2012					
Borrowings and interests payments (note)	15,152,613	8,714,961	18,678,245	9,372,340	51,918,159
Trade and other payables	13,656,136	14,557	21,597	14,490	13,706,780
Amounts due to related parties	2,897,713	–	–	–	2,897,713
Derivative financial instruments	42,572	–	–	–	42,572
	31,749,034	8,729,518	18,699,842	9,386,830	68,565,224
As at 31 December 2011					
Borrowings and interests payments (note)	17,947,179	10,856,245	13,324,843	11,129,829	53,258,096
Trade and other payables	16,712,694	9,655	25,558	17,555	16,765,462
Amounts due to related parties	30,831	–	–	–	30,831
Derivative financial instruments	52,115	–	–	–	52,115
	34,742,819	10,865,900	13,350,401	11,147,384	70,106,504

Note: The interest on borrowings is calculated based on borrowings outstanding as at 31 December 2012 and 2011 without taking into account of future issues. Floating-rate interest is estimated using the applicable interest rate as at 31 December 2012 and 2011 respectively.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, issue new shares or sell assets/subsidiaries to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents and restricted cash. Total equity is owner's equity, as shown in the consolidated balance sheet.

The gearing ratios at 31 December 2012 and 2011 were as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Total borrowings	40,993,941	42,561,253
Less: Cash and cash equivalents	(15,893,845)	(12,312,740)
Restricted cash (Note 20)	(2,204,028)	(1,681,222)
Net debt	22,896,068	28,567,291
Total equity	40,927,232	35,018,077
Gearing ratio	55.9%	81.6%

The decrease in gearing ratio was mainly due to the Group accelerated collection of sales receivables during 2012, with a result of substantial increase in receipt of advances from customers of contract sales and cash collection from properties sales, included sales revenue and cash flows in its comprehensive results ranking indicators and assessment system, as well as the disposal of certain subsidiaries.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value estimation

The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012 and 2011:

As at 31 December 2012	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– equity securities	369,833	–	–	369,833
Liabilities				
Derivative financial instruments	–	–	42,572	42,572

As at 31 December 2011	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– equity securities	267,362	–	–	267,362
Liabilities				
Derivative financial instruments	–	–	52,115	52,115

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value estimation (continued)

Available-for-sale financial assets included in Level 1 is the equity securities traded in Shanghai Stock Exchange, the fair value of which is based on quoted market prices at the balance sheet date.

Derivative financial instruments included in Level 3 are two interest rate swap contracts entered into with a commercial bank, the fair value of which is determined using valuation models for which not all inputs are market observable prices or rates.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2012.

	Trading derivative's at fair value through profit or loss RMB'000	Total RMB'000
Opening balance	52,115	52,115
Gains recognised in profit or loss	(9,543)	(9,543)
Closing balance	42,572	42,572
Total gains or losses for the period including in profit or loss for assets held at the end of the reporting period	(9,543)	(9,543)

The following table presents the changes in Level 3 instruments for the year ended 31 December 2011.

	Trading derivative's at fair value through profit or loss RMB'000	Total RMB'000
Opening balance	—	—
Transfers into Level 3	28,524	28,524
Losses recognised in profit or loss	23,591	23,591
Closing balance	52,115	52,115
Total gains or losses for the period including in profit or loss for assets held at the end of the reporting period	52,115	52,115

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Financial instruments by category

Group

Financial assets	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Loans and receivables		
– Trade and other receivables	3,719,176	2,291,441
– Amounts due from related companies	1,316,027	1,451,591
– Restricted cash	2,204,028	1,681,222
– Cash and cash equivalents	15,893,845	12,312,740
Available-for-sale financial assets	369,833	267,362
Total	23,502,909	18,004,356

Financial liabilities	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Liabilities at fair value through the profit and loss:		
– Derivative financial instruments	42,572	52,115
Other financial liabilities at amortised cost:		
– Borrowings	40,993,941	42,561,253
– Trade and other payables (excluding other taxes payable)	13,706,780	16,765,462
– Amounts due to related companies	2,897,713	30,831
Total	57,641,006	59,409,661

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Financial instruments by category (continued)

Company

Financial assets	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Loans and receivables		
– Trade and other receivables	1,117	3,248
– Dividend receivable from subsidiaries	267,000	1,246,430
– Cash and cash equivalents	38,954	96,470
Total	307,071	1,346,148

Financial liabilities	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Liabilities at fair value through the profit and loss:		
– Derivative financial instruments	42,572	52,115
Other financial liabilities at amortised cost:		
– Borrowings	13,957,089	11,213,319
– Trade and other payables	239,635	223,100
– Amounts due to subsidiaries	195,671	191,493
Total	14,434,967	11,680,027

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes and deferred taxation

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Land appreciation tax

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies among 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 and its related tax. The Group recognised the land appreciation tax based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the current income tax and deferred income tax provisions in the periods in which such tax is finalised with local tax authorities.

(c) Impairment of goodwill

The Group tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value (less cost to sell) and value in use calculation of the underlying assets, mainly properties. The fair value of the properties, when applicable, is determined by independent valuers. For a listed cash-generating unit ("CGU"), the fair value less cost to sell is determined by the quoted price in an active market. These valuations and calculations require the use of estimates.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(CONTINUED)

4.1 Critical accounting estimates and assumptions (continued)

(d) Fair value of investment properties

The best evidence of fair value is current prices in an active market for the properties with similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

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

The Group assesses the fair value of its investment properties based on valuations determined by independent professional qualified valuers.

(e) Provision for properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and completed properties held for sale according to their net realisable value based on the realisability of these properties, taking into account costs to completion based on past experience and net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgement and estimates.

(f) Fair value of derivatives financial instruments

The Group's derivative financial instruments are interest rate swap contracts entered into with commercial bank, the fair value of which is determined using valuation models for which not all inputs are market observable prices or rates.

(g) Impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows to determine impairment loss. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective increase rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an impairment loss may arise.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(CONTINUED)

4.2 Critical judgements in applying the Group's accounting policy

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement.

Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

5 SEGMENT INFORMATION

The CODM has been identified as the management committee. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

As majority of the Group's consolidated revenue and results are attributable to the market in the PRC and most of the Group's consolidated assets are located in the PRC, therefore no geographical information is presented.

The CODM assesses the performance of the operating segments based on a measure of revenue and profit before tax. The information provided to the CODM is measured in a manner consistent with that in the financial statements.

(a) Revenue

Turnover of the Group consists of the following revenue recognised during the year:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Sales of properties	26,607,120	24,589,476
Hotel operation income	999,134	892,012
Rental income from investment properties	507,415	440,559
Others	538,574	109,379
	28,652,243	26,031,426

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information

Year ended 31 December 2012

	Property development and investment		Hotel operation		Unallocated**	Total
	Shanghai Shimao Co., Ltd. ("Shanghai Shimao")*		Others			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue						
– Sales of properties	5,438,466	21,168,654	–	–	–	26,607,120
– Hotel operation income	101,792	–	897,342	–	–	999,134
– Rental income from investment properties	341,963	165,452	–	–	–	507,415
– Others	454,168	84,406	–	–	–	538,574
Total revenue	6,336,389	21,418,512	897,342	–	–	28,652,243
Operating profit	3,604,949	6,476,474	81,470	(127,528)	–	10,035,365
Finance income	37,593	102,977	2,516	2,969	–	146,055
Finance costs	(121,816)	(36,120)	(10,234)	–	–	(168,170)
Share of results of						
– Associated companies	–	(210,938)	–	–	–	(210,938)
– Jointly controlled entities	–	363,125	–	–	–	363,125
Profit before income tax	3,520,726	6,695,518	73,752	(124,559)	–	10,165,437
Income tax expense						(3,580,949)
Profit for the year						6,584,488
Other segment items are as follows:						
Capital and property development expenditure	6,846,674	15,293,612	1,740,616	1,138	–	23,882,040
Fair value gains on investment properties	1,706,887	655,993	–	–	–	2,362,880
Fair value gain on derivative financial instrument	–	9,543	–	–	–	9,543
Write-off of intangible assets	–	124,102	–	–	–	124,102
Depreciation	76,495	31,602	216,872	22,062	–	347,031
Amortisation of land use rights	9,154	–	33,214	–	–	42,368
Provision for/(write back of) impairment of receivables	8,064	(13,708)	–	–	–	(5,644)

* The Group owns an effective equity interest of 64.2% in Shanghai Shimao since 31 May 2009

** Unallocated mainly represent corporate level activities

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

The segment assets and liabilities at 31 December 2012 are as follows:

	Property development and investment			Total RMB'000
	Shanghai Shimao RMB'000	Others RMB'000	Hotel operation RMB'000	
Associated companies	–	1,490,441	–	1,490,441
Jointly controlled entities	–	5,547,675	–	5,547,675
Intangible assets	1,709,730	299,267	130,928	2,139,925
Other segment assets	35,968,004	72,296,566	11,373,946	119,638,516
Total segment assets	37,677,734	79,633,949	11,504,874	128,816,557
Deferred income tax assets				1,248,390
Available-for-sale financial assets				369,833
Other assets				393,015
Total assets				130,827,795
Borrowings	11,339,454	14,103,317	414,368	25,857,139
Other segment liabilities	10,649,375	28,517,163	5,636,560	44,803,098
Total segment liabilities	21,988,829	42,620,480	6,050,928	70,660,237
Corporate borrowings				15,136,802
Deferred income tax liabilities				3,775,578
Derivative financial instruments				42,572
Other liabilities				285,374
Total liabilities				89,900,563

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

Year ended 31 December 2011

	Property development and investment		Hotel operation	Unallocated	Total
	Shanghai Shimao RMB'000	Others RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
– Sales of properties	5,256,149	19,333,327	–	–	24,589,476
– Hotel operation income	8,245	–	883,767	–	892,012
– Rental income from investment properties	241,309	199,250	–	–	440,559
– Others	59,236	50,143	–	–	109,379
Total revenue	5,564,939	19,582,720	883,767	–	26,031,426
Operating profit	3,898,316	6,586,574	150,544	374,615	11,010,049
Finance income	36,943	54,984	222	7,925	100,074
Finance cost	(138,473)	(222,807)	(8,147)	(110,993)	(480,420)
Share of results of					
– Associated companies	–	97,653	–	–	97,653
– Jointly controlled entities	–	24,213	–	–	24,213
Profit before income tax	3,796,786	6,540,617	142,619	271,547	10,751,569
Income tax expense					(4,302,640)
Profit for the year					6,448,929
Other segment items are as follows:					
Capital and property development expenditure	8,035,281	25,072,887	2,048,243	1,222	35,157,633
Fair value gains on investment properties	1,927,013	600,000	–	–	2,527,013
Fair value loss on derivative financial instrument	–	–	–	52,115	52,115
Write-off of intangible assets	–	16,435	–	–	16,435
Depreciation	18,850	27,232	230,192	21,740	298,014
Amortisation of land use rights	3,919	–	36,139	–	40,058
Provision for impairment losses on completed properties held for sale	–	15,398	–	–	15,398
Provision for impairment of receivables	6,066	–	–	–	6,066

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

The segment assets and liabilities at 31 December 2011 are as follows:

	Property development and investment		Hotel operation	Total
	Shanghai	Others		
	RMB'000	RMB'000	RMB'000	RMB'000
Associated companies	–	1,308,281	–	1,308,281
Jointly controlled entities	–	4,307,877	–	4,307,877
Intangible assets	1,709,730	423,369	130,928	2,264,027
Other segment assets	32,951,193	64,423,050	9,761,011	107,135,254
Total segment assets	34,660,923	70,462,577	9,891,939	115,015,439
Deferred income tax assets				1,313,909
Available-for-sale financial assets				267,362
Other assets				645,831
Total assets				117,242,541
Borrowings	11,148,353	17,716,205	212,000	29,076,558
Other segment liabilities	7,835,562	22,523,401	5,851,662	36,210,625
Total segment liabilities	18,983,915	40,239,606	6,063,662	65,287,183
Corporate borrowings				13,484,695
Deferred income tax liabilities				3,172,815
Derivative financial instruments				52,115
Other liabilities				227,656
Total liabilities				82,224,464

Total segment assets consist primarily of property and equipment, investment properties, land use rights, other non-current assets, properties under development, completed properties held for sale, receivables, prepayments and cash balances. They also include goodwill recognised arising from acquisition of subsidiaries relating to respective segments. They exclude corporate assets, deferred income tax assets and available-for-sale financial assets.

