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Logan Property Holdings Company Limited 龍光地產控股有限公司

(於開曼群島註冊成立之有限公司)

(股份代號：3380)

海外監管公佈

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

茲提述龍光地產控股有限公司(「本公司」)日期為二零一七年五月十六日內容有關發行票據的公佈(「該公佈」)。除另有界定者外，本公佈所用詞彙與該公佈所界定者具有相同涵義。

請參閱隨附有關票據的發售備忘錄(「發售備忘錄」)，其於二零一七年五月三十一日登載於新加坡證券交易所有限公司網站以供瀏覽。

於聯交所網站登載發售備忘錄僅為方便向香港投資者發佈相同資料及遵守上市規則第13.10B條的規定，並無任何其他目的。

發售備忘錄不構成於任何司法權區向公眾提呈發售任何證券的招股章程、通告、通函、宣傳冊子或廣告，亦並非就提呈認購或購買任何證券向公眾作出的要約，且不得計算為公眾提出認購或購買任何證券的要約。

發售備忘錄不得被視為認購或購買本公司任何證券的誘因，並不擬構成有關誘因。概不得根據發售備忘錄所載的資料作出投資決定。

承董事會命
龍光地產控股有限公司
主席
紀海鵬

香港，二零一七年五月三十一日

於本公佈刊發日期，執行董事為紀海鵬先生、紀建德先生、肖旭先生及賴卓斌先生；非執行董事為紀凱婷女士；獨立非執行董事為張化橋先生、廖家瑩女士及蔡穗聲先生。

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

IMPORTANT: You must read the following before continuing. The following applies to this offering memorandum following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of this 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 TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES REFERRED TO IN THE ATTACHED DOCUMENT HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT") OR UNDER ANY SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, RESOLD TRANSFERRED OR DELIVERED DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT).

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 HEREIN.

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 THE ATTACHED DOCUMENT, YOU MUST COMPLY WITH THE FOLLOWING PROVISIONS. YOU HAVE BEEN SENT THE ATTACHED DOCUMENT ON THE BASIS THAT YOU HAVE CONFIRMED TO HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED, GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED, AMTD ASSET MANAGEMENT LIMITED, VTB CAPITAL PLC AND CHINA CITIC BANK INTERNATIONAL LIMITED (COLLECTIVELY THE "INITIAL PURCHASERS") THAT YOU (I) ARE NON-U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) OUTSIDE THE UNITED STATES AND ARE NOT ACTING FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS AND, TO THE EXTENT YOU PURCHASE THE SECURITIES DESCRIBED IN THE ATTACHED DOCUMENT, YOU WILL BE DOING SO IN AN OFFSHORE TRANSACTION, AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT ("REGULATION S"), IN COMPLIANCE WITH REGULATION S; AND (II) CONSENT TO DELIVERY BY ELECTRONIC TRANSMISSION.

Within the United Kingdom, this 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, (ii) are outside the United Kingdom, or (iii) 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"). This 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. This 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 this 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 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.



Logan Property Holdings Company Limited
龍光地產控股有限公司

(incorporated in the Cayman Islands with limited liability)

US\$450,000,000
5.25% Senior Notes due 2023
Issue Price: 98.773%

Our 5.25% Senior Notes due 2023 (the “Notes”) will bear interest from May 23, 2017 at 5.25% *per annum* payable semi-annually in arrears on May 23 and November 23 of each year, beginning November 23, 2017. The Notes will mature on February 23, 2023.

The Notes are senior obligations of Logan Property Holdings Company Limited (the “Company”), guaranteed by certain of our existing subsidiaries (the “Subsidiary Guarantors”), other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the section entitled “Description of the Notes.” We refer to the guarantees by the Subsidiary Guarantors as Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a Subsidiary Guarantee required to be provided by a subsidiary of us may be replaced by a limited-recourse guarantee (a “JV Subsidiary Guarantee”). We refer to the subsidiaries providing a JV Subsidiary Guarantee as JV Subsidiary Guarantors.

We may at our option redeem the Notes, in whole or in part, at any time and from time to time on or after May 23, 2020, 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 May 23, 2020 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 105.25% of the principal amount of the Notes redeemed, 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 May 23, 2020, at a redemption price equal to 100% of the principal amount of the Notes redeemed 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 (i) senior in right of payment to any of our existing and future obligations expressly subordinated in right of payment to the Notes, (ii) at least *pari passu* in right of payment against us with respect to the Junes 2014 Notes, December 2014 Notes, January 2016 Notes and January 2017 Notes (together, the “Existing Notes”) and all of our other unsecured and unsubordinated indebtedness (subject to any priority rights of such unsecured and unsubordinated indebtedness pursuant to applicable law), (iii) 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, and (iv) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any). See the section entitled “Risk Factors—Risks relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees.”

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

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

Approval-in-principle has been received from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the offering, the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any of their respective associated companies (if any), the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any).

The Notes, 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 or to, or for the account or benefit of, a U.S. person (as defined in Regulation S under the U.S. Securities Act). The Notes are being offered and sold by the Initial Purchasers (as defined in this offering memorandum) only to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act (“Regulation S”). For a description of certain restrictions on resale or transfer, see the section entitled “Transfer Restrictions.”

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) (the “NDRC Notice”) promulgated by National Development and Reform Commission (the “NDRC”) of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC dated February 6, 2017 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the Notes to be reported to the NDRC within 10 working days after the issue date of the Notes.

It is expected that the delivery of the Notes will be made on or about May 23, 2017 through the book-entry facilities of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”) against payment therefor in immediately available funds.

Joint Global Coordinators

Haitong International

Guotai Junan International

Joint Bookrunners and Joint Lead Managers

AMTD

VTB Capital

China CITIC Bank International

The date of this offering memorandum is May 16, 2017

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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, HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED, ACTING IN ITS CAPACITY AS A STABILIZING MANAGER OR ANY PERSON ACTING FOR THEM MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE STABILIZING MANAGER, 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 (if any) 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 (if any), 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. The Company and the Subsidiary Guarantors accept full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. 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 Haitong International Securities Company Limited, Guotai Junan Securities (Hong Kong) Limited, AMTD Asset Management Limited, VTB Capital plc and China CITIC Bank International Limited (the “Initial Purchasers”), Citicorp International Limited (the “Trustee”), Citibank, N.A., London Branch (the “Paying Agent,” the “Transfer Agent” and the “Registrar,” and collectively, the “Agents”) or any of their respective affiliates or advisors 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, the Trustee or the Agents 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.

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, the Trustee or the Agents or any person affiliated with the Initial Purchasers, the Trustee or the Agents in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been 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 Trustee or the Agents.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) 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 and the JV Subsidiary Guarantees (if any), 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, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), 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, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), 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 advisors for legal, business, tax and other advice regarding an investment in the Notes.

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 purchase 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 Logan 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 advisors, and neither we, the Initial Purchasers nor our or their respective directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. 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 RMB6.9430 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 December 30, 2016, and all translations from H.K. dollar amounts into U.S. dollar amounts were made at the rate of HK\$7.7534 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 December 30, 2016. 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. All amounts converted into U.S. dollars contained in this offering memorandum are unaudited and for reference purposes only. For further information relating to the exchange rates, see the section entitled “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.

References to “average selling price” or “ASP” are to the average selling price on a gross basis, unless otherwise stated.

References to “CAGR” are to the compound annual growth rate.

References to “commercial property(ies)” are to the property(ies) designated for commercial use.

References to “completion certificate” are to the construction works completion inspection certificate (房屋建築工程竣工驗收備案表) issued by local urban construction bureaux or equivalent authorities in China with respect to the completion of property projects subsequent to their on-site examination and inspection.

References to “construction commencement permit” are to the construction works commencement permit (建築工程施工許可證) issued by local construction bureaux or equivalent authorities in China with respect to commencement of construction works.

References to “construction land planning permit” are to the construction land planning permit (建設用地規劃許可證) issued by local urban zoning and planning bureaux or equivalent authorities in China with respect to planning of construction land.

References to “construction works planning permit” are to the construction works planning permit (建設工程規劃許可證) issued by local urban zoning and planning bureaux or equivalent authorities in China with respect to planning of construction works.

References to “Corporate Bonds” are to our Public Corporate Bonds and Private Corporate Bonds, collectively.

References to “December 2014 Notes” are to our 9.75% Senior Notes due 2017 issued on December 8, 2014.

References to “Existing Notes” are to our June 2014 Notes, December 2014 Notes, January 2016 Notes and January 2017 Notes collectively.

References to “GDP” are to the gross domestic product.

References to “GFA” are to the gross floor area; references to “leasable GFA” are to the GFA attributable to the land parcel for leasing and investment appreciation purposes; references to “saleable GFA” are to the GFA attributable to the land parcel for sale minus the GFA attributable to car parks, non-saleable areas and public areas; references to “total GFA” are to the GFA attributable to the above-ground and underground saleable and/or leasable area contained within the external walls of any building at each floor level and the whole thickness of the external walls of the relevant project together with other non-leasable and non-saleable area and it generally includes mechanical and electrical services rooms, refuse rooms, water tanks, car parks, elevators and staircases. The figures for GFA are based on figures provided in or estimates based on relevant governmental documents, such as property ownership certificates, construction works planning permits, pre-sale permits, construction land planning permits, completion certificates, land use rights certificates or other relevant documents and includes saleable areas, non-saleable areas, car parks and public areas.

References to “January 2016 Notes” are to our 7.70% Senior Notes due 2020 issued on January 19, 2016.

References to “January 2017 Notes” are to our 5.75% Senior Notes due 2022 issued on January 3, 2017.

References to “June 2014 Notes” are to our 11.25% Senior Notes due 2019 issued on June 4, 2014.

References to “land bank,” “development projects,” “property projects” or “projects” refer to our property projects with land for which we have obtained land-use rights and property projects for which we have not obtained land-use rights but have entered into the land grant contracts or received successful tender auction confirmations.

References to “land grant contract” are to the state-owned land use right grant contract (國有土地使用權出讓合同) between a land user and the relevant PRC governmental land administrative authorities.

References to “land use rights certificate” are to the state-owned land use rights certificate (國有土地使用證), a certificate (or certificates, as the case may be) of the right of a party to use a parcel of land.

References to “LAT” are to the land appreciation tax, as defined in the PRC Provisional Regulations on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) of 1994 and its implementation rules.

References to “Logan Construction” are to Logan Construction Co., Ltd. (龍光工程建設有限公司), a non-wholly owned subsidiary of ours established in the PRC on March 22, 2005.

References to “Logan Real Estate” are to Logan Real Estate Holdings Co., Ltd. (龍光地產股份有限公司), a company established in the PRC on May 15, 2003 and one of our predecessors.

References to “plot ratio” are to the ratio of the GFA (excluding floor area below ground) of all buildings to their site area.

References to “pre-sale permit” are to the commodity property pre-sale permit (商品房預售許可證) issued by a local housing and building administrative bureau or an equivalent authority with respect to pre-sale of the relevant properties.

References to “Public Corporate Bonds” are to a series of private corporate bonds issued by Shenzhen Logan in an aggregate principal amount of RMB6.4 billion (US\$1.0 billion) to qualified investors in tranches with a tenor of four to five years and at a coupon rate of 3.4% to 5.0% per annum.

References to “property ownership certificate” are to the property ownership certificate (房屋所有權證) issued by relevant PRC government authorities with respect to the ownership rights of buildings.

References to “Private Corporate Bonds” are to a series of private corporate bonds issued by Shenzhen Logan in an aggregate principal amount of RMB6.0 billion (US\$0.9 billion) to qualified investors in tranches with a tenor of three to five years and at a coupon rate of 5.15% to 5.8% per annum.

References to “public tender,” “auction,” or “listing-for-sale” are to the public tender, auction or listing at a land exchange administered by the local government, each of which is a competitive bidding process through which a purchaser acquires land use rights directly from the PRC government.

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 “Shenzhen Logan” are to Shenzhen Logan Holding Co, Ltd., our wholly owned PRC subsidiary, formerly known as Shenzhen Youkaisu Investment Co., Ltd.

References to “sq.km.” are to square kilometers.

References to “sq.m.” are to square meters.

The site area information for an entire project is based on the relevant land use rights certificates, land grant contracts, tender documents, or other relevant agreements, depending on which documents are available. If more than one documents is available, such information is based on the most recent document available.

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 Listing Rules, which includes: (i) a “subsidiary undertaking” as defined in the twenty-third schedule to the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “Companies Ordinance”), (ii) any entity which is accounted for and consolidated in the 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 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.

PRESENTATION OF OUR FINANCIAL STATEMENTS

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 (“GAAP”) in certain other jurisdictions. Unless the context otherwise requires, references to “2015” and “2016” in this offering memorandum are to our financial years ended December 31, 2015 and 2016, respectively.

The audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016, contains two qualifications (relating to certain of our receivables and capital contributions to two of our subsidiaries in the PRC), both of which apply to our financial year ended December 31, 2016, and one of which may impact our financial year ended December 31, 2015. See “Risk Factors—Risks Related to the Financial Information Included in this Offering Memorandum—The audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016, contains two qualifications and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Factor Affecting the Comparability of our Results of Operations—Qualifications in the audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016”.” **Investors are advised to exercise caution when reviewing this offering memorandum and our consolidated financial statements included elsewhere in this offering memorandum.**

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, the 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 Cogency Global Inc. (formerly known as 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 advisors, Conyers Dill & Pearman, that the courts of the Cayman Islands are unlikely (i) to enforce against us judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any state, and (ii) in original actions brought in the Cayman Islands, to impose liabilities against us, our directors or officers, any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) or their respective directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state, in each case on the grounds that such provisions may be held by the courts of the Cayman Islands to be penal, revenue or other public laws of a foreign state. However, in the case of laws that are not penal, revenue or other public laws of a foreign state, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment *in personam* obtained in the courts of the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an *in personam* judgment for non-monetary relief, and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the Cayman Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands, and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

There is also uncertainty as to whether the courts of the BVI would (i) enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the federal securities laws of the United States or any state or territory within the United States; or (ii) entertain original actions brought in the courts of the BVI against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or any state or territory within the United States.

We have been advised by our BVI legal advisors, Conyers Dill & Pearman, that the courts of the BVI would recognize as a valid judgment, a final and conclusive judgment *in personam* obtained in any U.S. federal or New York state court located in the borough of Manhattan, City of New York against a Subsidiary Guarantor or JV Subsidiary Guarantor (if any) incorporated in BVI under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the BVI, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the BVI, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the BVI, and (f) there is due compliance with the correct procedures under the laws of the BVI.

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

- (a) was obtained by fraud;
- (b) was rendered by a foreign court that lacked the appropriate jurisdiction at the time (as determined by Hong Kong jurisdictional rules);
- (c) is contrary to public policy or natural justice in Hong Kong;
- (d) is based on foreign penal, revenue or other public law; or
- (e) falls within Section 3(1) of the Foreign Judgments (Restriction on Recognition and Enforcement) Ordinance (Chapter 46 of the Laws of Hong Kong).

We have also been advised by our PRC legal advisors, Commerce & Finance Law Offices, that there is uncertainty as to whether the courts of China would (i) enforce judgments of U.S. courts obtained against us, our directors or officers, any Subsidiary Guarantor, 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.

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 property developer in the PRC focusing on the residential property market, and our products are primarily targeted at first-time homebuyers and upgraders. We believe demand from such customers is less susceptible to fluctuations in property prices and thus provides stability to our business profile. In 2017, we were ranked as the 29th-largest property developer in the PRC by comprehensive strength.⁽¹⁾

We have a land bank comprising land we acquired at competitive prices, and we strive to build our land bank by establishing and expanding our presence in economic regions which we believe hold high growth potential. As of December 31, 2016, we had a land bank with an aggregate GFA of 14.1 million sq.m., primarily comprising residential property projects with ancillary retail shops, as well as an office property project where our headquarters is located. As of December 31, 2016, approximately 50% of our land bank was located in the Pearl River Delta region, among which 40% of our land bank was located in Shenzhen; and approximately 16% and 26% of the land bank was located in Shantou and Nanning, respectively. We believe our current land bank will be sufficient to meet our development needs and will provide a solid foundation for our continuing growth and profitability for the next five to six years, based on our current projections and our historical sales and land development records.

We have established a replicable property development process, which is supported by our in-house departments and subsidiaries specializing in design and planning, construction, decoration, procurement, sales, customer services and each other major step in the property development process. We leverage our ability to build projects through Logan Construction, our own construction subsidiary, and our centralized and strategic procurement, quick development operation model and cost control over the whole property development process to optimize our costs, shorten development cycles, improve cash flow and maintain profitability. Through our strategic planning and disciplined property development process, we aim to achieve high asset revenue for our projects. We generally target commencing pre-sales of properties within six to 10 months of acquiring a parcel of land for a substantial majority of our projects.

As of December 31, 2016, we had completed a total GFA of over 15 million sq.m. Over the past 20 years, we have established ourselves as one of the leading developers focusing on residential properties in China’s economically developed cities, regions and emerging areas, including, among others, Shenzhen and other cities located in the Pearl River Delta region, Shantou and Nanning. In 2017, our Group was recognized as a “2017 Top 100 Chinese Real Estate Developers—Top 10 in Profitability” jointly by the Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所), the Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所) and China Index Academy (中國指數研究所). We believe that our track record, together with the strength of our “Logan” (龍光) brand and the leadership and vision of our management team, positions us well to expand into other cities in the PRC. In 2015 and 2016, our revenue was RMB14,574.0 million and RMB20,538.8 million (US\$2,958.2 million), respectively, and our net profit was RMB2,687.8 million and RMB5,199.9 million (US\$748.9 million), respectively, for the same periods.

Note:

- (1) The ranking is based on a joint evaluation by Enterprise Institute of the Development Research Center of the State Council of China, Institute of Real Estate Studies of Tsinghua University and China Index Academy of the largest property developers in the PRC by comprehensive strength in 2017.

We have developed a diversified product portfolio which includes high-rise apartment buildings and low-rise garden apartments, among others, catering to the residential property market. We have developed two distinctive product styles, namely neoclassical and art deco, each of which comprises standardized designs for facades, interior designs and landscaping, as well as standardized parts and materials. We leverage our quick development operation model and our standardized control over each step of our property development process to ensure product and service quality, maintain and improve our future development and profitability.

COMPETITIVE STRENGTHS

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

- we have a land bank comprising land we acquired at competitive prices concentrated in the economically developed Pearl River Delta region, which provides a solid foundation for our future growth and profitability;
- we have effective cost control over the entire property development process;
- we have established diversified funding channels and maintained prudent financial management;
- leveraging our considerable strength in various cities in southern China, we can readily expand into other high-growth regions; and
- we have a well-experienced management team and have established comprehensive human resources policies to support our future development.

BUSINESS STRATEGIES

We intend to grow and strengthen our business through the implementation of the following core business strategies:

- consolidate our market position in Guangdong and Guangxi Provinces, and selectively expand into other high-growth regions;
- maintain our competitiveness by focusing on producing high-quality, value-added properties for first-time homebuyers and upgraders;

- further attract, develop and retain managerial talents and further elevate managerial expertise; and
- continue implementing a high-efficiency operating philosophy to achieve a quick development operation model, further enhancing our operating results.

RECENT DEVELOPMENTS

Land Acquisition

Subsequent to December 31, 2016, we have entered into certain agreements in relation to the purchase of two parcels of land. The following table sets forth certain information concerning such land. We may continue to explore property development opportunities as we deem appropriate, by ourselves or through cooperation with third parties, in the Chinese or overseas markets in the future.

Time of acquisition	Location	Project	Attributable interest	Site area	Planned total GFA	Consideration		Type
			%	sq.m.	sq.m.	RMB in millions	US\$ in millions	
February 14, 2017	Liuzhou	Liudong New District Business Center (柳東新區商務中心)	100%	187,443	620,565	1,102.7	158.8	Residential and retail
February 24, 2017	Hong Kong	Ap Lei Chau	50%	11,761	42,480–70,800	14,832.4	2,136.3	Non-industrial

On February 24, 2017, the Hong Kong Lands Department announced that the tender for a site in Ap Lei Chau, Hong Kong, has been awarded to the highest tenderer, Unicorn Bay (Hong Kong) Investments Limited, an entity which will be indirectly held jointly by us and KWG Property Holding Limited, on a 50-year land grant at a premium of HK\$16,855.78 million (RMB14,832.4 million). The site has a site area of about 11,761 sq.m. and is designated for non-industrial (excluding godown, hotel and petrol filling station) purposes. The minimum GFA and the maximum GFA are 42,480 sq.m. and 70,800 sq.m., respectively. We plan to fund our portion of the premium for the acquisition of the site with our internal and external funds, including bank loans for which we are currently in discussions with certain lenders. Such loans may or may not be granted and drawn down prior to the issuance of the Notes.

GENERAL INFORMATION

We were incorporated in the Cayman Islands as an exempted company with limited liability on May 14, 2010. Our shares have been listed on the Hong Kong Stock Exchange since December 20, 2013. Our place of business in Hong Kong is at Unit Nos. 02–03A, Level 68, International Commerce Centre, 1 Austin Road West, Hong Kong. Our registered office is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our website is <http://www.loganestate.com>. Information contained on our website does not constitute part of this offering memorandum.

THE OFFERING

The following is a brief summary of the terms of this offering and is qualified in its entirety by the remainder of this offering memorandum. Terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the Notes.”

Issuer	Logan Property Holdings Company Limited (the “Company”).
Notes Offered	US\$450,000,000 aggregate principal amount of 5.25% Senior Notes due 2023 (the “Notes”).
Offering Price	98.773% of the principal amount of the Notes.
Maturity Date	February 23, 2023.
Interest	The Notes will bear interest from and including May 23, 2017 at the rate of 5.25% per annum, payable semi-annually in arrears.
Interest Payment Dates	May 23 and November 23 of each year, commencing November 23, 2017.
Ranking of the Notes	The Notes are: <ul style="list-style-type: none">• 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 with the Existing Notes and all other unsecured and unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured and 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 in “Description of the Notes—The Subsidiary Guarantees and the JV Subsidiary Guarantees” and in “Risk Factors—Risks relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees;”• effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

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

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances. See the section entitled “Description of the Notes—The Subsidiary Guarantees and the JV Subsidiary Guarantees—Release of the Subsidiary Guarantees or JV Subsidiaries Guarantees.”

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company’s Restricted Subsidiaries, as defined under “Description of the Notes—Definitions,” other than (i) those Restricted Subsidiaries organized under the laws of the PRC and (ii) the Initial Other Non-Guarantor Subsidiaries (as defined under “Description of the Notes—Definitions”). The Subsidiary Guarantors are holding companies that do not have significant operations. None of the existing or future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future.

Any future Restricted Subsidiary (other than (i) Persons organized under the laws of the PRC and (ii) Restricted Subsidiaries designated as New Non-Guarantor Subsidiaries) will provide a guarantee of the Notes as soon as practicable (and in any event within 30 days) upon becoming a Restricted Subsidiary.

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

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to the 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;
- ranks at least *pari passu* with the subsidiary guarantee of such Subsidiary Guarantor for the Existing Notes and all other unsecured and unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured and unsubordinated Indebtedness pursuant to applicable law); and
- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

Ranking of JV Subsidiary

Guarantees If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will, together with all the JV Subsidiary Guarantees provided by the subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be enforceable only up to the JV Entitlement Amount;
- will be effectively subordinated to the secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will, together with all the JV Subsidiary Guarantees provided by the subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, 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, together with all the JV Subsidiary Guarantees provided by the subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be limited to the JV Entitlement Amount, and will rank at least *pari passu* with all other unsecured and unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsecured and unsubordinated indebtedness pursuant to applicable law).

New Non-Guarantor Subsidiaries ... A future Restricted Subsidiary organized outside the PRC need not provide a Subsidiary Guarantee or JV Subsidiary Guarantee if it is so elected by the Company at the time such entity becomes a Restricted 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 neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor (Other than Exempted Subsidiaries and Listed Subsidiaries) do not account for more than 30% of the Total Assets of the Company.

Use of Proceeds We intend to use the net proceeds from this offering for refinancing our existing indebtedness and for general corporate purposes.

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”).

Optional Redemption At any time and from time to time on or after May 23, 2020, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of the principal amount of the Notes redeemed 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 May 23 of each year set forth below:

<u>Period</u>	<u>Redemption Price</u>
2020	102.6250%
2021 and thereafter	101.3125%

At any time and from time to time prior to May 23, 2020, 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.

At any time and from time to time prior to May 23, 2020, 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 105.25% 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.

The Company will give not less than 30 days' nor more than 60 days' notice of any 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 at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest (if any) to (but not including) the Offer to Purchase Payment Date.

Redemption for Taxation Reasons .. Subject to certain exceptions and as more fully described herein, the Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and the Trustee (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 for redemption, if the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor (if any) would become obligated to pay certain Additional Amounts as a result of certain changes in specified tax laws. See the section entitled "Description of the Notes—Redemption for Taxation Reasons."