Total segment liabilities comprise operating liabilities. They exclude corporate liabilities, derivative financial instrument, corporate borrowings and deferred income tax liabilities.

Notes to the Consolidated Financial Statements

6 PROPERTY AND EQUIPMENT – GROUP

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2012	3,064,683	5,395,075	234,294	459,495	411,792	9,565,339
Additions	1,546,742	22,589	70,604	3,994	180,794	1,824,723
Amortisation of land use rights	20,268	–	–	–	–	20,268
Disposals	–	–	(10,383)	(6,679)	–	(17,062)
Transfer to properties under development and completed properties held for sale	(53,743)	–	–	–	(85,101)	(138,844)
At 31 December 2012	4,577,950	5,417,664	294,515	456,810	507,485	11,254,424
Accumulated depreciation						
At 1 January 2012	–	1,064,100	66,380	60,454	48,616	1,239,550
Charge for the year	–	262,314	40,537	32,785	11,395	347,031
Disposals	–	–	(8,386)	(5,315)	–	(13,701)
Transfer to properties under development and completed properties held for sale	–	–	–	–	(21,087)	(21,087)
At 31 December 2012	–	1,326,414	98,531	87,924	38,924	1,551,793
Net book value						
At 31 December 2012	4,577,950	4,091,250	195,984	368,886	468,561	9,702,631

Notes to the Consolidated Financial Statements

6 PROPERTY AND EQUIPMENT – GROUP (CONTINUED)

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2011	2,069,136	4,488,086	114,488	446,901	404,873	7,523,484
Additions	1,870,311	29,815	103,396	25,914	19,665	2,049,101
Amortisation of land use rights	31,977	–	–	–	–	31,977
Disposals	–	(3,804)	(9,353)	(13,320)	(12,746)	(39,223)
Transfer upon completion	(906,741)	880,978	25,763	–	–	–
At 31 December 2011	3,064,683	5,395,075	234,294	459,495	411,792	9,565,339
Accumulated depreciation						
At 1 January 2011	–	835,250	47,208	39,692	47,706	969,856
Charge for the year	–	230,192	26,398	30,415	11,009	298,014
Disposals	–	(1,342)	(7,226)	(9,653)	(10,099)	(28,320)
At 31 December 2011	–	1,064,100	66,380	60,454	48,616	1,239,550
Net book value						
At 31 December 2011	3,064,683	4,330,975	167,914	399,041	363,176	8,325,789

Depreciation charge of RMB347,031,000 for the year ended 31 December 2012 (2011: RMB298,014,000) has been recorded in cost of sales and administrative expenses in the consolidated income statement (Note 29).

As at 31 December 2012, assets under construction and buildings of the Group with a total carrying amount of RMB5,747,018,000 (2011: RMB6,955,413,000) were pledged as collateral for certain bank borrowings of the Group (Note 23).

As at 31 December 2012, interest capitalised in assets under construction amounted to RMB131,231,000 (2011: RMB169,950,000).

The capitalisation rate of borrowings was 7.48% for the year ended 31 December 2012 (2011: 7.89%).

Notes to the Consolidated Financial Statements

7 INVESTMENT PROPERTIES – GROUP

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Opening balance	20,566,979	11,854,995
Additions		
– Transfer from properties under development	242,937	3,477,519
– Additions-construction cost and others	3,075,302	2,707,452
Fair value gains	2,362,880	2,527,013
Ending balance	26,248,098	20,566,979

(a) Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2012	2011
Rental income	507,415	440,559
Direct operating expenses from properties that generated rental income	33,119	31,789
Direct operating expenses from properties that did not generate rental income	5,415	4,914

(b) Valuation basis

The fair values of the Group's investment properties were assessed as at 31 December 2012 by Vigers Appraisal & Consulting Limited ("Vigers") and Shanghai Zhonghua Asserts Appraisal Co., Ltd. ("Shanghai Zhonghua"), two independent professional qualified valuers. Valuations were performed using either: (i) income capitalisation approach based on existing and current market rents for similar properties, using capitalisation rates that reflect current market assessments of the uncertainty in the market; or (ii) direct comparison approach assuming sales of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market. Shanghai Zhonghua assessed the fair values of investment properties held by Shanghai Shimao, a subsidiary of the Group listed in Shanghai Stock Exchange. The management has evaluated the standards and assumptions used, as well as the results got by Shanghai Zhonghua, and concluded the valuations are acceptable for preparation of these consolidation financial statements.

(c) Pledge

As at 31 December 2012, the Group's investment properties were held in the PRC on leases of between 10 to 50 years. Investment properties with a carrying amount of RMB15,261,100,000 (2011: RMB14,423,730,000) were pledged as collateral for the Group's borrowings (Note 23).

Notes to the Consolidated Financial Statements

7 INVESTMENT PROPERTIES – GROUP (CONTINUED)

(d) Leasing arrangements

Some of the investment properties are leased to tenants under long term operating leases with rentals receivable monthly. Minimum lease rental receivable under non cancellable operating leases of investment properties not recognised in the financial statements are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 1 year	325,370	451,152
Later than 1 year but no later than 5 years	863,981	1,067,904
Later than 5 years	707,087	831,485
	1,896,438	2,350,541

(e) Investment properties under construction

As at 31 December 2012, RMB10,470,979,000 of the investment properties are under construction (2011: RMB6,680,698,000).

8 LAND USE RIGHTS – GROUP

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Land use rights relating to property and equipment under non-current assets		
Opening balance	2,475,068	2,572,389
Additions	2,422,593	148,117
Amortisation		
– Capitalised in property and equipment (Note 6)	(20,268)	(31,977)
– Recognised as expenses (Note 29)	(42,368)	(40,058)
Transfer to properties under development and completed properties held for sale	(117,689)	(173,403)
Ending balance	4,717,336	2,475,068
Outside Hong Kong, held on leases of:		
Over 50 years	79,103	79,098
Between 10 to 50 years	4,638,233	2,395,970
	4,717,336	2,475,068

Notes to the Consolidated Financial Statements

8 LAND USE RIGHTS – GROUP (CONTINUED)

Land use rights comprise cost of acquiring rights to use certain land, which are all located in the PRC, for assets under construction, hotel buildings and self-use buildings over fixed periods.

As at 31 December 2012, land use rights of RMB1,877,321,000 (2011: of RMB1,892,220,000) were pledged as collateral for the Group's bank borrowings (Note 23).

9 INTANGIBLE ASSETS – GROUP

Intangible assets comprise goodwill arising from acquisitions:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Opening balance	2,264,027	2,280,462
Write-off of goodwill recognised as expenses (Note 29)	(124,102)	(16,435)
Ending balance	2,139,925	2,264,027

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. A segment level summary of the goodwill is presented below:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Property development and investment – Shanghai Shimao	1,709,730	1,709,730
Property development and investment – Others	299,267	423,369
Hotel operation	130,928	130,928
	2,139,925	2,264,027

The recoverable amounts of CGUs are determined based on their fair values (less cost to sell). The fair value of CGU – Property development and investment – Shanghai Shimao is determined according to the quoted price of Shanghai Shimao's equity shares in the PRC share capital market with adjustment of control premium. The fair values of other CGUs are determined according to the value of the underlying properties and decrease along with the sales of underlying properties, and the attributable goodwill is impaired accordingly.

The goodwill impairment was included in other operating expenses in the consolidated income statement.

Notes to the Consolidated Financial Statements

10 INTERESTS IN SUBSIDIARIES – COMPANY

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Interests in subsidiaries		
– Unlisted shares, at cost	290,902	301,186
– Amounts due from subsidiaries (note)	23,147,583	20,915,334
	23,438,485	21,216,520
Dividend receivable from subsidiaries	267,000	1,246,430
Amounts due to subsidiaries (note)	195,671	191,493

Note: The amounts due from/to subsidiaries are interest-free, unsecured and have no specific repayment terms. The Company's intention is that the amounts due from subsidiaries will only be recalled when the subsidiaries have surplus cash.

Details of the principal subsidiaries of the Group as at 31 December 2012 are set out in Note 36.

11 ASSOCIATED COMPANIES – GROUP

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Share of net assets:		
Opening balance	1,308,281	412,442
Capital injection	393,098	803,025
Share of results	(210,938)	97,653
Transfer to a subsidiary	–	(4,839)
Ending balance	1,490,441	1,308,281

Notes to the Consolidated Financial Statements

11 ASSOCIATED COMPANIES – GROUP (CONTINUED)

The Group's share of the results of its associated companies, all of which are unlisted, and its aggregated assets and liabilities at year end, are as follows:

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group
2012						
Guangzhou Li He Property Development Co., Ltd ("Guangzhou Li He") (Note (a))	PRC	4,578,300	(4,468,164)	296,544	(94,627)	20%
Eagle Rights Limited ("Eagle Rights")	British Virgin Islands	90,471	(9,848)	10,370	(17,346)	33%
Straits Construction Holdings Limited ("Straits Construction")	British Virgin Islands	4,331,884	(3,023,202)	–	(98,965)	49%
		9,000,655	(7,501,214)	306,914	(210,938)	
2011						
Guangzhou Li He	PRC	4,632,830	(4,428,068)	1,289,614	120,938	20%
Eagle Rights	British Virgin Islands	128,946	(8,334)	–	(10)	33%
Straits Construction	British Virgin Islands	1,833,546	(850,639)	–	(23,275)	49%
		6,595,322	(5,287,041)	1,289,614	97,653	

Note

- (a) Guangzhou Li He is an associate company of the Group, in which the Group holds 20% equity interest. The land use right of Guangzhou Li He consists of three phases. According to the agreed payment schedule of land premium, the third phase land premium of RMB10,200 million should be settled in December 2011. As at 31 December 2012, there was an outstanding land premium totalling RMB7,700 million remained unsettled. Management of Guangzhou Li He is in the progress of negotiating with related government authorities about the repayment schedule of this outstanding land premium. Based on the continuing negotiation initiated by the management of Guangzhou Li He and their consultation with external lawyer, the directors of the Company consider that the delayed payment of land premium does not have significant adverse impact on the operating results and financial position of the Group as at 31 December 2012.

Notes to the Consolidated Financial Statements

12 JOINTLY CONTROLLED ENTITIES – GROUP

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Share of net assets:		
Opening balance	1,522,831	1,176,405
Transfer from subsidiaries (note (a))	2,100,000	322,213
Share of result	363,125	24,213
Ending balance	3,985,956	1,522,831
Advances to jointly controlled entities (note (b))	1,561,719	2,785,046
	5,547,675	4,307,877

- (a) In March, May and October 2012, a third party made capital injections into three subsidiaries (Nanchang Shimao New development Property Co., Ltd., Changsha Shimao Real Estate Development Co., Ltd. and Cheng Du Shimao Investment Co., Ltd.) of the Group unilaterally at a total consideration of RMB2.1 billion, where the Group's equity interests in these three subsidiaries were diluted from 100% to 50% accordingly. Pursuant to the revised articles of association, the Group and the third party jointly control the operation of these three entities. As controls of these three entities were lost, the Group's retained interests in these three entities were recognised at their fair value at the date when the controls were lost. The remeasurement gains of RMB545,135,000 resulted from the deemed disposal of the three subsidiaries were recognised in the income statement as other gains (Note 28). A net cash outflow of approximately RMB159 million from these transactions was recognised as a cash outflow from investing activities in the cash flow statement.
- (b) As at 31 December 2012, the Group made advances to three jointly controlled entities to finance their acquisition of land use rights. These advances are interest free, unsecured and have no fixed repayment terms. The Group's intention is that the advances will only be recalled when the jointly controlled entities have surplus cash.