Covenants The Notes, the Indenture governing the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) will limit the Company's ability and the ability of its Restricted Subsidiaries to, among other things:

- incur 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, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See the section entitled "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 and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes deposited with a common depository and registered in the name of the common depository or its nominee. Beneficial interests in the Global Certificate will be shown on, and transfer thereof will be effected only through the records maintained by Euroclear and Clearstream and their participants.	
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. For a description of certain factors relating to clearance and settlement, see the section entitled “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 May 23, 2017, 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 the section entitled “Plan of Distribution.”	
Trustee	Citicorp International Limited	
Paying Agent, Transfer Agent and Registrar	Citibank, N.A., London Branch	
Listing and Trading	Approval-in-principle has been received from the SGX-ST for the listing and quotation of the Notes 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, the Notes will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies).	
Ratings	The Notes are expected to be rated “B1” by Moody’s Investors Service and “BB-” by Fitch Ratings. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. We cannot assure investors that these ratings will be confirmed or they will not be adversely revised or withdrawn either before or after delivery of the Notes.	
Security Codes	<u>ISIN</u>	<u>Common Code</u>
	XS1618597535	161859753
Governing Law	The Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) 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 the section entitled “Risk Factors.”	

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables present our summary consolidated financial and other data. The summary consolidated statement of profit or loss data for the years ended December 31, 2015 and 2016 and the summary consolidated statement of financial position as of December 31, 2015 and 2016 set forth below (except for other financial data and US\$ data) have been derived from our consolidated financial statements as of and for the years ended December 31, 2016, which are included elsewhere in this offering memorandum. Potential investors must exercise caution when using such data to evaluate our financial condition and results of operation. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from GAAP 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. The summary financial data below is qualified in its entirety by reference to our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

The consolidated financial statements for the year ended December 31, 2016 were audited by KPMG and the auditor’s report, which was reproduced on pages F-2 to F-10 in this offering memorandum, was qualified in respect of the following matters:

- (a) certain joint ventures incurred payments to third parties to fund the costs for the acquisition of certain urbanization projects. These payments of approximately RMB900 million have been included in receivables as of December 31, 2016. However, KPMG have been unable to obtain sufficient audit evidence to ascertain the nature of these payments, and thus cannot satisfy themselves as to the appropriateness of accounting for these payments as receivables as of December 31, 2016.
- (b) our Group has entered into capital contribution agreements with Shenzhen Pingan Dahua Huitong Wealth Management Co., Ltd. (“Pingan Dahua”) in 2015 and 2016, pursuant to which Pingan Dahua has made capital contributions to two subsidiaries of our Group (Shenzhen Logan Junjing Real Estate Development Co., Ltd. (深圳市龍光駿景房地產開發有限公司) (“Shenzhen Logan Junjing”) and Huizhou Daya Bay Dongzhen Property Co., Ltd. (惠州大亞灣東圳房地產有限公司) (“Huizhou Dongzhen”). As of December 31, 2016, Pingan Dahua contributed a total of RMB4,800 million and RMB3,960 million to Shenzhen Logan Junjing and Huizhou Dongzhen, respectively (2015: RMB2,800 million and nil, respectively). In 2016, Pingan Dahua received RMB2,086 million from our Group on the repurchase of Pingan Dahua’s 49% interest in our subsidiary, Shenzhen Jinjun Property Co., Ltd. (“Shenzhen Jinjun”). These transactions have been accounted for as equity transactions whereby adjustments have been made to the amount of other reserves within controlling shareholders’ interests and non-controlling interests in our consolidated financial statements as of December 31, 2016 and 2015. KPMG stated in their audit report that during their audit of the consolidated financial statements as of December 31, 2016, it came to their attention that certain agreements specified certain payments obligations by Shenzhen Logan Junjing and Huizhou Dongzhen to Pingan Dahua in connection with the above capital contributions. In KPMG’s opinion, as the agreements contain obligations for our Group to repurchase its own equity instruments in certain circumstances, accounting for these transactions entirely as equity transactions is not in accordance with the requirements of Hong Kong Accounting Standard 32 *Financial Instruments: Presentation*. KPMG stated in their audit report dated March 30, 2017 on our consolidated financial statements for the year ended December 31, 2016 that they have been unable to quantify the financial effect of this departure as of the date of their audit report as they have been unable to satisfy themselves that they have a full understanding of the rights and obligations of both sides to the agreements and any other similar transactions accounted for as equity transactions in our Group’s consolidated financial statements as of December 31, 2016 and 2015. KPMG further stated that any adjustments to these amounts would affect the amount of liabilities and net assets we reported as at those dates and may affect the profit recognized for the years then ended.

As a result of the above qualifications, we believe that some of the line items of our financial statements for each of the years ended, and as of, December 31, 2016 and December 31, 2015 were potentially affected, the magnitude of which impact was uncertain. See “Risk Factors—Risks Related to the Financial Information Included in this Offering Memorandum—The audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016, contains two qualifications” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Factor Affecting the Comparability of our Results of Operations—Qualifications in the audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016”. **Investors should exercise caution when reviewing the offering memorandum and our consolidated financial statements included elsewhere in this offering memorandum.**

SUMMARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER FINANCIAL DATA

	For the year ended December 31,		
	2015	2016	
	RMB	RMB	US\$
	(in thousands, except for percentages)		
Revenue	14,574,010	20,538,838	2,958,208
Direct costs	(10,143,907)	(13,979,010)	(2,013,396)
Gross profit	4,430,103	6,559,828	944,812
Other revenue	134,635	423,523	61,000
Other expenses	(144,029)	(196,327)	(28,277)
Selling and marketing expenses	(573,138)	(714,249)	(102,873)
Administrative expenses	(587,839)	(556,700)	(80,181)
Net increase in fair value of investment properties ..	943,057	2,681,903	386,274
Net increase in fair value of derivative financial instruments	6,936	81,720	11,770
Share of profit of an associate	—	31,723	4,569
Share of losses of joint ventures	—	(6,137)	(884)
Profit from operations	4,209,725	8,305,284	1,196,210
Finance costs	(36,215)	(371,850)	(53,558)
Profit before taxation	4,173,510	7,933,434	1,142,652
Income tax	(1,485,692)	(2,733,551)	(393,713)
Profit for the year	2,687,818	5,199,883	748,939
Attributable to:			
—Equity shareholders of the Company	2,649,279	4,487,736	646,368
—Non-controlling interests	38,539	712,147	102,571
Profit for the year	2,687,818	5,199,883	748,939
Other financial data:			
EBITDA ⁽¹⁾	3,873,696	6,584,236	948,327
EBITDA margin ⁽²⁾	26.6%	32.1%	32.1%

Notes:

- (1) EBITDA for any period consists of profit from operations less changes in fair value of investment properties, and other borrowing costs included in finance costs plus capitalized interest included in direct costs and depreciation expenses included in administrative 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. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. 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 the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures" for a reconciliation of our profit from operations under HKFRS to our definition of EBITDA.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,		
	2015	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Non-current assets			
Investment properties	6,117,500	11,890,879	1,712,643
Other property, plant and equipment	165,622	184,317	26,547
	<u>6,283,122</u>	<u>12,075,196</u>	<u>1,739,190</u>
Deferred tax assets	385,210	273,500	39,392
Interest in joint ventures and an associate.....	—	15,404,313	2,218,683
Restricted and pledged deposits	343,065	227,304	32,739
	<u>7,011,397</u>	<u>27,980,313</u>	<u>4,030,003</u>
Current assets			
Inventories	28,198,344	40,197,099	5,789,586
Trade and other receivables	10,025,722	2,943,357	423,932
Tax recoverable	402,045	810,941	116,800
Assets under cross-border guarantee arrangements..	286,600	—	—
Restricted and pledged deposits	2,212,300	1,010,172	145,495
Cash and cash equivalents	8,635,258	13,559,827	1,953,021
	<u>49,760,269</u>	<u>58,521,396</u>	<u>8,428,834</u>
Current liabilities			
Trade and other payables	16,969,129	23,919,327	3,445,100
Liabilities under cross-border guarantee arrangements	286,600	—	—
Bank and other loans	4,044,885	3,370,501	485,453
Senior Notes	—	1,747,637	251,712
Tax payable	1,320,647	2,017,405	290,567
	<u>22,621,261</u>	<u>31,054,870</u>	<u>4,472,832</u>
Net current assets	<u>27,139,008</u>	<u>27,466,526</u>	<u>3,956,003</u>
Total assets less current liabilities	<u>34,150,405</u>	<u>55,446,839</u>	<u>7,986,006</u>
Non-current liabilities			
Bank and other loans	7,117,037	11,707,510	1,686,232
Corporate bonds	5,000,000	12,400,000	1,785,971
Senior notes	3,588,720	3,960,889	570,487
Deferred tax liabilities	983,731	1,627,094	234,350
	<u>16,689,488</u>	<u>29,695,493</u>	<u>4,277,041</u>
NET ASSETS	<u>17,460,917</u>	<u>25,751,346</u>	<u>3,708,965</u>
CAPITAL AND RESERVES			
Share capital	439,821	434,591	62,594
Reserves	13,108,958	18,992,258	2,735,454
Total equity attributable to equity shareholders of the Company	<u>13,548,779</u>	<u>19,426,849</u>	<u>2,798,048</u>
Non-controlling interests	3,912,138	6,324,497	910,917
TOTAL EQUITY	<u>17,460,917</u>	<u>25,751,346</u>	<u>3,708,965</u>

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 RELATED TO THE FINANCIAL INFORMATION INCLUDED IN THIS OFFERING MEMORANDUM

The audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016, contains two qualifications

The audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016, contains two qualifications (as reproduced on pages F-2 to F-10 in this offering memorandum), both of which apply to our financial year ended December 31, 2016, and one of which may impact our financial year ended December 31, 2015:

- (a) certain joint ventures incurred payments to third parties to fund the costs for the acquisition of certain urbanization projects. These payments of approximately RMB900 million have been included in receivables as of December 31, 2016. However, KPMG have been unable to obtain sufficient audit evidence to ascertain the nature of these payments, and thus cannot satisfy themselves as to the appropriateness of accounting for these payments as receivables as of December 31, 2016.
- (b) our Group has entered into capital contribution agreements with Shenzhen Pingan Dahua Huitong Wealth Management Co., Ltd. (“Pingan Dahua”) in 2015 and 2016, pursuant to which Pingan Dahua has made capital contributions to two subsidiaries of our Group (Shenzhen Logan Junjing Real Estate Development Co., Ltd. (“Shenzhen Logan Junjing”) and Huizhou Daya Bay Dongzhen Property Co., Ltd. (“Huizhou Dongzhen”). As of December 31, 2016, Pingan Dahua contributed a total of RMB4,800 million and RMB3,960 million to Shenzhen Logan Junjing and Huizhou Dongzhen, respectively (2015: RMB2,800 million and nil, respectively). In 2016, Pingan Dahua received RMB2,086 million from our Group on the repurchase of Pingan Dahua’s 49% interest in our subsidiary, Shenzhen Jinjun Property Co., Ltd. (“Shenzhen Jinjun”). These transactions have been accounted for as equity transactions whereby adjustments have been made to the amount of other reserves within controlling shareholders’ interests and non-controlling interests in our consolidated financial statements as of December 31, 2016 and 2015. KPMG stated in their audit report that during their audit of the consolidated financial statements as of December 31, 2016, it came to their attention that certain agreements specified certain payments obligations by Shenzhen Logan Junjing and Huizhou Dongzhen to Pingan Dahua in connection with the above capital contributions. In KPMG’s opinion, as the agreements contain obligations for our Group to repurchase its own equity instruments in certain circumstances, accounting for these transactions entirely as equity transactions is not in accordance with the requirements of Hong Kong Accounting Standard 32 *Financial Instruments: Presentation*. KPMG stated in their audit report dated March 30, 2017 on our consolidated financial statements for the year ended December 31, 2016 that they have been unable to quantify the financial effect of this departure as of the date of their audit report as they have been unable to satisfy themselves that they have a full understanding of the rights and obligations of both sides to the agreements and any other similar transactions accounted for as equity transactions in our Group’s consolidated financial statements as of December 31, 2016 and 2015. KPMG further stated that any adjustments to these amounts would affect the amount of liabilities and net assets we reported as at those dates and may affect the profit recognized for the years then ended.

In addition, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Factor Affecting the Comparability of our Results of Operations—Qualifications in the audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016” for more details with respect to such qualifications.

We would not be able to quantify any adjustments or specify which line item may need to be adjusted, which we believe would result in such audit opinion not being qualified. Such adjustments if any, could be material, and could impact our financial statements for the year ended, and as of, December 31, 2016 and December 31, 2015. **As a result, investors should exercise caution when reviewing the offering memorandum and our consolidated financial statements included elsewhere in this offering memorandum.** Investors should note that we have the right to, with or without cause, remove our auditors, subject to compliance with applicable laws and regulations. Likewise, our auditors may at their option elect to resign from their role as our auditors.

RISKS RELATING TO OUR BUSINESS

We are heavily dependent on the performance of and policies affecting the PRC property market, particularly in Guangdong Province

Our business and prospects depend heavily on the performance of and policies affecting the PRC property market. Any housing market downturn or policy change in the PRC generally or in the regions where we have property developments could adversely affect our business, financial condition and results of operations. Most of our property developments are located in Guangdong Province and Guangxi Province. Sales of residential property projects in Guangdong Province and Guangxi Province accounted for the majority of our revenue from sales of properties in 2015 and 2016. Going forward, we intend to maintain our focus on the property markets in Guangdong and Guangxi Provinces, while selectively increasing our presence in other markets in the PRC which we believe have high growth potential, including the Chengdu-Chongqing and Bohai Bay economic regions. As such, our business is and may continue to be heavily dependent on the continued growth of the property market in Guangdong and Guangxi Provinces and any adverse developments in the supply and demand or decline in property prices in Guangdong and Guangxi Provinces would have an adverse effect on our results of operations and financial condition. In addition, future demand for different types of residential properties is uncertain. If we fail to respond to changes in market conditions or customer preferences in a timely manner or at all, our business, financial condition and results of operations will be adversely affected.

The PRC property market is affected by many factors, including changes in the PRC’s social, political, economic and legal environment, changes in the PRC government’s fiscal and monetary policy, the lack of a mature and active secondary market for residential and commercial properties and the relatively limited availability of mortgage loans to individuals in the PRC. Demand for residential properties in the PRC, particularly in Guangdong Province, has grown significantly in recent years, but such growth is often coupled with volatility in market conditions and fluctuations in property prices. In particular, China’s property market is affected by the recent slowdown in China’s economic growth, with China’s yearly real GDP growth rate decreasing from 6.9% for 2015 to 6.7% for 2016. A number of factors have contributed to China’s economic slowdown, including the appreciation of the Renminbi and the tightening macroeconomic measures and monetary policies adopted by the PRC government aimed at preventing the overheating of China’s economy, controlling China’s high level of inflation, and stabilizing the growth of specific sectors, including the property market. Due in large part to such control measures, including home purchase restrictions and credit tightening policies, property markets in certain cities had experienced decreases in both trade volume and sale prices in recent periods. We cannot assure you that property sales will return to past levels or that we will be able to benefit from any future growth in the property market in Guangdong Province or elsewhere in the PRC. Any further decline in property sales or decrease in property prices in the PRC generally or in the regions where we have property developments could have a material adverse effect on our business, financial condition and results of operations.

Additionally, the People’s Bank of China (the “PBOC”) increased the benchmark one-year lending rate three times in 2011, and subsequently decreased the benchmark one-year lending rate. On August 26, 2015, the PBOC lowered the benchmark one-year bank lending rate to 4.60%, and on October 24, 2015, the PBOC further lowered the benchmark one-year bank lending rate to 4.35%. The benchmark one-year bank lending rates published by the PBOC for the years ended December 31, 2015 and 2016 were 4.35% and 4.35%, respectively. The PBOC may further increase or decrease the benchmark one-year lending

rate in the future. Increases in interest rates may increase our finance costs and make mortgage financing more expensive for our potential customers, which may in turn have a material adverse effect on our business, financial condition and results of operations. Any other adverse developments in national and local economic conditions as measured by factors such as inflation, employment levels, job growth, consumer confidence and population growth, particularly in the regions where we operate, may affect demand for our projects and would have a material adverse effect on our business, financial condition and results of operations.

The global economic slowdown and financial crisis have negatively affected, and may continue to negatively affect, our business

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

- the economic slowdown and credit tightening measures have reduced the demand for residential and commercial properties and resulted in a reduction of property prices; and
- the tightening of credit has negatively impacted the ability of property developers and potential property purchasers to obtain financing.

In addition, recent global market and economic conditions, including the European sovereign debt crisis, the United States credit rating downgrade, and heightened market volatility in major stock markets, have been unprecedented and challenging. These and other issues resulting from the global economic slowdown and financial market turmoil have adversely impacted, and may continue to adversely impact, the willingness of potential property purchasers to purchase our properties, which may lead to a decline in the general demand for our projects and decrease in 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, financial condition and results of operations could be materially and adversely affected.

If we expand into new markets, we may not be able to replicate the success we have achieved in our core markets or successfully manage our expanded operations

We have been expanding our operations in recent years and may continue expanding. We continue to focus our business on our core markets in Guangdong Province and Nanning, the largest city in Guangxi Province, where the majority of our projects are located. We may expand into new markets to seize market opportunities in both the Chinese and overseas markets as we deem appropriate in the future. However, our experience in our core markets and quick development operation model may not be readily transferable to other regions. Markets in other regions may differ from our core markets in terms of customer tastes, behavior and preferences. We will have limited ability to leverage our established brands and reputation in these new markets in the way that we have done in our core markets. Furthermore, the administrative, regulatory and tax environment in such regions may differ substantially from those in our core markets, and we may face additional expenses or difficulties in adapting to such procedures and complying with such environments. In addition, as we enter new markets, we may not have the same level of familiarity with local contractors, suppliers and other business partners, business practices and customs as we do in our core markets, and we may face higher costs and more intense competition from established property developers with experience in those markets.

If we expand into new markets, we will have to continue to improve our managerial, technical and operational knowledge and allocation of resources. To effectively manage our expanded operations, we will need to continue to recruit and train managerial, accounting, internal audit, engineering, technical, sales and other staff to satisfy our development requirements, including staff with local market knowledge. In order to fund our ongoing operations and our future growth, we need to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, we will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. Accordingly, we will need to further strengthen our internal control and compliance functions to ensure that we are able to comply with our legal and contractual

obligations and reduce our operational and compliance risks. We cannot assure you that we will not experience issues such as capital constraints, construction delays, operational difficulties at new operational locations or difficulties in expanding our existing business and operations and training an increasing number of personnel to manage and operate the expanded business. Neither can we assure you that our expansion, if any, will not adversely affect our existing operations and thereby would have a material adverse effect on our business, financial condition and results of operations.

We may not be able to obtain adequate funding or capital on commercially favorable terms for land acquisitions or property developments

The property development business in the PRC is capital intensive. During 2015 and 2016, our liquidity requirements arose principally from the acquisition of land for and development of our property development projects. During the same periods, our principal sources of funds to finance our working capital, capital expenditures and other capital requirements were bank loans, internally generated cash flows (including proceeds from the pre-sales and sales of our projects) and funds raised from capital markets, such as our offering of the Existing Notes and Corporate Bonds. In the future, we expect to continue to finance the development of our projects using such means. However, 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 December 31, 2016, our outstanding long-term and short-term bank and other loans (excluding the Existing Notes and Corporate Bonds) were RMB11,707.5 million (US\$1,686.2 million) and RMB3,370.5 million (US\$485.5 million), respectively. Our ability to arrange adequate financing for land acquisitions or property developments on terms that will allow us to earn reasonable returns depends on a number of factors, many of which are beyond our control. The PRC government has in recent years taken a number of policy initiatives in the financial sector to further tighten lending requirements for property developers. For more information, please see the section entitled “—Risks relating to Property Development in the PRC—The PRC property market is heavily regulated and subject to PRC government policies, regulations and measures intended to discourage speculation in the property market.”

In addition, the PBOC regulates and continually adjusts the lending rates and reserve requirement ratios for commercial banks in the PRC, which affects the availability and cost of financing from PRC commercial banks for property developers and leveraged property buyers.

We expect that increases in interest rates and reserve requirement ratios, if any, would increase our finance costs in general. Our interest expenses on bank and other loans in 2015 and 2016 were RMB1,132.8 million and RMB903.4 million (US\$130.1 million), respectively. We currently do not hedge our interest rate risk. Although we may do so in the future, we cannot assure you that such hedging will be sufficient to offset our interest rate risk. Any further increases in interest rates on our bank borrowings, including as a result of interest rate increases by the PBOC, could have a material adverse effect on our business, financial condition and results of operations.

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 premiums 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 no less than 20% of the minimum land premium. Additionally, a land grant contract is required to be entered into within 10 working days after the land grant transaction is closed, and the down payment of 50% of the land premium is to be paid within one month of the signing of the land grant contract, with the balance 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 policies may constrain our cash otherwise available for additional land acquisitions and construction. We cannot assure you that we will have adequate resources to fund land acquisitions (including any unpaid land premiums for past acquisitions), or property developments.

We cannot assure you that the PRC government will not introduce other initiatives which may limit our access to capital resources or increase our finance costs. The foregoing and other initiatives introduced by the PRC government may limit our flexibility and ability to use bank loans or other forms of financing to finance our property developments and therefore may require us to maintain a relatively high level of internally sourced cash. As a result, our business, financial condition and results of operations may be materially and adversely affected.

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

A property developer in the PRC must obtain a provisional qualification certificate or qualification certificate in order to carry out the business of property development in the PRC. See “Regulation”. Some of our subsidiaries do not obtain or renew their qualification certificates for the reasons that either they are not currently developing property projects or they have already completed or suspended the property projects. However, we cannot assure you that they could successfully obtain or renew their qualification certificates when they are intending to develop and operate any property project. Besides, two newly established subsidiaries are now in the process of applying for the provisional qualification certificates, which are planned to be issued before the operation of the property projects. As to the qualification certificates that have been or to be expired, we have already applied or plan to apply for the extension of validity or the renewal of the certificates, but we cannot assure you to extend in time. The failure to get the qualification certificates will limit our subsidiaries from engaging in the development and operation of property, which could have a material adverse impact on our results of operations, financial condition and business prospects.

We may not be able to obtain land use rights certificates or other requisite government approvals or registrations for our current projects or for projects we may acquire in the future

The property development industry in the PRC is heavily regulated by the PRC government. PRC property developers must comply with various requirements provided 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 approvals from the relevant authorities at various stages of the property development process, including land use rights certificates, construction land planning permits, construction works planning permits, construction commencement permits, pre-sale permits and completion certificates. Each approval or renewal 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 necessary for the approvals, or that we will be able to adapt ourselves in a timely and effective manner to new laws, regulations or policies that may come into effect from time to time with respect to the property development industry. 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 government approvals or renewals, the schedule of development and sales of our developments could be substantially disrupted, which could materially and adversely affect our business, financial condition and results of operations.

In particular, in order to develop and sell properties in the PRC, property developers are required to obtain land use rights certificates from the relevant government authorities. The land use rights certificate in respect of a piece of land will not be issued until the developer has entered into a land grant contract with the relevant authorities, made full payment of the land premium and complied with the land use rights and any other land grant conditions.

As of the date of this offering memorandum, we have obtained the land use rights certificates for all of our projects, except in respect of Liudong New District Business Center (柳東新區商務中心) and Dong Hai'an Xincheng Group E (東海岸新城E組團). However, we cannot assure you that the Ministry of Land and Resources or its local branches will grant us the appropriate land use rights certificate in respect of these land parcels or any land we may acquire in the future in a timely manner, or at all, in the event of force majeure or governmental acts. If we cannot obtain land use rights certificates in respect of these land parcels or any land we may acquire in the future, we may not be able to construct, lease or sell the relevant projects which could have a material adverse impact on our results of operations, financial condition and business prospects.

We have entered into numerous agreements with various government authorities with the intention to facilitate obtaining the land use rights certificates for certain parcels of land located in China. Under relevant PRC laws and regulations, we are required to fully pay the land premium under these contracts before we will be able to obtain the relevant land use rights certificates. There are risks with respect to the enforcement of these agreements, particularly in light of their relatively long execution periods, in some cases, and potential changes in PRC government policies. There can be no assurance that PRC government policies related to our projects will not change in the future or that there will not be changes in the manner of the implementation of these agreements. Further, there can be no assurance that there will not be modifications to these agreements as to terms that are favorable to us, including changes in the price of the land use rights to the land parcel concerned. In addition, the law and practice relating to the enforcement of contracts and agreements against PRC government entities involve uncertainty, and there can be no assurance that title to the land parcels subject to these agreements will be eventually obtained. If any of these agreements is not implemented as agreed, our business, financial condition and results of operations may be materially and adversely affected.