Advances to jointly controlled entities	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Fast Right Investments Limited	789,571	1,603,914
Kington Enterprises Limited	272,848	780,313
Huizhou Fumao Property Development Co., Ltd.	–	315,500
Tianjin Jinnan New City Property Development Co., Ltd. ("Tianjin Jinnan")	499,300	85,319
	1,561,719	2,785,046

Notes to the Consolidated Financial Statements

12 JOINTLY CONTROLLED ENTITIES – GROUP (CONTINUED)

The Group's share of the results of its jointly controlled entities, all of which are unlisted, and its aggregated assets and liabilities at year end, are as follows:

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group
2012						
Tianjin Hean Investment Co., Ltd. ("Tianjin Hean")	PRC	2,095	–	–	(435)	25%
Tianjin Jinnan	PRC	2,162,776	(1,284,996)	182,297	(2,177)	25%
Huizhou Fumao Property Development Co., Ltd.	PRC	724,268	(499,171)	–	(13,583)	50%
Qingdao Shimao New City Property Development Co., Ltd. ("Qingdao New City")	PRC	1,624,482	(1,315,140)	–	(16,530)	50%
Nanchang Shimao New Development Property Co., Ltd. ("Nanchang New Development")	PRC	1,933,964	(1,083,519)	251,542	50,443	50%
Changsha Shimao Real Estate Co., Ltd. ("Changsha Real Estate")	RPC	700,030	(196,488)	378,876	3,542	50%
Chengdu Shimao Investment Co., Ltd. ("Chengdu Investment")	RPC	1,250,100	(449,596)	–	504	50%
Fast Right Investments Limited*	Hong Kong	2,459,077	(2,181,777)	956,341	252,557	50%
Kingtron Enterprises Limited*	Hong Kong	1,228,694	(1,088,843)	631,592	88,804	50%
		12,085,486	(8,099,530)	2,400,648	363,125	

* Fast Right Investments Limited and Kingtron Enterprises Limited holds 100% equity interest in two PRC property development entities, i.e. Hangzhou Shimao Shiyang Property Development Co., Ltd. and Haishu Property Development (Hangzhou) Co., Ltd..

Notes to the Consolidated Financial Statements

12 JOINTLY CONTROLLED ENTITIES – GROUP (CONTINUED)

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group
2011						
Tianjin Hean	PRC	902,538	(900,005)	–	23	25%
Tianjin Jinnan	PRC	2,113,821	(1,233,864)	–	(9,724)	25%
Huizhou Fumao Property Development Co., Ltd.	PRC	615,654	(376,975)	–	(11,321)	50%
Qingdao New City	PRC	1,359,636	(1,033,765)	–	–	50%
Fast Right Investments Limited	Hong Kong	1,220,209	(1,195,465)	–	15,418	50%
Kingtron Enterprises Limited	Hong Kong	547,027	(495,980)	–	29,817	50%
		6,758,885	(5,236,054)	–	24,213	

Details of the principal jointly controlled entities of the Group as at 31 December 2012 are set out in Note 36.

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Opening balance	267,362	347,823
Fair value gains/(losses) recognised in other comprehensive income	102,471	(80,461)
Ending balance	369,833	267,362

Available-for-sale financial assets represented investment in listed equity securities in the PRC which were stated at market value based on the quoted price.

As at 31 December 2012, available-for-sale financial assets with a carrying amount of RMB82,000,000 (2011: RMB207,480,000) were pledged as collateral for the Group's borrowings (Note 23).

Notes to the Consolidated Financial Statements

14 OTHER NON-CURRENT ASSETS – GROUP

As at 31 December 2012, the Group has made prepayments of RMB757,250,000 (2011: RMB2,875,665,000) for certain land use rights for the purpose to develop hotel buildings, self-used buildings and investment properties, the ownership certificates of which have not been obtained.

As at 31 December 2011, the Group made prepayments of RMB330,000,000 for acquisition of additional 5% interests in a subsidiary. In June 2012, this acquisition was completed.

15 PROPERTIES UNDER DEVELOPMENT – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Properties under development comprise:		
Land use rights	21,881,174	20,424,315
Construction costs and capitalised expenditures	12,384,879	14,702,487
Interests capitalised	3,342,889	2,197,283
	37,608,942	37,324,085

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Land use rights		
Outside Hong Kong, held on leases of:		
Over 50 years	17,729,216	14,772,368
Between 10 to 50 years	4,151,958	5,651,947
	21,881,174	20,424,315

The properties under development are all located in the PRC. The relevant land use rights are on leases of 40 to 70 years.

Notes to the Consolidated Financial Statements

15 PROPERTIES UNDER DEVELOPMENT – GROUP (CONTINUED)

As at 31 December 2012, properties under development of approximately RMB15,341,479,000 (2011: RMB17,502,613,000) were pledged as collateral for the Group's bank borrowings (Note 23).

The capitalisation rate of borrowings was 7.48% for the year ended 31 December 2012 (2011: 7.89%).

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Properties under development:		
Expected to be completed and available for sale after more than 12 months	15,793,008	18,233,372
Expected to be completed and available for sale within 12 months	21,815,934	19,090,713
	37,608,942	37,324,085

16 COMPLETED PROPERTIES HELD FOR SALE – GROUP

All completed properties held for sale are located in the PRC. Included in completed properties held for sale, there are land use rights as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Outside Hong Kong, held on leases of:		
Over 50 years	1,020,287	1,125,561
Between 10 to 50 years	133,839	247,374
	1,154,126	1,372,935

As at 31 December 2012, completed properties held for sale of RMB1,159,357,000 (2011: RMB1,049,536,000) were pledged as collateral for the Group's bank borrowings (Note 23).

For the year ended 31 December 2012, no impairment losses (2011: RMB15,398,000) was recognized by the group on completed properties held for sale.

Notes to the Consolidated Financial Statements

17 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Bidding deposits for land use rights (note (a))	1,179,136	1,177,617
Trade receivables (note (b))	2,407,832	1,549,466
Prepaid business tax on pre-sale proceeds	1,074,301	676,215
Prepayments for construction costs	665,931	326,812
Other receivables	1,311,344	741,975
	6,638,544	4,472,085

- (a) Bidding deposits for land use rights mainly represented deposits of the Group placed with various municipal government for the participation in miscellaneous land auctions. These deposits will be deducted against the total land costs to be paid if the Group wins the bid at the auction. If the Group's bid did not win, the amount will be fully refunded.
- (b) Trade receivables are mainly arisen from sales of properties. Consideration in respect of properties sold is paid in accordance with the terms of the related sales and purchase agreements. The ageing analysis of trade receivables at respective balance sheet dates is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 90 days	1,608,555	1,220,336
Over 90 days and within 365 days	566,032	289,375
Over 365 days	233,245	39,755
	2,407,832	1,549,466

Notes to the Consolidated Financial Statements

17 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS – GROUP (CONTINUED)

As at 31 December 2012, receivables arising from sales of properties was approximately RMB2,217,761,000 (2011: RMB1,422,348,000).

Trade receivables are analysed as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Fully performing under credit terms	1,454,429	872,166
Past due but not impaired	953,403	677,300
	2,407,832	1,549,466

The ageing analysis of trade receivables past due but not impaired is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 90 days	326,277	492,197
Over 90 days and within 365 days	393,881	145,348
Over 365 days	233,245	39,755
	953,403	677,300

As the Group normally holds collateral of the properties before collection of the outstanding balances and passing the titles to the purchasers, the Directors consider that the past due trade receivables would be recovered and no provision was made against past due receivables as at 31 December 2012 (2011: Nil).

As at 31 December 2012, provision for impairment of other receivables was approximately RMB16,529,000 (2011: RMB22,173,000).

As at 31 December 2012, the fair value of trade receivables, bidding deposits for land use rights, and other receivables of the Group approximate their carrying amounts.

As at 31 December 2012 and 2011, trade and other receivables of the Group were mainly denominated in RMB.

Notes to the Consolidated Financial Statements

18 PREPAYMENT FOR ACQUISITION OF LAND USE RIGHTS

Prepayments for acquisition of land use rights are related to acquisition of land for the purpose to develop properties for sale, the ownership certificates of which have not been obtained as at 31 December 2012.

19 AMOUNTS DUE FROM RELATED COMPANIES – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Companies with common directors		
Shimao International Holdings Limited ("Shimao International")	486	486
Shanghai Mason Club Co., Ltd. ("Shanghai Mason")	161	161
Associated companies		
Straits Construction	941	22,939
Guangzhou Li He (note)	1,150,507	1,141,312
Jointly controlled entities		
Qingdao New City	–	284,261
Huizhou Fumao Property Development Co., Ltd.	161,500	–
Tianjin Jinnan	2,432	2,432
	1,316,027	1,451,591

The balances due from related companies are unsecured, interest-free and have no fixed repayment terms.

The carrying amounts of amounts due from related companies approximate their fair values.

Note: The Group made advances to Guangzhou Li He to finance its acquisition of land use rights.

Notes to the Consolidated Financial Statements

20 CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Group		
Bank balances and cash		
– denominated in RMB	17,932,852	13,670,876
– denominated in US dollar	100,201	305,164
– denominated in HK dollar	64,820	17,922
Less: Restricted cash	(2,204,028)	(1,681,222)
	15,893,845	12,312,740

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Company		
Bank balances and cash – unrestricted		
– denominated in US dollar	32,707	88,172
– denominated in HK dollar	6,247	8,298
	38,954	96,470

As at 31 December 2012, the Group's cash of approximately RMB222,381,000 (2011: RMB365,086,000) was restricted and deposited in certain banks as guarantee deposits for the benefit of mortgage loan facilities granted by the banks to the purchasers of the Group's properties (Note 37). The Group's cash of approximately RMB1,981,647,000 (2011: RMB1,316,136,000) was pledged as collateral for the Group's borrowings (Note 23).

The conversion of RMB denominated balances into foreign currencies and the remittance of the foreign currencies out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The effective interest rate on bank deposits as at 31 December 2012 was 0.4% (2011: 0.5%).

Notes to the Consolidated Financial Statements

21 SHARE CAPITAL – GROUP AND COMPANY

(a) Details of share capital of the Company are as follows:

	Note	Par value HK\$	Number of shares '000	Nominal value of ordinary shares HK\$'000 Equivalent to RMB'000	
Authorised:					
At 31 December 2012 and 2011		0.1	5,000,000	500,000	
Issued and fully paid:					
At 1 January 2011			3,547,413	354,742	362,384
Employee share option scheme					
– Shares issued	(b)		2,593	259	216
Repurchases and cancellation of shares		(d)	(84,055)	(8,406)	(6,863)
At 31 December 2011			3,465,951	346,595	355,737
Employee share option scheme					
– Shares issued	(b)		6,621	662	538
At 31 December 2012			3,472,572	347,257	356,275

(b) Pre-IPO Share Option Scheme

Pursuant to the shareholders' resolution passed on 9 June 2006 for approval of the Pre-IPO Share Option Scheme, options for a total of 63,920,000 ordinary shares of the Company have been conditionally granted to directors and selected employees. The exercise price of HK\$5.625 per share under the Pre-IPO Share Option Scheme is determined at a 10% discount to the global offering price, which was HK\$6.25 per share, excluding brokerage, Securities and Futures Commission transaction levy and the Stock Exchange trading fee. Each option has 6-year exercise period from the date of grant, with 30% vested on 31 March 2007, another 30% vested on 31 March 2008 and the remaining 40% vested on 31 March 2009. Options are conditional on the employee completing the services up to the respective vesting dates and evaluation of performance as specified in the scheme, and become exercisable immediately after each vesting date. The Group has no legal or constructive obligation to repurchase or settle the options in cash. These options have expired on 8 June 2012.