A default under any of our lending or financing agreements could result in enforcement against the security we have granted

We have maintained a significant level of indebtedness, a substantial portion of which is primarily secured by our legal interests in various properties and buildings. As of December 31, 2015 and 2016, our total current and non-current borrowings, which included our bank and other loans (excluding the Existing Notes and Corporate Bonds), were RMB11,161.9 million and RMB15,078.0 million (US\$2,171.7 million), respectively, and our current ratio was 2.2 and 1.9, respectively, calculated by dividing our current assets by our current liabilities as of December 31, 2015 and 2016.

We cannot assure you that we will be able to generate sufficient cash flow from operations to meet our payment obligations under our current outstanding debt. If we are unable to make scheduled payments in connection with our debt and other payment obligations as they become due, we may need to re-negotiate the terms and conditions of such obligations or to obtain additional equity or debt financing, failing which we may default on such repayment or other obligations. We cannot assure you that any such renegotiation efforts would be successful or timely or that we would be able to refinance our obligations on acceptable terms or at all. If financial institutions decline to lend additional funds to us or to refinance our existing loans when they mature as a result of our credit risk or otherwise and we fail to raise financing through other means, we may breach our repayment or other obligations. In the event of a default, our lenders can enforce their rights against us, including enforcing their rights against our pledged collateral and other security under the relevant financing agreements.

We cannot assure you that we will be able to continue meeting all of our obligations under the bank and other loans. We also cannot assure you that the assets we have pledged to our lenders or trust financing companies will not be subject to enforcement actions, in which case we may lose control and ownership of a number of projects and our business, financial condition and results of operations may be materially and adversely affected.

Changes in the fair value of our investment properties may have a significant impact on our results of operations

As of December 31, 2015 and 2016, we had investment properties of RMB6,117.5 million and RMB11,890.9 million (US\$1,712.6 million), respectively. We are required to reassess the fair value of our investment properties on every balance sheet date for which we issue financial statements. Under HKFRS, gains or losses arising from changes in the fair value of our investment properties are included in our consolidated income statements in the period in which they arise. You should note that the fair value gains or losses in our investment properties represent unrealized capital gains and do not change our cash position as long as the relevant investment properties are held by us and, therefore, do not increase our liquidity in spite of the increased profit. In 2015 and 2016, our net profit margins which is based on profit for the year divided by revenue for such year and multiplied by 100% were 18.4% and 25.3%, respectively, reflecting net increases in the fair value of our investment properties of RMB943.1 million and RMB2,681.9 million (US\$386.3 million), respectively. Our net profit margins (excluding changes in

fair value of investment properties and derivatives and the relevant deferred taxes)⁽¹⁾ in 2015 and 2016 were 13.6% and 15.1%, respectively. The amount of revaluation adjustments has been, and continues to be, subject to market fluctuations. We cannot assure you that changes in market conditions will continue to create fair value gains on our investment properties at the previous levels or at all, or that the fair value of our investment properties will not decrease in the future. In addition, the fair value of our investment properties may materially differ from the amount we will receive in actual sales of the investment properties. Any significant decreases in the amount we receive in actual sales of our investment properties would materially and adversely impact our results of operations.

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

As at December 31, 2016, we had 22 investment properties with a total GFA of approximately 460,544 sq.m. As of December 31, 2015 and 2016, the fair value of our investment properties was RMB6,117.5 million and RMB11,890.9 million (US\$1,712.6 million), respectively. We expect to increase our investment property portfolio in the future. Any form of real estate investment is illiquid and, as a result, our ability to sell our investment properties in response to changing economic, financial and investment conditions is limited. We also cannot predict the length of time needed to find purchasers to purchase such investment properties. In addition, we may also need to incur capital expenditure to manage and maintain our properties, or to correct defects or make improvements to these properties before selling them. We cannot assure you that financing for such expenditures would be available when needed, or at all.

Furthermore, aging of investment properties, changes in economic and financial conditions or changes in the competitive landscape in the PRC property market may adversely affect the amount of rentals and revenue we generate from, as well as the fair value of, our investment properties. However, our ability to convert any of our investment properties to alternative uses is limited as such conversion requires extensive governmental approvals in the PRC and involves substantial capital expenditures for the purpose of renovation, reconfiguration and refurbishment. We cannot assure you that such approvals and financing can be obtained when needed. These and other factors that impact our ability to respond to adverse changes in the performance of our investment in properties may adversely affect our business, financial condition and results of operations.

A deterioration in our brand image could adversely affect our business

We regard the “Logan” 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, financial condition and results of operations.

Note:

- (1) The calculation of net profit margin (excluding changes in fair value of investment properties and the relevant deferred taxes) is based on profit for the year (excluding changes in fair value of investment properties and the relevant deferred taxes) divided by revenue for such year and multiplied by 100%.

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

We may, from time to time, be involved in disputes and claims with various parties involved in the development and the sales of our properties, including contractors, suppliers, construction companies, business or joint venture partners and purchasers. These disputes and claims as well as media coverage and public statements that assert some form of inappropriateness in our products and services may lead to protests or legal or other proceedings and may result in damage to our reputation, substantial costs and diversion of resources and management's attention from our core business activities. Purchasers of our properties may take legal action against us if our developed properties are perceived to be inconsistent with our representations and warranties made to such purchasers. In addition, we may have compliance issues with regulatory bodies in the course of our operations, in respect of which we may face administrative proceedings and unfavorable decisions that may result in liabilities and cause delays to our property developments. We may be involved in other proceedings or disputes in the future that may have a material adverse effect on our business, financial condition and results of operations.

We guarantee the mortgage loans provided to our customers and consequently are liable to the mortgagee banks if our customers default on their mortgage payments

As we pre-sell properties before their actual completion of construction, in accordance with industry practice, banks require us to guarantee our customers' mortgage loans. Typically, we guarantee mortgage loans taken out by our customers until we complete the development of the relevant properties and the property ownership certificates and certificates of other interests with respect to the relevant properties are delivered to our customers followed by the completion of the mortgage registration procedures. If a purchaser defaults on a mortgage loan, we may have to repurchase the underlying property by paying off the mortgage loan. If we fail to do so, the mortgage bank may auction the underlying property and recover any shortfall from us since we are the guarantor of the mortgage loans. In line with industry practice, we do not conduct any independent credit checks on our customers and rely on the credit evaluations of mortgage banks.

As of December 31, 2016, our outstanding guarantees in respect of our customers' mortgage loans were RMB9,806.2 million (US\$1,412.4 million). Should any material default occur and if we are called upon to honor our guarantees, our business, financial condition and results of operations could be adversely affected.

We may not be able to obtain land that is suitable for property development or maintain our land bank at a cost comparable to our historical cost level

To maintain and grow our business in the future, we will be required to continually replenish and increase our land bank with suitable land for development at commercially acceptable prices. Our ability to identify and acquire suitable land is subject to a number of factors, some of which are beyond our control. We must identify land that has potential for future development ahead of our competitors. However, we cannot assure you that the land identified and acquired by us will be suitable for development or offer the return we desire.

During 2015 and 2016, we primarily acquired land through participation in the government public tender, auction or listing-for-sale land grant process and through the acquisition of property development companies or land use rights from other developers. The availability and price of land sold depend on factors beyond our control, including government land policies and competition. The PRC government and relevant local authorities control the supply and price of new land parcels and approve the planning and use of such land parcels pursuant to specific regulations. All these measures further intensify the competition for land in China among property developers. As we expect our cost of acquiring land use rights to further increase in the future, our gross profit margin and our ability to maintain our land bank at a cost comparable to our historical cost level may be materially and adversely affected. If we fail to obtain suitable land for development at commercially acceptable prices that allow us to achieve reasonable returns upon sales of properties, the benefits we have enjoyed from having a land bank comprising land we acquired at competitive prices may not recur in the future, and our business, financial condition and results of operations will be materially and adversely affected as a result.

We may not be able to successfully complete projects that we are currently developing, or plan to develop, in a timely manner or at all

At any point in the planning or development of a project, we could face, among other things, regulatory changes, financing difficulties, inability or difficulties in obtaining the required government approvals or government-mandated changes in our property development business, any of which could delay, increase the cost of, or prevent the completion of any such projects. We may also delay or revise our plans for property developments due to a variety of factors, including changes in market conditions, a shortage or increase in the prices of construction materials, equipment or labor, labor disputes or disputes with our contractors and subcontractors. We may commit significant time and resources to a project before determining that we are unable to complete it successfully, which could result in a loss of some or all of our investment in such project. If the delivery delay extends beyond the contractually specified period, or if the actual GFA of a completed property delivered to a purchaser deviates by more than 3.0% from the GFA originally indicated in the property sale and purchase contract, the purchaser may terminate the proposed sale and purchase contract, reclaim the deposit and claim damages. If we are unable to complete projects as planned, this may materially and adversely affect our business, financial condition and results of operations.

In addition, we have built and continue to build large-scale property development projects. Large-scale property development projects in general require substantial capital expenditures and we may incur significant costs in order to acquire the land and develop properties for these large-scale projects. We cannot assure you that our existing or future large-scale developments will be successful or that any such development will not encounter difficulties that may result in significant losses to our investment in such developments or costs relating to damages to purchasers, any of which could materially and adversely affect our business, financial condition and results of operations.

We are exposed to risks relating to pre-sales of properties

We depend on cash flows from pre-sales of properties as an important source of funding for our property projects. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sales of properties and may use pre-sales proceeds to finance only the developments wherein such properties are located. In the past several years, a number of government authorities and officials have proposed to limit or abolish the pre-sales of properties. These recommendations have not been adopted by the PRC government and have no enforceability. However, we cannot assure you that the PRC government will not ban or implement further restrictions on the pre-sales of properties, such as imposing additional conditions for pre-sale permits or further restrictions on the use of pre-sales proceeds. Any such measure will adversely affect our cash flows and force us to seek alternative sources of funding for our property development business.

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

Under current laws and regulations, we are required to submit the requisite registration applications in connection with our property developments, including the land use rights certificate, construction land planning permit, construction works planning permit, construction commencement permit and completion certificate, to the local house registration authority after the relevant properties are completed and apply for the general property ownership certificates in respect of the properties. The house registration authority shall record the registration information or reject the registration within 30 business days. We cannot assure you that we will not experience any unanticipated delays in obtaining such ownership certificates. In the case that a late delivery of any individual property ownership certificate is due to delays that are deemed to be caused by us, the purchaser would be able to terminate the property sales and purchase contract, reclaim the payment and claim damages, any of which could materially and adversely affect our business, financial condition and results of operations.

Since we recognize our sales revenues only upon delivery of the properties sold, our operating results depend on the timing of completion of our projects and may not be representative of our future performance

We experienced significant revenue growth in 2015 and 2016. In 2015 and 2016, our revenue was RMB14,574.0 million and RMB20,538.8 million (US\$2,958.2 million), respectively, and we had net profit attributable to our equity shareholders of RMB2,649.3 million and RMB4,487.7 million (US\$646.4 million), respectively. Since we recognize proceeds from the sales of a property as revenue only upon the delivery of the property, our revenue and profit during any given period is affected by the quantity of properties delivered during that period. The quantity of properties delivered is largely a result of our property delivery schedule and may not be indicative of the actual demand for our properties or sales achieved during that period. Our revenue and profit during any given period generally reflect property investment decisions made by purchasers at some significant time in the past, typically at least in the prior fiscal period. Furthermore, fluctuations in our operating results may also be caused by other factors, including fluctuations in expenses such as land premiums, development costs, administrative expenses, selling and marketing expenses and changes in market demand for our properties. As a result, we believe that our operating results for any period are not necessarily indicative of results that may be expected for any future period, nor can we assure you that we will grow at a high rate, or at all, or that we will not experience a decrease in revenue. In addition, the cyclical property market of the PRC affects the optimal timing for the acquisition of land, the plan of development and the sales of properties. This cyclicity, combined with the lead time required for the completion of projects and the sales of properties, means that our results of operations relating to property development activities may be susceptible to significant fluctuations from period to period.

We rely on independent contractors and other third parties for construction, labor, engineering subcontracting, design, property management, sales and other key aspects of our property development business

While we generally act as general contractor for our property development projects and conduct most of our engineering, design, sales management, marketing and customer service in-house, we rely on independent contractors to provide certain services relating to our projects, including construction, labor, engineering subcontracting, design, property management and sales. We cannot assure you that the services rendered by any of these independent contractors will always be satisfactory or meet our requirements for quality and safety. If the performance of any independent contractor is unsatisfactory, we may need to replace such contractor or take other actions to remedy the situation, which could adversely affect the cost and construction progress of our projects. Moreover, we may incur additional costs due to a contractor's financial or other difficulties that may affect their ability to carry out the work for which they have been retained. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

If the performance of any of such independent contractors or third parties is not satisfactory to our customers, our reputation may suffer, which may adversely affect our business, financial condition and results of operations. In addition, a serious dispute with such independent contractors or third parties that we are unable to resolve could result in costly legal proceedings and therefore have a material adverse effect on our business, financial condition and results of operations. Furthermore, an increase in the cost of labor used by our contractors and other third parties engaged in our business may eventually be passed on to us in the form of higher contract fees at the time new contracts are entered into. Finally, because of our reliance on third parties, we have limited control over the costs related to the services they provide.