Notes to the Consolidated Financial Statements

21 SHARE CAPITAL – GROUP AND COMPANY (CONTINUED)

(b) Pre-IPO Share Option Scheme (continued)

Movements in the number of share options outstanding are as follows:

	Year ended 31 December	
	2012	2011
	'000	'000
Balance at beginning of the year	8,024	10,617
Exercised	(6,621)	(2,593)
Expired	(1,403)	–
Balance at end of the year	–	8,024

There were no outstanding options at 31 December 2012 (2011: 8,024,000 options). During the year ended 31 December 2012, 6,621,000 options (2011: 2,593,000 options) have been exercised at exercise price of HK\$5.625 per share, totaling HK\$37,243,000 (equivalent to RMB30,241,000). The related weighted average share price at the time of exercise was HK\$9.72 (2011: HK\$10.36) per share.

(c) Share Option Scheme

Pursuant to the shareholders' resolution passed on 9 June 2006, another share option scheme ("Share Option Scheme") was approved. Pursuant to the terms of the Share Option Scheme, the Company may grant options at its discretion, to any eligible person (including directors, employees, officers of any member of the Group, advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture partners and service providers of any members of the Group). The total number of shares which may be issued upon exercise of all options (the "Share Option") granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company must not exceed 30% of the Company's shares in issue from time to time.

No options may be granted under the Share Option Scheme after 10 years since the adoption. The vesting periods, exercise periods and vesting conditions may be specified by the Company at the time of the grant, and the options expire no later than 10 years from the relevant date of grant. The exercise price of the option under the Share Option Scheme shall be no less than the higher of (i) the closing price of the Company's shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.

Pursuant to the board resolution, options for a total of 15,350,000 ordinary shares of the Company under this scheme have been granted to independent non-executive directors, an executive director and selected employees on 4 February 2008, with exercise price of HK\$16.24 per share. As at 31 December 2008, all 15,350,000 options were forfeited or cancelled, and no other options have been granted under share option scheme since then.

Notes to the Consolidated Financial Statements

21 SHARE CAPITAL – GROUP AND COMPANY (CONTINUED)

(d) Share Award Scheme

The Company's board of directors (the "Board") approved and adopted the Share Award Scheme on 30 December 2011 (the "Share Scheme"). Unless terminated earlier by the Board, the Share Scheme is valid and effective for a term of 8 years commencing on 30 December 2011. The maximum number of shares to be awarded must not exceed 34,659,508 shares (i.e. 1% of issued shares of the Company as at 30 December 2011).

The Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time) select such employee(s) for participation in the Share Scheme and determine the number of awarded shares. However, until so selected, no employee shall be entitled to participate in the Share Scheme. Subject to the provisions of the Share Scheme, the Board may impose any conditions, restrictions or limitations or waive any such conditions, restrictions or limitations from time to time in relation to the award as it may at its absolute discretion think fit.

A Trust was constituted to manage the Share Scheme, and a wholly owned subsidiary of the Company incorporated in the British Virgin Islands was designated as Trustee. For the year ended 31 December 2012, the Trust purchased 4,000,000 ordinary shares from market at average price of HK\$6.5178 per share, totaling HK\$26,071,000 (equivalent to RMB21,207,000). Up to 31 December 2012, no shares were granted to eligible employees according to the Share Scheme.

(e) Reconciliation of the number of shares outstanding was as follows:

	Year ended 31 December	
	2012	2011
	'000	'000
Balance at beginning of the year	3,465,951	3,547,413
Share issued according to employee share option scheme	6,621	2,593
Repurchases and cancellation of shares	–	(84,055)
Treasury shares purchased for share award scheme	(4,000)	–
Balance at end of the year	3,468,572	3,465,951

Notes to the Consolidated Financial Statements

22 RESERVES – GROUP AND COMPANY

Group

	Merger reserve RMB'000 (note (a))	Share premium RMB'000 (note (b))	Share-based compensation reserve RMB'000 (note (c))	Statutory reserve fund RMB'000 (note (d))	Capital redemption reserve RMB'000	Available-for- sale financial assets RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2011	(185,787)	12,038,830	105,117	307,268	4,949	(78,376)	14,144,449	26,336,450
Profit for the year	-	-	-	-	-	-	5,722,775	5,722,775
Other comprehensive loss for the year, net of tax	-	-	-	-	-	(38,754)	-	(38,754)
Employee share option scheme – proceeds from shares issued	-	11,996	-	-	-	-	-	11,996
Repurchases and cancellation of shares	-	(414,718)	-	-	-	-	-	(414,718)
Profit appropriations	-	-	-	323,604	-	-	(323,604)	-
2010 final dividend	-	(742,033)	-	-	-	-	-	(742,033)
2011 interim dividend	-	(639,773)	-	-	-	-	-	(639,773)
Balance at 31 December 2011	(185,787)	10,254,302	105,117	630,872	4,949	(117,130)	19,543,620	30,235,943
Balance at 1 January 2012	(185,787)	10,254,302	105,117	630,872	4,949	(117,130)	19,543,620	30,235,943
Profit for the year	-	-	-	-	-	-	5,764,632	5,764,632
Other comprehensive gains for the year, net of tax	-	-	-	-	-	49,355	-	49,355
Employee share option scheme – value of employee services	-	105,117	(105,117)	-	-	-	-	-
– proceeds from shares issued	-	29,703	-	-	-	-	-	29,703
Repurchases of shares (Note 21(d))	-	(21,207)	-	-	-	-	-	(21,207)
Profit appropriations	-	-	-	123,359	-	-	(123,359)	-
2011 final dividend	-	(507,551)	-	-	-	-	-	(507,551)
Balance at 31 December 2012	(185,787)	9,860,364	-	754,231	4,949	(67,775)	25,184,893	35,550,875
Representing:								
Proposed final dividend		1,548,559						1,548,559
Others		8,311,805						34,002,316
		9,860,364						35,550,875

Notes to the Consolidated Financial Statements

22 RESERVES – GROUP AND COMPANY (CONTINUED)

Company

	Share premium RMB'000 (note (b))	Share-based compensation reserve RMB'000 (note (c))	Capital redemption reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2011	12,038,830	105,117	4,949	268,888	12,417,784
Loss for the year	–	–	–	(106,352)	(106,352)
Employee share option scheme					
– proceeds from shares issued	11,996	–	–	–	11,996
Repurchases and cancellation of shares	(414,718)	–	–	–	(414,718)
2010 final dividend	(742,033)	–	–	–	(742,033)
2011 interim dividend	(639,773)	–	–	–	(639,773)
Balance at 31 December 2011	10,254,302	105,117	4,949	162,536	10,526,904
Balance at 1 January 2012	10,254,302	105,117	4,949	162,536	10,526,904
Loss for the year	–	–	–	(1,073,535)	(1,073,535)
Employee share option scheme					
– value of employee services	105,117	(105,117)	–	–	–
– proceeds from shares issued	29,703	–	–	–	29,703
Repurchase of shares (Note 21(d))	(21,207)	–	–	–	(21,207)
2011 final dividend	(507,551)	–	–	–	(507,551)
Balance at 31 December 2012	9,860,364	–	4,949	(910,999)	8,954,314
Representing:					
Proposed final dividend	1,548,559				1,548,559
Others	8,311,805				7,405,755
	9,860,364				8,954,314

Notes:

- (a) Merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiary purchased pursuant to the reorganisation and the nominal value of the shares of the Company issued in exchange effected prior to the listing of the Company's shares on the Stock Exchange in 2006.
- (b) Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company.
- (c) Share-based compensation reserve represents value of employee services in respect of share options granted under the share option schemes (Note 21).
- (d) According to the Articles of Association of the respective subsidiaries established in the PRC, which are foreign investment enterprises, the subsidiaries shall set aside certain percentage of their net income after offsetting accumulated losses from prior years as reported in their statutory accounts for the reserve fund, enterprise expansion fund and staff bonus and welfare fund. The reserve fund and enterprise expansion fund form part of the shareholders' funds. The staff bonus and welfare fund are accounted for as liabilities. Certain subsidiaries have made appropriation to such funds during the year.

Notes to the Consolidated Financial Statements

23 BORROWINGS – GROUP AND COMPANY

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Group		
Borrowings included in non-current liabilities		
Long-term bank borrowings		
– secured by assets (note (ii))	17,483,356	18,161,449
– secured by shares of subsidiary guarantors (note (iii))	3,419,577	2,575,912
– secured by shares of a listed subsidiary (note (iii))	500,000	–
– unsecured	376,840	750,000
Long-term borrowings from other financial institutions		
– secured by assets (note (ii))	4,778,246	3,152,900
– secured by shares of a listed subsidiary (notes (iii))	1,131,969	3,605,000
– unsecured	50,000	200,000
Senior notes – secured (note (iv))	7,391,143	7,380,822
	35,131,131	35,826,083
Less: Long-term bank borrowings due within one year	(3,058,668)	(3,965,249)
Long-term borrowings from other financial institutions due within one year	(3,459,166)	(4,283,000)
Amounts due within one year	(6,517,834)	(8,248,249)
	28,613,297	27,577,834
Borrowings included in current liabilities		
Short-term bank borrowings		
– secured by assets (notes (ii))	3,869,063	4,369,627
– unsecured	273,000	25,000
Short-term borrowings from other financial institutions		
– secured by assets (note (ii))	293,867	700,000
– secured by shares of a listed subsidiary (note (iii))	1,426,880	500,543
– unsecured	–	1,140,000
Current portion of long-term borrowings	6,517,834	8,248,249
	12,380,644	14,983,419

Notes to the Consolidated Financial Statements

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Company		
Borrowings included in non-current liabilities		
Long-term bank borrowings		
– secured by shares of subsidiary guarantors (note (iii))	3,419,577	2,575,912
Senior notes – secured (note (iv))	7,391,143	7,380,822
	10,810,720	9,956,734
Less: Long-term bank borrowings due within one year		
– secured by shares of subsidiary guarantors (note (iii))	–	(1,304,489)
Amounts due within one year	–	(1,304,489)
	10,810,720	8,652,245
Borrowings included in current liabilities		
Short term bank borrowings – secured by assets (note (i))	2,903,129	1,256,585
Short term bank borrowings – unsecured	243,240	–
Current portion of long-term borrowing	–	1,304,489
	3,146,369	2,561,074

Notes:

- (i) As at 31 December 2012, the Group's total secured bank borrowings and borrowings from other financial institutions of RMB26,424,532,000 (2011: RMB26,383,976,000) were secured by its assets under construction and buildings (Note 6), investment properties (Note 7), land use rights (Note 8), properties under development (Note 15), completed properties held for sale (Note 16), available-for-sale financial assets (Note 13) and restricted cash (Note 20). As at 31 December 2012, secured borrowings of RMB4,794,664,000 (2011: RMB6,450,333,000) were further guaranteed by Mr. Hui Wing Mau.
- (ii) On 14 May 2010, the Company entered into a multi-currency loan facility agreement with a syndicate of 14 banks. Pursuant to the agreement, the Company obtained 3-year syndicated loan facilities, including a US\$440,000,000 facility and a HK\$156,000,000 facility at a floating rate of interest, 10% out of the loan principal matured in 2011, 45% matured in 2012 and remaining 45% will mature in 2013. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the share of certain subsidiary guarantors. All the facilities have been drawn down as of 31 December 2011. On 7 December 2012, the Company early repaid the remaining 45% of the borrowings (approximately RMB1,303,016,000).

On 26 November 2012, the Company entered into a multi-currency loan facility agreement with a syndicate of 5 banks. Pursuant to the agreement, the Company obtained 3-year syndicated loan facilities, including a US\$610,000,000 facility and a HK\$468,000,000 facility at a floating rate of interest, 25% out of the loan principal will mature in 2014 and 75% will mature in 2015. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the share of these subsidiary guarantors. As of 31 December 2012, US\$510,000,000 and HK\$391,278,689 have been drawn down.

Notes to the Consolidated Financial Statements

23 BORROWINGS – GROUP AND COMPANY *(CONTINUED)*

Notes: *(continued)*

- (iii) As at 31 December 2012, 107,200,000 shares of Shanghai Shimaohave been pledged for a total bank borrowings of RMB500,000,000 for group companies.

As at 31 December 2012, 575,050,000 shares (2011: 793,770,000 shares) of Shanghai Shimaohave been pledged for a total borrowings from other financial institutions of RMB2,558,849,000 (2011: RMB4,105,543,000) for group companies.

- (iv) On 29 November 2006, the Company issued a total of US\$600,000,000 senior notes, including US\$250,000,000 at a floating interest rate due on 1 December 2011 and US\$350,000,000 at a fixed interest rate due on 1 December 2016. The Company may at its option to redeem the notes, in whole or in part, by certain dates based on the terms of the notes. The notes are senior obligations guaranteed by certain subsidiaries other than those established under the laws of the PRC ("Subsidiary Guarantors"), and secured by a pledge of the shares of these subsidiary guarantors. On 3 May 2011, the Company early redeemed senior notes of US\$250,000,000, which was originally due in December 2011.

On 3 August 2010, the Company issued a total of US\$500,000,000 senior notes at a fixed interest rate due on 3 August 2017. In addition, on 8 March 2011, the Company issued a total of US\$350,000,000 senior notes at a fixed interest rate due on 8 March 2018. The Company may at its option to redeem the notes, in whole or in part, by certain dates based on the terms of the notes. The notes are senior obligations guaranteed by certain restricted offshore subsidiaries and secured by a pledge of the shares of these offshore restricted subsidiaries.

Notes to the Consolidated Financial Statements

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

The interest-bearing bank borrowings, including the term loans repayable on demand, are carried at amortised cost. RMB1,538,087,600 of the term loans due for repayment after one year which contain a repayment on demand clause were classified as current liabilities as at 31 December 2012 (2011: RMB1,987,836,400), none of these loans are expected to be settled within one year.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity whichever is the earlier date is as follows:

	6 months or less	6 – 12 months	1 – 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000

Group

Borrowings included in

non-current liabilities:

At 31 December 2012	17,385,104	1,276,000	7,793,233	2,158,960	28,613,297
At 31 December 2011	16,390,677	994,335	4,947,047	5,245,775	27,577,834

Borrowings included in

current liabilities:

At 31 December 2012	8,614,533	3,766,111	–	–	12,380,644
At 31 December 2011	9,130,520	5,852,899	–	–	14,983,419

Company

Borrowings included in

non-current liabilities:

At 31 December 2012	3,419,577	–	5,232,183	2,158,960	10,810,720
At 31 December 2011	1,271,422	–	2,135,048	5,245,775	8,652,245

Borrowings included in

current liabilities:

At 31 December 2012	2,903,129	243,240	–	–	3,146,369
At 31 December 2011	1,304,489	1,256,585	–	–	2,561,074

Notes to the Consolidated Financial Statements

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

The maturity of the borrowings included in non-current liabilities is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Group		
Bank borrowings:		
Between 1 and 2 years	4,537,491	6,512,057
Between 2 and 5 years	8,941,013	6,805,554
Over 5 years	5,242,600	4,204,500
Borrowings from other financial institution:		
Between 1 and 2 years	2,181,050	2,354,900
Between 2 and 5 years	320,000	320,000
Senior notes:		
Between 2 and 5 years	5,232,183	2,135,048
Over 5 years	2,158,960	5,245,775
	28,613,297	27,577,834
Company		
Bank borrowings:		
Between 1 and 2 years	880,713	1,271,423
Between 2 and 5 years	2,538,864	–
Senior notes:		
Between 2 and 5 years	5,232,183	2,135,047
Over 5 years	2,158,960	5,245,775
	10,810,720	8,652,245

Notes to the Consolidated Financial Statements

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

The effective interest rates at the balance sheet date were as follows:

	As at 31 December	
	2012	2011
Group		
Bank borrowings – RMB	8.57%	7.78%
Bank borrowings – US dollar	2.87%	3.59%
Bank borrowings – HK dollar	2.91%	2.73%
Senior notes – US dollar	10.02%	10.02%
Borrowings from other financial institutions – RMB	10.78%	9.46%
Company		
Bank borrowings – US dollar	2.87%	3.68%
Bank borrowings – HK dollar	2.87%	3.68%
Senior notes – US dollar	10.02%	10.02%

The carrying amounts of bank borrowings and borrowings from other financial institution approximate their fair values. The fair values of senior notes as at 31 December 2012 amounted to RMB8,091,000,000, which were calculated using valuation technique or using the market price of the traded senior notes on the balance sheet date.

The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Group		
RMB	25,857,139	29,076,557
HK dollar	3,393,929	3,325,177
US dollar	11,742,873	10,159,519
	40,993,941	42,561,253
Company		
HK dollar	2,214,216	1,337,340
US dollar	11,742,873	9,875,979
	13,957,089	11,213,319

Notes to the Consolidated Financial Statements

24 DEFERRED INCOME TAX – GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes relate to the same tax authority. The net deferred income tax balances after offsetting are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	842,944	895,648
– to be recovered within 12 months	405,446	418,261
	1,248,390	1,313,909
Deferred income tax liabilities		
– to be recovered after more than 12 months	3,547,521	2,943,190
– to be recovered within 12 months	228,057	229,625
	3,775,578	3,172,815
Net deferred income tax liabilities	2,527,188	1,858,906

The gross movement on the net deferred income tax account is as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Opening balance	1,858,906	1,176,429
Charged to the consolidated income statement (Note 32)	642,664	702,592
Charged/(credit) to other comprehensive income	25,618	(20,115)
Ending balance	2,527,188	1,858,906

Notes to the Consolidated Financial Statements

24 DEFERRED INCOME TAX – GROUP (CONTINUED)

Movement in deferred income tax assets and liabilities for the year ended 31 December 2012, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Provision for land appreciation tax deductible for future income tax clearance RMB'000	Unrealized profit on intra-group transaction RMB'000	Tax loss and temporary difference on recognition of expenses RMB'000	Total RMB'000
At 1 January 2011	739,589	288,378	179,846	1,207,813
Credited/(charged) to the consolidated income statement	115,044	(64,653)	(4,674)	45,717
At 31 December 2011	854,633	223,725	175,172	1,253,530
Credited/(charged) to the consolidated income statement	(83,848)	(81,232)	93,862	(71,218)
At 31 December 2012	770,785	142,493	269,034	1,182,312

Deferred income tax liabilities

	Fair value gains on investment properties RMB'000	Fair value adjustments on assets and liabilities upon acquisition RMB'000	Withholding tax on the retained earnings of certain subsidiaries RMB'000	Total RMB'000
At 1 January 2011	1,312,241	1,043,580	28,421	2,384,242
Charged/(credited) to the consolidated income statement	631,753	(68,444)	185,000	748,309
Credited to other comprehensive income	–	(20,115)	–	(20,115)
At 31 December 2011	1,943,994	955,021	213,421	3,112,436
Charged/(credited) to the consolidated income statement	590,720	(39,579)	20,305	571,446
Charge to other comprehensive income	–	25,618	–	25,618
At 31 December 2012	2,534,714	941,060	233,726	3,709,500

Notes to the Consolidated Financial Statements

24 DEFERRED INCOME TAX – GROUP (CONTINUED)

Deferred income tax arose as a result of differences in timing of recognising certain revenue, costs and expenses between the tax based financial statements and the HKFRS financial statements. This constitutes temporary differences, being the differences between the carrying amounts of the assets or liabilities in the consolidated balance sheets and their tax bases in accordance with HKAS 12.

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB47,741,000 (2011: RMB72,302,000) in respect of accumulated losses amounting to RMB190,965,000 (2011: RMB289,208,000). Accumulated losses amounting to RMB44,271,000, RMB21,792,000, RMB5,591,000, RMB101,434,000 and RMB17,877,000 as at 31 December 2012 will expire in 2013, 2014, 2015, 2016, and 2017 respectively.

25 TRADE AND OTHER PAYABLES – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Trade payables (note (a))	11,595,770	15,525,549
Other taxes payable	609,650	551,945
Accrued expenses	732,484	463,316
Other payables (note (b))	1,378,526	776,597
	14,316,430	17,317,407

Notes:

(a) The ageing analysis from the recorded date of trade payables is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 90 days	11,140,635	14,517,012
Over 90 days and within 1 year	455,135	1,008,537
	11,595,770	15,525,549

Notes to the Consolidated Financial Statements

25 TRADE AND OTHER PAYABLES – GROUP (CONTINUED)

Notes: (continued)

(b) Other payables comprise:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Deposits received from customers	955,517	264,830
Fees collected from customers on behalf of government agencies	85,470	127,719
Deposits from constructors	94,178	136,289
Rental deposits from tenants and hotel customers	154,546	140,074
Others	88,815	107,685
	1,378,526	776,597

26 DERIVATIVE FINANCIAL INSTRUMENTS – GROUP AND COMPANY

Derivative financial instruments liabilities as at balance sheet date are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Interest rate swap contracts	42,572	52,115

On 6 January 2011, the Group entered into two interest rate swap contracts with The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), with an aggregate notional amount of US\$300,000,000 (the "Swap Contracts"). The Swap contracts took effective from 3 August 2010, and will terminate on 3 August 2017. Pursuant to the Swap Contracts, the Group receives interest at a fixed rate of 9.65%, and pays interest at floating rate with reference to the HSBC Vol-Budgeted Dynamic Term Premium Index as published on Bloomberg but subject to a ceiling of 12.1%, semi-annually on 3 February and 3 August commencing from 3 February 2011 and up to termination.

The Swap Contracts do not qualified for hedge accounting, so that they are classified as derivative financial instruments held for trading as current assets or current liabilities, and with fair value changes recognized in the consolidated income statement.

There is a day-one loss of approximately RMB125,306,000 arising from the Swap Contracts, which is deferred and amortised in the consolidation income statement based on the straight line method within the effective lives of the Swap Contracts. For the year ended 31 December 2012, the fair value gains of the Swap Contracts amounted to RMB26,097,000, net off against the amortization of day-one loss with RMB16,554,000, is recognized in "other gains" (2011: net loss of RMB52,115,000, recognized in "other operating expenses").

Notes to the Consolidated Financial Statements

27 AMOUNTS DUE TO RELATED PARTIES – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Company with common directors		
Perfect Zone International Limited	–	1,861
Jointly controlled entities		
Nanchang New Development	1,332,662	–
Changsha Real Estate	633,588	–
Chengdu Investment	490,086	–
Qingdao New City	441,377	–
Others		
Mr. Xu Shiyong and Ms. Wang Lili (relatives of Mr. Hui Wing Mau)	–	28,970
	2,897,713	30,831

The balances due to related parties are unsecured, interest-free and have no fixed repayment terms.

28 OTHER INCOME/OTHER GAINS – NET

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Gain on deemed disposal of subsidiaries with loss of control		
– remeasurement gain on retained interest (Note 12)	545,135	–
Gain on disposal of a subsidiary (Note (a))	240,089	–
Government grants received	344,301	261,925
Fair value gain on derivative financial instruments (Note 26)	9,543	–
Net exchange gain	26,793	520,134
Others	30,243	12,261
	1,196,104	794,320

Notes:

- (a) In 2012, the Group sold a PRC incorporated subsidiary to a third party at total consideration of RMB320,000,000 with a gain of RMB240,089,000.