Our profit margin is sensitive to fluctuations in construction costs

Construction costs constitute one of the main components of our direct costs. Construction costs encompass all costs for the design and construction of a project, including payments to third-party contractors, costs of construction materials, foundation and substructure, fittings, facilities for utilities and related infrastructure such as roads and pipelines. Historically, construction material costs, especially the costs of steel and concrete, have been the principal driver of the construction costs of our property development projects. Construction costs may fluctuate as a result of the price volatility of construction materials such as steel and concrete. We currently do not, and do not expect to in the future, engage in commodities hedging activities. 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 payments to, or receive refunds from, the contractors, depending on the price movement. Our profit margin is sensitive to changes in the market prices for construction materials and, as a result, our profit margins may be adversely affected.

Disputes with joint venture partners or our project development partners may adversely affect our business

We have developed certain projects jointly with other entities through joint ventures or cooperation agreements and may choose to develop projects through such arrangements in the future. See the section entitled “Business—Our Property Projects—Description of Our Projects.”

Our joint venture partners or project development 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 or cooperation agreements; or
- have financial difficulties.

Additionally, 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.

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 the section entitled “—Risks relating to Our Business—We may be involved in legal and other disputes and claims from time to time arising out of our operations and may face significant liabilities as a result.”

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

We may suffer losses and be subject to liabilities that are not sufficiently covered, or covered at all, by insurance

We do not maintain insurance coverage on our properties developed for sale other than with respect to those developments over which our lending banks have security interests, or for which we are required to maintain insurance coverage under the relevant loan agreements. We also do not require the construction companies we engage to maintain insurance coverage on our properties under construction. We cannot assure you that we will not be sued or held liable for damages due to liability from any related tortious acts. Moreover, there are certain losses for which insurance is not available in the PRC on commercially practicable terms, such as losses suffered due to business interruptions, earthquakes, typhoons, flooding, war or civil disorder. If we suffer from any such losses, damages or liabilities in the course of our operations and property development, we may not have sufficient funds to cover any related losses, damages or liabilities or to repair, replace or reconstruct any property developments that have been damaged or destroyed. Any payment we make to cover related losses, damages or liabilities could have a material adverse effect on our business, financial condition and results of operations.

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

Under PRC tax laws and regulations, our income from the sales of land use rights and buildings or related facilities on such land is subject to LAT. LAT is payable at progressive rates ranging from 30% to 60% of the appreciation in value, representing the balance of the proceeds received on such sales after deducting certain items, including payments made for the acquisition of land use rights, direct costs and expenses of the development of the land and construction of the buildings and structures tax related to the transfer of land use rights and properties, and other deductions prescribed by the Ministry of Finance. An exemption from payment of LAT may be available if (i) the taxpayer constructs ordinary standard residential apartments and the appreciation amount does not exceed 20% of the sum of deductions allowed under PRC law, or (ii) the land and properties are recalled and requisitioned by the PRC government pursuant to applicable law for construction purposes.

On December 28, 2006, the State Administration of Taxation issued the Notice on the Relevant Issues on the Settlement Management of Land Appreciation Tax on Real Estate 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》). This Notice came into effect on February 1, 2007 and provided further clarity on when LAT becomes payable with respect to real estate development projects. First, the Notice specifies that taxpayers are required to settle LAT for each real estate project developed, or if the project is developed in stages, for each stage of the project. Second, it provides that LAT will be imposed on taxpayers upon the occurrence of the following events: (i) when a real estate development is completed and completely sold; (ii) when an unfinished real estate development project without the final accounting of revenue and expenditure is transferred as a whole to a third party; or (iii) when the taxpayer's land use right is directly transferred. Finally, it provides that LAT may be imposed on taxpayers upon the occurrence of the following additional events: (i) where a real estate development that has been completed and its transfer is approved, if the area transferred is greater than 85% of the total saleable area of the development, or, if the area transferred is less than 85%, where the retained area is leased or used by the developer; (ii) where the sale of a real estate development has not been finished after three years from the date that the sales or pre-sales permit was obtained; (iii) where a taxpayer applies to write off its tax registration but has not yet settled LAT; or (iv) where there are other circumstances as prescribed by the provincial tax authorities.

We have estimated and made full provisions for LAT in accordance with the applicable requirements set forth in the relevant PRC tax laws and regulations. Our provision for LAT for 2015 and 2016 was RMB563.0 million and RMB971.6 million (US\$139.9 million), respectively. Our current provisions for LAT are based on our management's best estimates according to their understanding of the requirements discussed above. However, actual LAT liabilities are subject to determination by the tax authorities upon the completion of the property development projects and PRC tax authorities may not agree with the basis on which we have calculated our LAT obligations. There can be no assurance that our current provisions for LAT are adequate or that the final outcome will not be different from the amounts initially recorded. In the event that we are required to settle any or all unpaid LAT, our cash flow and results of operations during the related period may be adversely affected.

We depend heavily on the continued services of our founder and Chairman, Mr. Kei Hoi Pang

Although Ms. Kei Perenna Hoi Ting is the ultimate shareholder of our Company, she has declared that the ultimate control over all major affairs of our Company is vested in Mr. Kei Hoi Pang (formerly known as Mr. Ji Haipeng), our founder and Chairman. For a more detailed description of Ms. Kei's declaration, see the section entitled "Principal Shareholders." As a result, our success and growth depends on the continued services of Mr. Kei, who has 20 years of management experience in the PRC property development industry and in-depth knowledge of various aspects of property development and investment, as well as in highway, infrastructure and urban development. In addition, although Mr. Kei is covered by the general accidental injury and illness insurance we provide to our senior management, we have not taken out key man insurance for Mr. Kei. Competition for qualified and experienced personnel is intense in the property development sector and the pool of qualified candidates is very limited. The departure of Mr. Kei and any failure to find suitable replacements could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

As of the date of this offering memorandum, approximately 77.3% of our outstanding shares were beneficially owned by our controlling shareholders. Subject to compliance with applicable laws, by maintaining such ownership, our controlling shareholders are able to exercise substantial influence over our corporate policies and our business, appoint our directors and officers and vote on corporate actions requiring shareholders' approval. In particular, the strategic goals and interests of our controlling shareholders may not be aligned with our strategy and interests and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base. The interests of our controlling shareholders may differ from those of the holders of the Notes. We cannot assure you that our controlling shareholders will act completely in the interests of the holders of the Notes or that possible conflicts of interest will be resolved in favor of the holders of the Notes.

If our completed property developments are not in compliance with the relevant land grant contracts, construction land planning permits, construction works planning permits or construction commencement permits, we will be subject to additional payments or be required to take corrective measures to cure such non-compliance

The local government authorities inspect our property developments after completion and, if the developments are in compliance with the relevant laws and regulations, issue us completion certificates or other comparable documents, based upon which we are able to deliver the completed properties to our purchasers. If, for any reason, the total constructed GFA of a property development exceeds the amount of GFA authorized in the relevant land grant contract, construction land planning permit, construction works planning permit or construction commencement permit, or if the completed property contains built-up areas that do not conform to the construction land planning permit, construction works planning permit or construction commencement permit, we may be required to make additional payments or take corrective measures with respect to such non-compliant areas before we are able to obtain a completion certificate for the property development. If we fail to obtain the completion certificates or other comparable documents due to such non-compliance, we will not be able to deliver the relevant properties or recognize the revenues from the relevant pre-sold properties and may also be subject to liabilities under the sales contracts. We cannot assure you that the local government authorities will not find that the total constructed GFA or built-up areas of our existing projects under development or any future property developments exceed the relevant authorized GFA or are otherwise not in compliance with the relevant land grant contracts, construction land planning permits, construction works planning permits or construction commencement permits upon completion of our property development.

We may be subject to penalties and our land may be repossessed by the PRC government if we do not comply with the terms of our 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 terms relating to payment of land premiums, designated use of land, time of commencement and completion of development), the relevant government authorities may issue a warning to or impose a penalty on the property developer, or may even repossess the land. Any violation of the terms of the land grant contract 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 do not commence development for more than one year from the commencement date of the construction and development work as agreed upon and stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice to us and impose an idle land fee of 20% of the land premium. If we do not commence development for more than two years from the commencement date of the construction and development work as agreed upon and stipulated in the land grant contract, the land may be subject to repossession by the PRC government without compensation unless the delay in development is caused by government actions, force majeure events or necessary preparatory work. Moreover, even if the commencement of land development is in conformity with the land grant contract, the land will be treated as idle land if (i) the developed area of land is less than one-third of the total area 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 if (ii) the suspension of the development of the land exceeds one year in time. Current measures in place require the competent land authorities not to accept any application for new land use rights or process any title transfer transaction, mortgage transaction, lease transaction or land registration application in respect of any idle land before completion of the required rectification procedures. We cannot assure you that circumstances leading to the repossession of land or delays in the completion of a property development will not arise in the future. If our land is repossessed, we will not be able to continue our property development on the forfeited land, recover the costs incurred for the initial acquisition of the repossessed land or recover development costs and other costs incurred up to the date of the repossession.

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 the environment. The particular environmental laws and regulations which apply to any given project development site vary greatly according to the site's location, the site's environmental condition, the present and former uses of the site, as well as adjoining properties. Compliance with environmental laws and conditions may result in delays in development, may cause us to incur substantial compliance and other costs and could prohibit or severely restrict project development activity in environmentally sensitive regions or areas. As required by PRC laws and regulations, we must undertake an environmental assessment with respect to each project we develop and submit an environmental impact assessment report to the relevant governmental authorities for approval before commencing construction. It is possible that there are potential or hidden material environmental liabilities of which we are unaware, which may have a material adverse impact on our business. In addition, we cannot assure you that our operations will not result in environmental liabilities or that our contractors will not violate any environmental laws and regulations in their operations that may be attributable to us.

We may be treated as a PRC resident enterprise for PRC tax purposes, which may subject us to PRC income taxes on our worldwide income and result in PRC withholding taxes on interest we pay on the Notes and PRC tax on the transfer of the Notes

We are a holding company incorporated in the Cayman Islands. Under the Corporate Income Tax Law (企業所得稅法) (the “CIT Law”) enacted by the Standing Committee of the National People’s Congress on March 16, 2008, which took effect on January 1, 2008, and was amended effective from February 24, 2017 and the implementation rules of the CIT Law which took effect on January 1, 2008, enterprises established outside the PRC whose “*de facto* management bodies” are located in China are considered “resident enterprises” for PRC tax purposes. The implementation rules define the term “*de facto* management body” as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation specified certain criteria for the determination of the “*de facto* management bodies” for foreign enterprises that are controlled by PRC enterprises. However, there have been no official implementation rules regarding the determination of the “*de facto* management bodies” for foreign enterprises that are not controlled by PRC enterprises (including companies like ourselves).

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

Although it is unclear under PRC tax law whether we have a “*de facto* management body” located in China for PRC tax purposes, we currently take the position that we are not a PRC resident enterprise for tax purposes. We cannot assure you that the tax authorities will agree with our position. If we are deemed to be a PRC resident enterprise for CIT Law purposes, we would be subject to the PRC corporate income tax at the rate of 25% on our worldwide income. Furthermore, we may be obligated to withhold PRC income tax at a rate of 10% on payments of interest and redemption premium on the Notes to investors that are non-resident enterprises, because the interest and redemption premium may be regarded as being derived from sources within the PRC. The tax rate may be reduced to 7% in the case of investors that are non-resident enterprises located in Hong Kong that are the beneficial owners of the income for purposes of the double taxation treaty between Hong Kong and the PRC. In the case of non-resident individual holders of Notes, the tax may be withheld at a rate of 20%. Further, if we were treated as a PRC resident enterprise, any gain realized by a non-resident investor from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly may be subject to a 10% PRC tax in the case of non-resident enterprises or 20% in the case of non-resident individuals. If we are required to withhold PRC tax (including VAT) from interest payments on the Notes, we will be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by the holders of the Notes of such amounts as would have been received 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 an adverse effect on our financial condition. In addition, if we fail to withhold such amounts, we may be subject to fines and other penalties.