Notes to the Consolidated Financial Statements

29 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs, administrative expenses and other operating expenses are analysed as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Cost of properties sold and others	16,904,213	14,157,018
Business taxes and other levies on sales of properties (note (a))	1,669,597	1,413,713
Staff costs – including directors' emoluments (note (b))	883,934	613,674
Advertising, promotion and commission costs	800,926	460,822
Direct expenses arising from hotel operation	496,190	396,604
Corporate and office expenses	475,223	441,311
Depreciation (Note 6)	347,031	298,014
Write off of intangible assets (Note 9)	124,102	16,435
Operating lease rental expenses	88,053	79,659
Amortisation of land use rights (Note 8)	42,368	40,058
Direct expenses arising from investment properties	38,534	36,703
Charitable donations	10,039	13,250
Provision for impairment of receivables (Note 17)	7,899	6,503
Auditor's remuneration	6,000	6,900
Fair value loss on derivative financial instrument (Note 26)	–	52,115
Loss from disposal of a subsidiary	–	34,450
Provision of impairment losses on completed properties held for sale (Note 16)	–	15,398
Write back for impairment of receivables (Note 17)	(13,543)	(437)
Other expenses	295,296	260,520
Total cost of sales, selling and marketing costs, administrative expenses and other operating expenses	22,175,862	18,342,710

(a) Business tax and other levies

The Group's companies incorporated in the PRC are subject to business taxes of 5% and other levies on their revenue from sales of properties.

(b) Staff costs (including directors' emoluments) comprise:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Wages and salaries	652,419	460,089
Pension costs – statutory pension (note (c))	64,480	45,318
Other allowances and benefits	167,035	108,267
	883,934	613,674

Notes to the Consolidated Financial Statements

29 EXPENSES BY NATURE (CONTINUED)

(c) Pensions – defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on a certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

30 FINANCE COSTS – NET

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Interest on bank borrowings		
– wholly repayable within five years	1,040,899	1,467,887
– not wholly repayable within five years	212,364	270,748
Interest on senior notes		
– wholly repayable within five years	481,333	189,520
– not wholly repayable within five years	262,933	558,824
Interest on borrowing from other financial institutions		
– wholly repayable within five years	1,227,056	552,913
	3,224,585	3,039,892
Less: interest capitalised	(3,056,415)	(2,559,472)
Finance costs	168,170	480,420
Finance income	(146,055)	(100,074)
Finance costs – net	22,115	380,346

Notes to the Consolidated Financial Statements

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The remuneration of each of the directors of the Company for the year ended 31 December 2012 is set out as follows:

Name of directors	Salaries, allowances and benefits		Retirement benefit contributions		Employee share option schemes	Total
	Fees RMB'000	in kind RMB'000	Bonuses RMB'000	contributions RMB'000	RMB'000	
Executive directors						
Mr. Hui Wing Mau	-	4,880	1,627	11	-	6,518
Mr. Hui Sai Tan, Jason	-	3,909	2,852	11	782	7,554
Ms. Yao Li (Note)	-	-	-	-	-	-
Mr. Liu Sai Fei	-	2,201	2,780	11	-	4,992
Mr. Xu Younong	-	2,070	1,862	56	-	3,988
Independent non-executive directors						
Ms. Kan Lai Kuen, Alice	195	-	-	-	-	195
Mr. Lu Hong Bing	195	-	-	-	-	195
Mr. Lam Ching Kam	195	-	-	-	-	195
	585	13,060	9,121	89	782	23,637

Note: Ms. Yao Li was transferred from executive director to non-executive director on 18 June 2012 and she resigned from non-executive director on 6 February 2013.

Notes to the Consolidated Financial Statements

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Directors' emoluments (continued)

The remuneration of each of the directors of the Company for the year ended 31 December 2011 is set out as follows:

Name of directors	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement benefit contributions RMB'000	Employee share option schemes RMB'000	Total RMB'000
Executive directors						
Mr. Hui Wing Mau	–	4,978	1,659	10	–	6,647
Mr. Hui Sai Tan, Jason	–	3,185	1,857	10	–	5,052
Ms. Yao Li	–	2,514	–	10	–	2,524
Mr. Tung Chi Shing (Note 1)	–	1,927	161	8	–	2,096
Mr. Liu Sai Fei	–	1,557	2,605	10	–	4,172
Mr. Xu Younong (Note 2)	–	1,821	1,093	51	–	2,965
Independent non-executive directors						
Ms. Kan Lai Kuen, Alice	199	–	–	–	–	199
Mr. Lu Hong Bing	199	–	–	–	–	199
Mr. Gu Yunchang (Note 3)	73	–	–	–	–	73
Mr. Lam Ching Kam	199	–	–	–	–	199
	670	15,982	7,375	99	–	24,126

Notes:

1. Mr. Tung Chi Shing resigned on 2 November 2011.
2. Mr. Xu Younong was appointed as an executive director with effect from 1 January 2011.
3. Mr. Gu Yunchang resigned on 12 May 2011.

Notes to the Consolidated Financial Statements

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals

Four of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2012 are directors (2011: four). The aggregate amounts of emoluments of the five highest paid individuals are set out below:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Salaries and allowances	14,520	13,485
Bonuses	9,434	7,869
Retirement scheme contributions	100	91
Share options granted	2,103	–
	26,157	21,445

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
RMB2,500,001 – RMB3,000,000	–	2
RMB3,000,001 – RMB3,500,000	1	–
RMB3,500,001 – RMB4,000,000	1	–
RMB4,000,001 – RMB4,500,000	–	1
RMB4,500,001 – RMB5,000,000	1	–
RMB5,000,001 – RMB5,500,000	–	1
RMB6,500,001 – RMB7,000,000	1	1
RMB7,500,001 – RMB8,000,000	1	–

- (c) No emolument was paid or payable by the Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2012 and 2011.

Notes to the Consolidated Financial Statements

32 INCOME TAX EXPENSE

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Current income tax		
– PRC enterprise income tax	1,985,703	2,304,624
– PRC withholding income tax	26,700	124,643
– PRC land appreciation tax	925,882	1,170,781
	2,938,285	3,600,048
Deferred income tax (Note 24)		
– PRC enterprise income tax	622,359	517,592
– PRC withholding income tax	20,305	185,000
	642,664	702,592
	3,580,949	4,302,640

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies within the Group as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	10,165,437	10,751,569
Less: Share of results of associated companies and jointly controlled entities	(152,187)	(121,866)
Land appreciation tax	(925,882)	(1,170,781)
	9,087,368	9,458,922
Calculated at PRC enterprise income tax rate of 25% (2011: 25%)	2,271,842	2,364,730
Effect of different tax rates in other countries or regions	–	(2,139)
Expenses not deductible for income tax purposes (note (a))	374,963	542,393
Income not subject to tax (note (b))	(43,212)	(132,311)
Tax losses not recognised	4,469	49,543
PRC enterprise income tax charge	2,608,062	2,822,216
PRC land appreciation tax	925,882	1,170,781
Current income tax – PRC withholding income tax	26,700	124,643
Deferred income tax – PRC withholding income tax	20,305	185,000
	3,580,949	4,302,640

Notes to the Consolidated Financial Statements

32 INCOME TAX EXPENSE (CONTINUED)

Notes:

- (a) Expenses not deductible for income tax purposes mainly resulted from expenses incurred by the Company and its subsidiaries established in the British Virgin Islands which are not deductible for tax purpose.
- (b) Income not subject to tax arose mainly from interest income and net exchange gains incurred by companies incorporated in Cayman Islands, the British Virgin Islands and Hong Kong.

Hong Kong profits tax

No Hong Kong profits tax has been provided for as the Group has no assessable profit in Hong Kong for the year ended 31 December 2012 (2011: Nil).

PRC enterprise income tax

PRC enterprise income tax is provided for at 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items, which are not assessable or deductible for the PRC enterprise income tax purposes.

PRC land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including cost of land use rights, borrowing costs, business taxes and all property development expenditures. The tax is incurred upon transfer of property ownership.

PRC withholding income tax

According to the new Enterprise Income Tax Law of the PRC, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangements between the PRC and Hong Kong.

Gain on disposal of an investment in the PRC by overseas holding companies was also subject to withholding tax of 10%.

Notes to the Consolidated Financial Statements

33 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2012	2011
Profit attributable to the equity holders of the Company (RMB'000)	5,764,632	5,722,775
Weighted average number of ordinary shares in issue (thousands)	3,466,759	3,527,568
Basic earnings per share (RMB cents)	166.3	162.2

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the share options granted under share option schemes (Note 21) assuming they were exercised.

	Year ended 31 December	
	2012	2011
Profit attributable to the equity holders of the Company (RMB'000)	5,764,632	5,722,775
Weighted average number of ordinary shares in issue (thousands)	3,466,759	3,527,568
Adjustment for share options granted under the Pre-IPO Share Option Scheme (thousands)	1,264	3,181
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,468,023	3,530,749
Diluted earnings per share (RMB cents)	166.2	162.1

Notes to the Consolidated Financial Statements

34 DIVIDENDS

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Interim dividend paid of HK0 cent (2011: HK22 cents) per ordinary share (note (a))	–	639,773
Proposed final dividend of HK55 cents (2011: HK18 cents) per ordinary share (note (b))	1,548,559	505,772
	1,548,559	1,145,545

Notes:

- (a) No dividend in respect of the six months ended 30 June 2012 (2011: HK22 cents per ordinary share) was declared at the Company's board meeting held on 27 August 2012.
- (b) At a meeting held on 26 March 2013, the directors proposed a final dividend of HK55 cents per ordinary share out of share premium as at 31 December 2012. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2012 upon approval by the shareholders at the forthcoming annual general meeting of the Company. A final dividend in respect of 2011 of HK18 cents per ordinary share, amounting to approximately HK\$623,871,000 (equivalent to RMB505,772,000) was proposed at the Company's broad meeting held on 29 March 2012, and was approved at the annual general meeting of the Company held on 18 June 2012.