We may be adversely affected by inaccurate, false or negative media coverage

From time to time, we may be the subject of media coverage on the development history, current business and future trends of major PRC property developers. Such media reports are often not authorized by us, not substantiated, and may contain inaccurate or false information about us, or may present information about us in a negative light. Such inaccurate, false or negative media coverage may adversely affect our reputation, and as a result our business and results of operations may be negatively affected. To the extent that information contained in such media coverage is inconsistent with the information contained in this offering memorandum, investors should not rely on such inconsistent information, and should only rely on the information contained in this offering memorandum to make investment decisions about us.

RISKS RELATING TO PROPERTY DEVELOPMENT IN THE PRC

The PRC property market is heavily regulated and subject to PRC government policies, regulations and measures intended to discourage speculation in the property market

As a property developer in the PRC, we are subject to extensive government regulation in many aspects of our operations and are highly susceptible to changes in the regulatory measures and policy initiatives implemented by the PRC government. Over the past few years, property developers and investors have invested heavily in the PRC, raising concerns that the property market had started to overheat. In response to concerns over the scale of the increase in property investment, the PRC government has from time to time introduced policies intended to curtail the overheating of the PRC property market, including:

- strictly enforcing laws and regulations relating to idle land;
- restricting the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;
- prohibiting commercial banks from lending funds to property developers with an internal capital ratio of less than a certain prescribed percentage;
- restricting PRC commercial banks from extending loans for the development of luxury residential properties;
- restricting property developers from using borrowings obtained from any local banks to fund property developments outside that local region;
- restricting the ability of property developers to raise funds via foreign debt;
- restricting PRC commercial banks from granting loans to property developers for the purpose of paying land premiums; and
- requiring property developers to promptly and fully pay land premiums before becoming eligible to receive the relevant land use rights certificate.

In particular, the PRC government had also introduced the following policies, among others, to specifically control the growth of the residential property market:

- limiting the maximum amount of monthly mortgage and total monthly debt service payments of individual borrowers;
- suspending land supply for villa developments and restricting land supply for high-end developments, while mandating a minimum land supply for affordable housing;
- imposing a business tax levy on the sales proceeds from secondary sales, based on the length of the holding period and type of property;
- requiring the strict enforcement of a 20% individual income tax on profits from sales of owner-occupied houses;
- increasing the minimum down payment on the purchase price of the residential property of a family;
- raising pre-sale thresholds for commodity housing;
- strengthening the government's management of financing activities by property enterprises which have engaged in certain illegalities or irregularities;
- limiting the purchase of and mortgage loans for residential properties based on a purchaser's place of residence and number of residential properties owned;

- continuing the enforcement of purchase restrictions imposed on commodity housing;
- tightening the availability of individual housing loans in the property market to individuals and their family members with more than one residential property;
- giving local branches of the PBOC more latitude in raising the down-payment rate and mortgage rate for the purchase of a second residential property in cities where housing prices are increasing at an excessively high rate;
- limiting the availability of individual housing provident fund loans for the purchase of second (or further) residential properties by laborers or their family members;
- requiring property developers to make public the sales and pre-sale price of its units for sales within a certain time period and conduct sales strictly in accordance with this stated price; and
- requiring financial institutions to prioritize mortgage applications for ordinary commodity housing construction projects where small to medium-sized housing units constitute 70% or more of the total units in such construction projects so long as credit extension conditions are satisfied.

Following a downturn in the PRC property market in late 2008 and early 2009, property prices and transaction volume began to increase sharply in the second half of 2009. This has led to the imposition of further regulations and policies by the PRC government aimed at slowing down the property market. These measures resulted in downward pricing pressures on the PRC property market starting in the second half of 2011 and low transaction volumes during the first half of 2012.

As a result of the downturn in the PRC property market in 2014 and 2015, some of the above restrictive policies have been amended or terminated by the PRC government. Home-purchase restrictions in most second and third tier cities have been canceled, the minimum down-payment on the purchase of the residential property has been reduced, and lending rates of banks have been lowered.

However, starting from October 2016, multiple PRC local governments and regulators introduced measures to cool down the PRC's property market, such as strengthening the requirements on land transfer, raising down-payment requirements for first and second residential property purchasers and tightening buyer eligibility criteria for real estate purchases. The recent tightening measures adopted in Shenzhen, Foshan and Zhuhai, include, among other things:

- increase the guarantee payment for the bidding of the land to more than 50% of the land base price;
- require the down-payment for the first or second property purchasers to be not lower than 30% or 40% of the purchase price;
- suspend the sale of new commodity apartments or the properties below certain square footage to local and non-local resident families which have reached their respective limits for property purchase;

- demand the non-local resident families to furnish the evidence of personal income tax or social insurance payment for a required period when purchasing the second commodity apartment or the properties below certain square footage;
- require developers of newly completed properties to file the selling price to local pricing supervisory authorities, and the authorities have discretion to reject the filing if the developers refuse to adjust the price when it materially exceeds the prevailing price of the surrounding properties or the properties developed in previous construction phase by such developers.

As a considerable portion of the Company's land bank are located in these cities, these recent tightening measures and any other possible tightening measures in the future may have material and adverse impact on the Company's contracted sales, average selling price, land acquisition cost and development cost, and the Company's overall business and financial results.

We cannot assure you that the PRC government will not implement tightening measures to restrain the PRC property market at the national, provincial, municipal and local levels in the future, in which case the declining trends in transaction volume and selling prices of properties in the PRC may continue or further intensify. As a result, our business, financial condition and results of operations may be, and or may continue to be, materially and adversely affected.

The full-fledged levy of value added tax on revenues from a comprehensive list of service sectors may subject our revenues to an average higher tax rate

Pursuant to the Notice on Adjustment of Transfer Business Tax to Appreciation Tax (關於全面推開營業稅改徵增值稅試點的通知) issued on March 23, 2016 and implemented on May 1, 2016 ("Circular 36") by the Ministry of Finance ("MOF") and the PRC State Administration of Taxation ("SAT"), effective from May 1, 2016, PRC tax authorities have started imposing value added tax ("VAT") on revenues from various service sectors, including real estate, construction, financial services and insurance, as well as other lifestyle service sectors, to replace the business tax that co-existed with VAT for over 20 years. Since the issuance of Circular 36, MOF and SAT have subsequently issued a series of tax circulars in March and April 2016 to implement the collection of VAT on revenues from construction, real estate, financial services and lifestyle services. The VAT rates applicable to us may be generally higher than the business tax rate we were subject to prior to the implementation of Circular 36. For example, the VAT rate for the sale of self-developed real estate projects may be increased from 5% (the current business tax rate) to 11%. Unlike business tax, the VAT will only be imposed on added value, which means the input tax incurred from the deductible land prices can be offset from our output tax. However, details of concrete measures are still being formulated in accordance with Circular 36. The comprehensive impact of the new VAT regime on our tax burden, our revenues and results of operations still remains uncertain.

The PRC government has adopted various measures to regulate the property development industry and may adopt further restrictive measures in the future

In addition to its policies and measures implemented to address housing prices, the PRC government has implemented a number of regulations and measures governing the property development industry. In July 2006, the MOHURD, the National Development and Reform Committee ("NDRC"), the PBOC, the State Administration for Industry and Commerce, or SAIC, and the State Administration of Foreign Exchange, or SAFE, issued *Opinions on Regulating the Entry and Administration of Foreign Investment in the Real Estate Market* (關於規範房地產市場外資准入和管理的意見) which was amended on August 19, 2015, which impose significant requirements on foreign investment in the PRC real estate sector. For Instance, to transfer the equity in or the project of a foreign-invested real estate enterprise, it shall be examined and approved by the authority in charge of commerce and other authorities strictly in accordance with the provisions of the relevant laws, regulations and policies. According to Notice of MOFCOM and the State Administration of Foreign Exchange on Further Improvements to Filing for Real Estate Investments of Foreign Investors (商務部、國家外匯管理局關於進一步改進外商投資房地產備案工作的通知), effective from November 6, 2015, the local Bureau of Commerce shall approve the establishment and change of foreign-invested real estate enterprises, and fill in the relevant information of real estate projects in the MOFCOM's foreign investment general management information system.

On July 10, 2007, SAFE issued the *Notice on Publicity of the List of the 1st Group of Foreign-Invested Real Estate Projects filed with MOFCOM* (國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知) (Circular No. 130), under which some notices will have a significant impact on offshore financings of foreign invested real enterprises: an foreign invested real enterprises which has obtained a certificate (including new establishment and registered capital increase) and filed with MOFCOM after June 1, 2007 may not incur foreign debt or convert loans in foreign currency into RMB; and an foreign invested real enterprises which obtains a certificate after June 1, 2007 but fails to file with MOFCOM after June 1, 2007, may not conduct a foreign exchange registration nor a foreign exchange conversion of its registered capital.

Though Circular No. 130 has become invalid since the issuance of The Notice of the State Administration of Foreign Exchange on Issuance of the Provisions on the Foreign Exchange Administration of Domestic Direct Investment of Foreign Investors and the Supporting Documents (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) on May 10, 2013 (“Circular No. 21”), The Notice of SAFE on Issuance of Administrative Measures on Registration of Foreign Debts (國家外匯管理局關於發佈《外債登記管理辦法》的通知) (“Circular No. 19”) issued on April 28, 2013 and partly amended by the Notice of the State Administration of Foreign Exchange on Repealing and Amending Relevant Regulatory Documents Involving the Reform of the Registration System for Registered Capital (《國家外匯管理局關於廢止和修改涉及註冊資本登記制度改革相關規範性文件的通知》) (Huifa [2015] No. 20) issued by SAFE on May 4, 2015, states that If an foreign invested real enterprise fails to acquire a land use right certificate, or to have its development project fund reach 35% of the total investments to the project, it shall not borrow any foreign debt from abroad, nor shall the foreign exchange bureau implement the registration of its foreign debt or approve the conversion of foreign debt into RMB. These notices may strictly limit our capacity to raise funds offshore for the purpose of funding our PRC subsidiaries by means of increasing their registered capital or extending shareholders’ loans.

On December 24, 2011, MOFCOM and the NDRC jointly issued the *Catalogue of Industries for Guiding Foreign Investment (2011 Revision)*, or the Catalogue 2011, which took effect on January 30, 2012. Consistent with the provisions of a prior catalogue, the Catalogue 2011 restricts the construction and operation of high-end residential and commercial properties by foreign investment entities. Further, on March 10, 2015, the *Catalogue of Industries for Guiding Foreign Investment (2015 Revision)*, or Catalogue 2015, was issued and supersedes the Catalogue 2011. Compared with its 2011 revision, the development of tracts of land, the construction and operation of high-end hotels, office buildings, international conference centers, and real estate intermediary/agency business have been removed from the category under which foreign investment is restricted, with the construction and operation of large-scale scheme parks remaining in the category.

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 Guangdong Province, 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, residential property prices and the number of residential property development projects have gradually increased in major cities as a result of an increase in demand driven by domestic economic growth. In particular, prices of residential properties in certain major PRC provinces such as Guangdong Province and cities therein have experienced rapid and significant growth. The risk of property over-supply has increased in recent years in certain 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 described in the section entitled “—Risks relating to Our Business—The global economic slowdown and financial crisis have negatively affected, and may continue to negatively affect, 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 sales of properties. This cyclicity, combined with the lead time required for completion of projects and the sales of properties, means that our results of operations relating to property development activities may be susceptible to significant fluctuations from year to year.

Adjustments by the PBOC to the benchmark one-year lending rate and reserve requirement ratios may increase our finance costs and the finance costs of our customers

The PBOC regulates and continually adjusts the lending rates and reserve requirement ratios for commercial banks in the PRC, which affects the availability and cost of financing from PRC commercial banks for property developers and leveraged property buyers. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. Increases in the reserve requirement ratios reduce the amount of bank funds available for lending. The PBOC increased the reserve requirement ratios six times in 2010, and another six times up to November 2011, before reducing the reserve requirement ratios three times between December 2011 and December 31, 2012. The current reserve requirement ratios of 16.5% to 20.0% took effect on May 18, 2012.