Notes to the Consolidated Financial Statements

35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Net cash generated from operations:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	10,165,437	10,751,569
Adjustments for:		
Interest income	(146,055)	(100,074)
Finance costs	168,170	480,420
Net (written-back of)/provision for impairment of receivables	(5,644)	6,066
Provision for impairment losses on completed properties held for sale	–	15,398
Depreciation	347,031	298,014
Gain on disposal of property and equipment	(92)	(464)
Share of results of associated companies	210,938	(97,653)
Share of results of jointly controlled entities	(363,125)	(24,213)
Net (gain)/loss on disposal of a subsidiary	(240,089)	34,450
Gain on deemed disposal of subsidiaries	(545,135)	–
Amortisation of land use rights	42,368	40,058
Fair value (gain)/loss on derivative financial instruments	(9,543)	52,115
Fair value gains on investment properties	(2,362,880)	(2,527,013)
Write-off of intangible assets	124,102	16,435
Net exchange gain	(26,793)	(520,134)
	7,358,690	8,424,974
Changes in working capital:		
Properties under development, completed properties held for sale and prepayment for acquisition of land use rights	105,869	(6,795,909)
Restricted cash	142,706	(124,605)
Trade and other receivables and prepayments	(2,135,921)	713,177
Amount due from related companies	135,564	358,975
Trade and other payables	(3,419,350)	(1,276,020)
Advanced proceeds received from customers	9,458,781	(103,147)
Amount due to related companies	2,866,882	–
Net cash generated from operations	14,513,221	1,197,445

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the principal subsidiaries, associated companies and jointly controlled entities of the Group as at 31 December 2012 are as follows:

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
Principal subsidiaries – established and operation conducted in the PRC					
上海世茂房地產有限公司 (Shanghai Shimao Real Estate Co., Ltd.)	15 March 2000	Foreign investment enterprise	Registered capital US\$75,000,000	100%	Property development
上海世茂國際廣場有限責任公司 (Shanghai Shimao International Plaza Co., Ltd.)	15 September 1994	Foreign investment enterprise	Registered capital RMB1,600,000,000	100%	Hotel and shopping mall
上海世茂建設有限公司 (Shanghai Shimao Jianshe Co., Ltd.)	16 March 2001	Foreign investment enterprise	Registered capital RMB540,000,000	100%	Investment holding
上海世茂莊園置業有限公司 (Shanghai Shimao Manor Real Estate Co., Ltd.)	19 June 2002	Foreign investment enterprise	Registered capital US\$18,400,000	100%	Property development and hotel
上海世茂北外灘開發建設有限公司 (Shanghai Shimao North Bund Co., Ltd.)	17 May 2002	Foreign investment enterprise	Registered capital HK\$650,000,000	100%	Hotel
上海世茂佘山匯置置業有限公司 (Shanghai Shimao Sheshan Huiying Property Co., Ltd.)	14 September 2012	Domestic enterprise	Registered capital RMB200,000,000	100%	Property development
北京世茂投資發展有限公司 (Beijing Shimao Investment and Development Co., Ltd.)	26 December 2000	Foreign investment enterprise	Registered capital RMB755,780,000	100%	Property development
哈爾濱世茂濱江新城開發建設有限公司 (Harbin Shimao Riviera New City Development and Construction Co., Ltd.)	24 March 2004	Foreign investment enterprise	Registered capital HK\$548,000,000	100%	Property development
常熟世茂房地產開發有限公司 (Changshu Shimao Real Estate Development Co., Ltd.)	24 December 2004	Foreign investment enterprise	Registered capital HK\$440,000,000	100%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
昆山世茂蝶湖灣開發建設有限公司 (Kunshan Shimao Butterfly Bay Development and Construction Co., Ltd.)	10 November 2003	Foreign investment enterprise	Registered capital RMB412,410,000	100%	Property development
武漢世茂錦繡長江房地產開發 有限公司 (Wuhan Shimao Splendid River Real Estate Development Co., Ltd.)	6 June 2005	Foreign investment enterprise	Registered capital US\$114,269,000	96.1%	Property development
昆山世茂房地產開發有限公司 (Kunshan Shimao Real Estate Development Co., Ltd.)	24 December 2003	Domestic enterprise	Registered capital RMB547,668,147	64.2%	Property development
嘉興世茂新城房地產開發有限公司 (Jiaxing Shimao New City Real Estate Development Co., Ltd.)	28 September 2006	Foreign investment enterprise	Registered capital US\$70,232,000	100%	Property development
上海世茂新體驗置業有限公司 (Shanghai Shimao Wonderland Real Estate Co., Ltd.)	6 March 2006	Domestic enterprise	Registered capital RMB391,092,834	64.2%	Property development
紹興世茂新城房地產開發有限公司 (Shaoxing Shimao New City Real Estate Development Co., Ltd.)	11 July 2006	Foreign investment enterprise	Registered capital US\$52,350,000	100%	Property development
紹興世茂置業有限公司 (Shaoxing Shimao Real Estate Co., Ltd.)	11 July 2006	Foreign investment enterprise	Registered capital US\$79,030,000	100%	Property development
蕪湖世茂房地產開發有限公司 (Wuhu Shimao Real Estate Development Co., Ltd.)	8 September 2006	Foreign investment enterprise	Registered capital US\$56,500,000	100%	Property development
煙台世茂置業有限公司 (Yantai Shimao Real Estate Co., Ltd.)	6 September 2006	Foreign investment enterprise	Registered capital US\$48,500,000	100%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
常州世茂房地產有限公司 (Changzhou Shimao Real Estate Co., Ltd.)	27 November 2006	Foreign investment enterprise	Registered capital US\$313,730,000	100%	Property development
杭州世茂置業有限公司 (Hangzhou Shimao Real Estate Development Co., Ltd.)	13 December 2006	Foreign investment enterprise	Registered capital US\$111,900,000	100%	Property development
徐州世茂新城房地產開發有限公司 (Xuzhou Shimao New City Real Estate Development Co., Ltd.)	14 February 2007	Foreign investment enterprise	Registered capital US\$75,980,000	100%	Property development
徐州世茂置業有限公司 (Xuzhou Shimao Property Co., Ltd.)	14 February 2007	Domestic enterprise	Registered capital RMB491,412,600	64.2%	Property development
徐州世茂新紀元房地產開發有限公司 (Xuzhou Shimao New Era Real Estate Development Co., Ltd.)	22 June 2007	Foreign investment enterprise	Registered capital RMB50,000,000	100%	Property development
福州世茂置業有限公司 (Fuzhou Shimao Property Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB430,000,000	100%	Property development
福州世茂新城房地產開發有限公司 (Fuzhou Shimao New City Real Estate Development Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB880,000,000	100%	Property development
蕪湖世茂新發展置業有限公司 (Wuhu Shimao New Development Property Co., Ltd.)	16 May 2007	Domestic enterprise	Registered capital RMB110,000,000	64.2%	Property development
蕪湖世茂新世紀置業有限公司 (Wuhu Shimao New Century Property Co., Ltd.)	26 September 2007	Foreign investment enterprise	Registered capital RMB35,000,000	100%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
瀋陽世茂新世紀房地產開發有限公司 (Shenyang Shimao New Century Real Estate Development Co., Ltd.)	24 May 2007	Domestic enterprise	Registered capital RMB580,058,500	64.2%	Property development
瀋陽世茂新紀元置業有限公司 (Shenyang Shimao New Era Property Co., Ltd.)	24 May 2007	Foreign investment enterprise	Registered capital HK\$257,000,000	100%	Property development
大連世茂龍河發展有限公司 (Dalian Shimao Dragon River Property Co., Ltd.)	9 June 2006	Foreign investment enterprise	Registered capital US\$109,600,000	95.8%	Property development
紹興世茂新世紀置業有限公司 (Shaoxing Shimao New Century Property Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB453,457,740	60%	Property development
蘇州世茂投資發展有限公司 (Suzhou Shimao Investment & Development Co., Ltd.)	2 March 2007	Domestic enterprise	Registered capital RMB526,795,630	64.2%	Property development
蘇州世茂置業有限公司 (Suzhou Shimao Property Co., Ltd.)	26 January 2007	Foreign investment enterprise	Registered capital US\$178,000,000	100%	Property development
紹興世茂新紀元置業有限公司 (Shaoxing Shimao New Era Property Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB245,520,127	64.2%	Property development
紹興世茂新置業發展有限公司 (Shaoxing Shimao New Property Development Co., Ltd.)	13 July 2007	Foreign investment enterprise	Registered capital US\$14,500,000	100%	Property development
嘉興世茂新世紀置業有限公司 (Jiaxing Shimao New Century Property Co., Ltd.)	6 July 2007	Foreign investment enterprise	Registered capital RMB100,000,000	64.2%	Property development
牡丹江世茂置業有限公司 (Mudanjiang Shimao Property Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$16,000,000	95%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
牡丹江世茂新城房地產開發有限公司 (Mudanjiang Shimao New City Real Estate Development Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$29,980,000	100%	Property development
常熟世茂新發展置業有限公司 (Changshu Shimao New Development Property Co., Ltd.)	24 August 2007	Domestic enterprise	Registered capital RMB692,174,000	64.2%	Property development
昆山世茂新發展置業有限公司 (Kunshan Shimao New Development Property Co., Ltd.)	12 September 2007	Foreign investment enterprise	Registered capital US\$49,980,000	100%	Property development
成都世盈投資管理諮詢有限公司 (Chengdu Shiyong Investment Management Consulting Co., Ltd.)	20 September 2007	Foreign investment enterprise	Registered capital US\$29,980,000	100%	Property development
常州世茂新城房地產開發有限公司 (Changzhou Shimao New City Real Estate Development Co., Ltd.)	12 February 2007	Domestic enterprise	Registered capital RMB269,300,000	64.2%	Property development
上海世源建材貿易有限公司 (Shanghai Shine Construction Product Co., Ltd.)	22 January 2007	Foreign investment enterprise	Registered capital HK\$5,000,000	100%	Trading of construction materials
上海世盈投資管理有限公司 (Shanghai Shiyong Investment Management Co., Ltd.)	21 August 2007	Domestic enterprise	Registered capital RMB200,000,000	100%	Investment holding
廈門信誠建築裝潢有限公司 (Xiamen Xincheng Building Decoration Co., Ltd.)	6 March 2007	Domestic enterprise	Registered capital RMB10,000,000	100%	Trading of construction materials
北京財富時代置業有限公司 (Beijing Fortune Times Property Co., Ltd.)	18 September 2001	Domestic enterprise	Registered capital RMB1,010,000,000	64.2%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
牡丹江睿智營銷企劃有限公司 (Mudanjiang Ruizhi Marketing Planning Co., Ltd.)	4 December 2007	Domestic enterprise	Registered capital RMB1,000,000	100%	Marketing
牡丹江世拓建材貿易有限公司 (Mudanjiang Shituo Construction Product Co., Ltd.)	3 April 2008	Domestic enterprise	Registered capital RMB1,000,000	100%	Trading of construction materials
咸陽世茂房地產開發有限公司 (Xianyang Shimao Real Estate Development Co., Ltd.)	29 April 2004	Foreign investment enterprise	Registered capital HK\$30,000,000	100%	Property development
上海碧橙房地產有限公司 (Shanghai Bicheng Real Estate Co., Ltd.)	28 September 2003	Domestic enterprise	Registered capital RMB236,200,000	100%	Property development
福建世茂投資發展有限公司 (Fujian Shimao Investment and Development Limited)	17 November 2003	Foreign investment enterprise	Registered capital RMB200,000,000	82.1%	Property development
南京世茂房地產開發有限公司 (Nanjing Shimao Real Estate Development Limited)	23 July 2004	Foreign investment enterprise	Registered capital RMB328,000,000	82.1%	Property development
上海星橙房地產有限公司 (Shanghai Xingcheng Real Estate Co., Ltd.)	25 January 2006	Domestic enterprise	Registered capital RMB28,000,000	100%	Property development
上海世茂投資管理有限公司 (Shanghai Shimao Investment Management Co., Ltd.)	11 May 2009	Domestic enterprise	Registered capital RMB50,000,000	100%	Investment holding
上海逸景園林景觀工程有限公司 (Shanghai Yijing Landscaping Architect Co., Ltd.)	3 September 2009	Domestic enterprise	Registered capital RMB10,000,000	100%	Architect
福建世茂新里程投資發展有限公司 (Fujan Shimao New Way Investment Development Co., Ltd.)	10 October 2009	Domestic enterprise	Registered capital RMB1,887,000,000	80.9%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
上海世茂企業發展有限公司 (Shanghai Shimao Enterprises Development Co., Ltd.)	22 June 2000	Domestic enterprise	Registered capital RMB101,723,568	50.9%	Investment holding
牡丹江新睿房地產營銷代理有限公司 (Mudanjiang Xinrui Real Estate Marketing Agency Co., Ltd.)	7 March 2008	Domestic enterprise	Registered capital RMB1,000,000	100%	Real Estate Marketing
泰州世茂新發展置業有限公司 (Taizhou Shimao New Development Property Co., Ltd.)	17 January 2008	Foreign investment enterprise	Registered capital US\$20,000,000	100%	Property development
泰州世茂新城房地產開發有限公司 (Taizhou Shimao New City Real Estate Development Co., Ltd.)	22 February 2008	Foreign investment enterprise	Registered capital US\$40,000,000	100%	Property development
無錫世茂房地產開發建設有限公司 (Wuxi Shimao Real Estate Development Co., Ltd.)	20 November 2009	Domestic enterprise	Registered capital RMB102,000,000	95%	Property development
武漢世茂嘉年華置業有限公司 (Wuhan Shimao Jianianhua Property Co., Ltd.)	14 December 2009	Domestic enterprise	Registered capital RMB200,000,000	81.7%	Property development
嘉興世茂新里程置業有限公司 (Jiaxing Shimao Xinlicheng Property Co., Ltd.)	6 July 2007	Foreign investment enterprise	Registered capital RMB37,882,640	100%	Property development
寧波世茂房地產開發有限公司 (Ningbo Shimao Real Estate Development Co., Ltd.)	24 December 2007	Foreign investment enterprise	Registered capital US\$99,980,000	100%	Property development
大連世茂嘉年華置業有限公司 (Dalian Shimao Jianianhua Property Co., Ltd.)	4 September 2009	Domestic enterprise	Registered capital US\$100,000,000	100%	Property development
天津世茂新里程置業有限公司 (Tianjin Shimao Xinlichen Property Co., Ltd.)	5 November 2009	Domestic enterprise	Registered capital RMB470,000,000	100%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
成都世茂置業有限公司 (Chengdu Shimao Property Co., Ltd.)	13 October 2009	Domestic enterprise	Registered capital RMB299,021,884	100%	Property development
無錫世茂新發展置業有限公司 (Wuxi Shimao New Development Property Co., Ltd.)	23 November 2009	Domestic enterprise	Registered capital RMB102,000,000	77.8%	Property development
南通世茂房地產開發有限公司 (Nantong Shimao Real Estate Co., Ltd.)	14 December 2012	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development
余姚世茂置業有限公司 (Yuyao Shimao Property Co., Ltd.)	19 September 2010	Foreign investment enterprise	Registered capital RMB100,000,000	70%	Property development
寧波世茂新紀元置業有限公司 (Ningbo Shimao New Era Property Co., Ltd.)	27 May 2010	Domestic enterprise	Registered capital RMB50,000,000	100%	Property development
寧波世茂新里程置業有限公司 (Ningbo Shimao Xinlicheng Property Co., Ltd.)	5 August 2011	Domestic enterprise	Registered capital RMB150,000,000	100%	Property development
成都世茂房地產開發有限公司 (Chengdu Shimao Real Estate Development Co., Ltd.)	26 November 2010	Domestic enterprise	Registered capital RMB143,000,000	100%	Property development
福州世茂新世紀房地產開發有限公司 (Fuzhou Shimao New Century Real Estate Development Co., Ltd.)	23 December 2010	Domestic enterprise	Registered capital RMB1,192,700,000	100%	Property development
大連世茂新紀元置業有限公司 (Dalian Shimao New Era Property Co., Ltd.)	22 June 2010	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands					
Shimao Property Holdings (BVI) Limited	23 August 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Advance Assets Holdings Limited	22 June 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Best Empire Investments Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Double Achieve Assets Limited	31 January 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Easy Reach Group Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
East Light Group Limited	12 May 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Everactive Properties Limited	2 May 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Highsharp International Limited	23 February 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Keen View Limited	10 May 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Keenrich Holdings Limited	18 December 2002	Limited liability company	1 ordinary share of US\$1	100%	Trademark Registration
Magic Dynasty Investments Limited	15 November 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Mega Make Investments Limited	18 October 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Mega Universe Limited	10 July 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Peak Castle Assets Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Peak Gain International Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities

Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands (continued)

Precise Choice Investments Limited	18 October 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Prime Master Holdings Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Shimao Management (Overseas) Limited	18 December 2002	Limited liability company	1 ordinary share of US\$1	100%	Management services
Shimao Travel Limited	5 November 2010	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Significant Asset Group Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
True Excel Limited	31 March 2010	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Upper Aim International Limited	8 May 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Vicking International Ltd.	19 January 1994	Limited liability company	50,000 ordinary shares of US\$1	100%	Investment holding
Wickfair Investments Limited	8 October 2004	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Year Grant Investments Limited	3 September 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding

Principal subsidiaries – incorporated and operation conducted in Hong Kong

Billion Pier Investments Limited	29 October 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Brilliant Architectural and Construction Professional Consultancy Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK\$1	100%	Consultancy services
Bonus Boom Limited	13 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
Principal subsidiaries – incorporated and operation conducted in Hong Kong (continued)					
Charm Field Group Limited	1 August 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Clear Rise Investments Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Daily Right Holdings Limited	7 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Excel Grand Group Limited	22 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Excel Mode Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Faith Joy Investments Limited	7 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Fine Tune Investments Limited	5 June 2006	Limited liability company	1 ordinary share of HK\$1	100%	Holding of trademarks
Future Right Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Global Square Investments Limited	29 October 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Lion Kingdom Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Modern Professional Architectural Design Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK\$1	100%	Design services
Mount Profit Investments Limited	14 December 2006	Limited liability company	2 ordinary share of HK\$1	100%	Investment holding
New Sincere Investments Limited	11 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Power One Holdings Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Rich Noble Group Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Rise Max International Limited	16 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities

Principal subsidiaries – incorporated and operation conducted in Hong Kong (continued)

Shimao Holdings Company Limited	3 February 1994	Limited liability company	100 million ordinary shares of HK\$1	100%	Investment holding
Swift Time Limited	18 March 2009	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Topwise Limited	29 March 2005	Limited liability company	1 ordinary share of HK\$1	100%	Management services

Associated companies – established and operation conducted in the PRC

廣州利合房地產開發有限公司 (Guangzhou Li He Property Development Co., Ltd)	5 February 2010	Foreign Investment enterprise	Registered capital HKD750,000,000	20%	Property development

Associated company – established and operation conducted in the British Virgin Islands

Straits Construction Investment (Holdings) Limited	17 November 2009	Limited liability company	45,000 ordinary share of US\$10,000	49%	Investment holdings
Eagle Rights Limited	31 March 2010	Limited liability company	45,000,000 shares with no par value	33.33%	Investment holding

Jointly controlled entities – established and operation conducted in the PRC

杭州世茂世盈房地產開發有限公司 (Hangzhou Shimao Shiyong Property Development Co., Ltd.)	24 January 2008	Foreign investment enterprise	Registered capital US\$249,800,000	50%	Property development
海墅房地產開發（杭州）有限公司 (Hai Shu Property Development (Hangzhou) Co., Ltd.)	25 September 2007	Foreign investment enterprise	Registered capital US\$199,880,000	50%	Property development
惠州富茂房地產有限公司 (Huizhou Fumao Property Development Co., Ltd.)	14 May 2010	Domestic enterprise	Registered capital RMB500,000,000	50%	Property development
天津津南新城房地產開發有限公司 (Tianjin Jinnan New City Property Development CO., Ltd.)	26 May 2010	Domestic enterprise	Registered capital RMB3,667,300,000	25%	Property development
天津和安投資有限公司 (Tianjin Hean Investment Co., Ltd.)	19 August 2010	Domestic enterprise	Registered capital RMB10,000,000	25%	Investment holding

Notes to the Consolidated Financial Statements

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities

Jointly controlled entities – established and operation conducted in the PRC (continued)

青島世茂新城房地產開發有限公司 (Qingdao Shimao New City Property Development Co., Ltd)	29 April 2010	Foreign Investment enterprise	Registered capital USD99,980,000	50%	Property development
南昌世茂新發展置業有限公司 (Nanchang Shimao New Development Property Co., Ltd.)	19 October 2010	Domestic enterprise	Registered capital RMB1,200,000,000	50%	Property development
長沙世茂房地產有限公司 (Changsha Shimao Real Estate Co., Ltd.)	21 July 2010	Domestic enterprise	Registered capital RMB500,000,000	50%	Property development
成都世茂投資有限公司 (Chengdu Shimao Investment Co., Ltd.)	17 November 2009	Domestic enterprise	Registered capital RMB1,200,000,000	50%	Property development

Jointly controlled entities – established and operation conducted in Hong Kong

Fast Right Investments Limited	7 May 2007	Limited liability company	2 ordinary shares of HK\$1	50%	Investment holding
Kingtron Enterprises Limited	14 June 2007	Limited liability company	2 ordinary shares of HK\$1	50%	Investment holding

37 CONTINGENCIES

The Group had the following contingent liabilities:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Guarantees in respect of mortgage facilities for certain purchasers (note (a))	8,400,117	7,093,011
Guarantee in respect of borrowings (note (b))	3,902,223	1,822,500
	12,302,340	8,915,511

Notes to the Consolidated Financial Statements

37 CONTINGENCIES (CONTINUED)

Note:

- (a) The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees, or when the Group obtained the "master property title certificate" upon completion of construction. The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.
- (b) The Group and other shareholders of Guangzhou Li He, an associated company, provided guarantees in proportion of their respective equity interests in Guangzhou Li He for its bank borrowings. The respective guarantees provided by the Group amounted to RMB1,570,393,000 as at 31 December 2012 (2011: RMB922,500,000).

The Group and other shareholders of Tianjin Jinnan, a jointly controlled entity, provided guarantees in proportion of their respective equity interests in Tianjin Jinnan for its borrowings from other financial institutions. As at 31 December 2012, the Group provided guarantees amounted to RMB550,000,000 (2011: RMB900,000,000), as well as the pledge of the Group's equity interest in Tianjin Jinnan.

The Group and other shareholders of Straits Construction, an associated company, provided guarantees in proportion of their respective equity interests in Straits Construction for its mezzanine facilities borrowed in January 2012. The respective guarantee provided by the Group to Straits Construction is with the amount of USD148,149,572 (equivalent to RMB931,000,000) as at 31 December 2012 (2011: Nil).

The Group provided guarantees for Nanchang New Development's bank borrowings before it became a jointly controlled entity. The respective guarantees provided by the Group amounted to RMB240,000,000 as at 31 December 2012 (2011: Nil).

The Group provided guarantees for Changsha Real Estate's bank borrowings before it became a jointly controlled entity. The respective guarantees provided by the Group amounted to RMB120,830,000 as at 31 December 2012 (2011: Nil).

The Group provided guarantees for Chengdu Investment's bank borrowings from certain banks. The respective guarantees provided by the Group amounted to RMB490,000,000 as at 31 December 2012 (2011: Nil).

38 COMMITMENTS

(a) Commitments for capital and property development expenditure

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Contracted but not provided for		
– Property and equipment	1,540,532	1,463,953
– Land use rights (including those related to associated companies and jointly controlled entities)	12,117,034	14,633,073
– Properties being developed by the Group for sale	14,056,391	13,395,760
	27,713,957	29,492,786

Notes to the Consolidated Financial Statements

38 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 1 year	78,755	77,541
Between 2 to 5 years	490,334	488,442
After 5 years	608,263	662,194
	1,177,352	1,228,177

39 RELATED PARTY TRANSACTIONS

The Group is controlled by Gemfair Investments Limited (incorporated in the British Virgin Islands), which owns 56.1% of the company's shares. The ultimate controlling party of the Group is Hui Wing Mau.

- (a) Other than those disclosed elsewhere in the financial statements, the Group had entered into the following major related party transactions during the year ended 31 December 2012.

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Operating lease rental expense charged by a related company (note)	5,411	3,738

Notes:

On 1 January 2012, the Group renewed a lease agreement with a wholly-owned subsidiary of Shimao International, of which certain directors of the Group are also directors, to lease part of office premises of Shimao International in Hong Kong.

Notes to the Consolidated Financial Statements

39 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Key management compensation

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Emoluments		
– Salaries and other short-term employee benefits	28,416	29,553
– Retirement scheme contributions	122	131
– Employee share option schemes	2,489	–
	31,027	29,684

40 SUBSEQUENT EVENTS

On 14 January 2013, the Company issued senior notes with total principal of US\$800,000,000 at a fixed interest rate of 6.625% due on 14 January 2020.

41 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on 26 March 2013.

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