The PBOC increased the benchmark one-year lending rate nine times between October 2004 and December 2007, from 5.58% to 7.47%. In 2008, the PBOC reduced the benchmark one-year lending rate five times, from 7.47% to 5.31%. Since late 2009, the PRC government introduced a new round of austerity measures to control the growth of the economy, including increasing the benchmark one-year lending rate five times between October 2010 and July 2011, to 6.56%. The PBOC subsequently lowered the benchmark one-year lending rate in June and July 2012 and on November 21, 2014, resulting in a new benchmark one-year lending rate of 5.60%. On August 26, 2015, the PBOC again lowered the benchmark one-year bank lending rate to 4.60%, and on October 24, 2015, the PBOC further lowered the benchmark one-year bank lending rate to 4.35%. The benchmark one-year bank lending rates published by the PBOC for the years ended December 31, 2015 and 2016 were 4.35% and 4.35%, respectively. We expect that increases in interest rates and reserve requirement ratios would increase our finance costs in general and the finance costs of leveraged property buyers and as a result, may delay potential purchasers from making a purchase. The effect of the increases in interest rates on our finance costs are not immediately apparent due to our capitalization of finance costs. Upon completion of a project and once the property has been delivered to buyers, the capitalized finance costs of the relevant property will be recognized as direct costs on our consolidated income statements.

Any further increases in interest rates on our bank borrowings, including as a result of interest rate increases by the PBOC, could have a material adverse effect on our business, financial condition, results of operations and prospects. These and other credit tightening measures by the PRC government in recent years have affected the ability of Chinese companies, including property developers, to borrow funds to finance their operation and development plans. Despite recent decreases, the reserve requirement ratio remains at a relatively high level. We cannot assure you that the PBOC will not raise lending rates or reserve requirement ratios in the future, or that our business, financial condition and results of operations would not be adversely affected as a result of these adjustments.

We face intense competition

In recent years, a large number of property developers have undertaken property development and investment projects in Guangdong Province and elsewhere in the PRC. Our major competitors include large national and regional property developers and overseas developers, including a number of leading Hong Kong property developers, some of which may be more sophisticated than us in terms of engineering and technical skills, and may have better track records and greater financial, land and other resources, broader name recognition and greater economies of scale than us.

In addition, the PRC government has recently introduced various policies and measures in order to limit the growth and to prevent the overheating of the property development sector, which has further increased competition for land among real estate developers. For more details, please refer to the sections entitled “Industry Overview” and “Regulation.”

Competition among property developers may result in an increase in acquisition costs of land for development, an increase in the cost or a shortage of raw materials, an over-supply of properties, a decrease in property prices in certain parts of the PRC or an inability to sell such properties, a slowdown in the rate at which new property developments are approved or reviewed by the relevant PRC government authorities and an increase in administrative costs for hiring or retaining qualified personnel, any of which may adversely affect our business, financial position and results of operations.

In addition, recent market downturns in the PRC may further intensify competition. If we cannot respond to changes in market conditions or changes in customer preferences more swiftly or effectively than our competitors, our business, financial condition and results of operations could be adversely affected.

Property markets in the PRC are still at an early stage of development and lack adequate infrastructural support

The property markets in the PRC are still at a relatively early stage of development. The growth of the PRC property markets is often coupled with volatility in market conditions and fluctuation in property prices. We cannot predict how much and when demand will develop, as various factors, including social, political, economic and legal factors may affect the development of the market. The level of uncertainty is increased by limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC.

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

In addition, risk of property over-supply is increasing in certain 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.

The property development business is subject to claims under statutory quality warranties

Under the Regulations on the Administration of Quality of Construction Works (《建設工程質量管理條例》), which became effective on January 30, 2000, all property developers in the PRC must provide certain quality warranties for the properties they construct or sell. In addition, general contractors are required to provide quality warranties for the properties they build to the relevant property developers, and such property developers may seek reimbursement from the relevant general contractors for amounts paid to customers as a result of claims brought under quality warranties. We act as general contractor for a majority of our property projects, and in such cases we are directly responsible for construction quality and are generally not able to seek reimbursement from third-party contractors where customer claims are brought against us under our quality warranties. We cannot guarantee that we will not receive customer claims in relation to the quality of our projects. If a significant number of claims were brought against us under our quality warranties and if we were 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 was not sufficient, we could incur significant expenses to resolve such claims or face delays in remedying the related defects, which could in turn harm our reputation, and materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Substantially all of our assets are located in the PRC and our revenue is sourced from the PRC. Accordingly, our results of operations, financial position and prospects are directly affected by the economic, political and legal developments of the PRC.

PRC economic, political and social conditions as well as government policies could affect our business

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

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

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

The PRC economy has been transitioning from a planned economy to a market oriented economy. For the past three decades, the PRC government has implemented economic reform measures emphasizing the utilization of market forces in the development of the PRC economy. However, since early 2004, the PRC government has implemented certain measures in order to prevent the PRC economy, including the property market, from overheating. These measures may cause a decrease in the level of economic activity, including demand for residential properties, and may have an adverse impact on economic growth in the PRC. See the section entitled "Regulation" for further information. If China's economic growth decreases or if the PRC economy experiences a recession, the growth in demand for our products may also decrease and our business, financial condition and results of operations will be adversely affected.

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

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

Inflation in China may have a material adverse effect on our business, financial condition and results of operations

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographic areas of the country. Rapid economic growth can lead to growth in money supply and inflation. If prices of our properties rise at a rate that is insufficient to compensate for the rise in our costs, our business, financial condition and results of operations may be materially and adversely affected. To control inflation in the past, the PRC government has imposed

control on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such austerity measures can lead to a slowdown in the economic growth and may materially and adversely affect our business, financial condition and results of operations.

Governmental control of currency conversion may limit our ability to use capital effectively

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive our revenues in Renminbi. Under our current structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations, if any. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of indebtedness denominated in foreign currencies. The restrictions on foreign exchange transactions under capital accounts could also affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from us. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

The labor contract law and other labor laws and regulations in the PRC may adversely affect our business and profitability

The labor contract law promulgated in the PRC on June 29, 2007 and amended on December 28, 2012, effective on July 1, 2013, imposes more stringent requirements on employers in relation to entering into fixed term employment contracts, the hiring of temporary employees and dismissing employees. In addition, under the Regulations on Paid Annual Leave for Employees (《職工帶薪年休假條例》), which came into effect on January 1, 2008, employees who have continuously worked for more than one year are entitled to a paid holiday ranging from five to 15 days, depending on their length of service. Employees who agree to waive part or all of their holiday entitlement at the request of their employers must be compensated with three times their normal daily salaries for each day of holiday entitlement being waived. As a result of the labor contract law and related regulations, our labor costs may increase. We cannot assure you that any disputes, work stoppages or strikes will not arise in the future. Increases in our labor costs and future disputes with our employees could have a material adverse effect on our business, financial condition or results of operations.

In addition, in accordance with relevant PRC labor laws and regulations, we are required to contribute to a number of employee social insurance schemes including medical, maternity, work-related injury, unemployment and pension insurance, and to the employee housing provident fund. We provide social insurance and contribute to the housing provident fund for our employees in accordance with the policies and practices of local government authorities' interpretation and implementation of relevant PRC labor laws and regulations. Changes in labor laws or regulations in the PRC in which we operate may result in us incurring significant costs in order to maintain compliance with such laws and regulations and may delay or prevent project completion. Any failure to comply with such labor regulations may result in penalties, revocation of permits or licenses for our operations or litigation, and as a result, our business, financial condition and results of operations could be materially and adversely affected.

Uncertainty with respect to the PRC legal system could adversely affect us and may limit the legal protection available to you

As substantially all of our businesses are conducted, and substantially all of our assets are located, in the PRC, our operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign

investment, corporate organization and governance, commerce, taxation, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. For example, we have registered the issuance of the Notes with the NDRC with reference to the NDRC Notice and are required to file a post-issuance report with the NDRC within 10 working days in the PRC pursuant to the registration certificate. As the NDRC Notice is a new regulation, there are still uncertainties regarding its interpretation, implementation and enforcement by the NDRC. If we fail to complete such filing in accordance with the relevant requirements, due to any change in the relevant regulation we may be subject to penalties or other enforcement actions by relevant PRC government authorities. 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. Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are subject to policy changes. There is no guarantee that the introduction of new laws, changes to existing laws and the interpretation or application thereof, or delays in obtaining rulings, interpretations or approvals from the relevant authorities will not have an adverse impact on our business or prospects.

Even where adequate laws exist in China, the enforcement of existing laws or contracts based on existing laws may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement of a judgment by a court of another jurisdiction. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and the diversion of resources and management's attention. All these uncertainties could limit the legal protection available to foreign investors, including you.

It may be difficult to effect service of process on our Directors or executive officers who reside in the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts

A majority of our senior management members reside in mainland China, and substantially all of our assets, and substantially all of the assets of those persons are located in mainland China. Therefore, it may be difficult for investors to effect service of process upon those persons inside mainland China or to enforce against us or them in mainland China any judgments obtained from non-PRC courts. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands, the United States, the United Kingdom, Japan and many other developed countries. Therefore, recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

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

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics such as the human swine flu, also known as Influenza A (H1N1), H5N1 avian flu or severe acute respiratory syndrome ("SARS"), and other natural disasters which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC, including certain cities where we operate, are under the threat of floods, earthquakes, sandstorms, snowstorms, fire, droughts or epidemics. Our business, financial condition and results of operations may be materially and adversely affected if natural disasters or other such events occur.

For instance, a serious earthquake and its successive aftershocks hit Sichuan province in May 2008, resulting in tremendous loss of life and injury, as well as destruction of assets in the region. Furthermore, the PRC reported a number of cases of SARS in 2003. Since its outbreak in 2004, there have been reports on occurrences of avian flu in various parts of the PRC, including several confirmed human cases and deaths. In particular, any future outbreak of SARS, avian flu or other similar adverse epidemics may, among other things, significantly disrupt our business, including limiting our ability to travel or ship materials within the PRC. An outbreak of infectious disease may also severely restrict the level of economic activity in affected areas, which may in turn have a material and adverse effect on our results of operations, financial condition and business.

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 or by certain other Non-Guarantor Subsidiaries. Our primary assets are ownership interests in our PRC subsidiaries and other Non-Guarantor Subsidiaries. The Subsidiary Guarantors do not, and the JV Subsidiary Guarantors (if any) may not, have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or the JV Subsidiary Guarantees (as the case may be) will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our PRC subsidiaries.

Creditors, including trade creditors of our Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on such 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 such subsidiaries, 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. The Notes and the Indenture permit us, the Subsidiary Guarantors, the JV Subsidiary Guarantor (if any) and our Non-Guarantor Subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. 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 (if any) would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor (if any) 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, or JV Subsidiary Guarantee, following the sale or issuance to, or a purchase from, a third party of an equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under the JV Subsidiary Guarantees provided by a JV Subsidiary Guarantor and its shareholders and subsidiaries are 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.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) are unsecured obligations.

As the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) are unsecured obligations, our ability or the ability of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) to fulfill our or their financial obligations may be compromised if:

- we, any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) enter into bankruptcy, liquidation, reorganization or other winding-up proceeding;
- there is a default in payment under secured indebtedness or other unsecured indebtedness of us, any Subsidiary Guarantor or JV Subsidiary Guarantor (if any); or
- there is an acceleration of any indebtedness of us, any Subsidiary Guarantor or JV Subsidiary Guarantor (if any).

If any of these events occur, our assets and assets of the Subsidiary Guarantors and the JV Subsidiary Guarantees (if any) may not be sufficient to pay amounts due on the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any).

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

In certain circumstances, the Trustee may request holders of the Notes to provide an indemnity and/or security to its satisfaction before it will take actions on their behalf. The Trustee will not be obliged to take any such actions if not indemnified and/or secured to its satisfaction. Negotiating and agreeing to an indemnity and/or security can be a lengthy process and may impact on when such actions can be taken. Further, the Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security to it, in breach of the terms of the Indenture or in circumstances where there is uncertainty or dispute as to such actions' compliance with applicable laws and regulations. In such circumstances, to the extent permitted by any applicable agreements or applicable laws, it will be for the holders of the Notes to take such actions directly.

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. As of December 31, 2015 and 2016, our total outstanding borrowings (excluding the Existing Notes and Corporate Bonds) amounted to RMB11,161.9 million and RMB15,078.0 million (US\$2,171.7 million), respectively.

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 Notes, our ability to incur additional debt is subject to the limitation on indebtedness and preferred stock covenant. Under such covenant, 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 EBITDA includes our unrealized gains on valuation adjustments on our investment properties, our Consolidated EBITDA and therefore our ability to incur additional debt under such covenant, could be substantially larger when compared to other similarly situated PRC-based issuers of high-yield bonds whose covenant does not typically include unrealized gains in the calculation of their respective consolidated EBITDA. In addition, because our definition of Consolidated Interest Expense for the Notes excludes (i) the interest expense on indebtedness of third parties that we guarantee (except to the extent that such interest expense has become payable by us) and (ii) any distributions incurred, accrued or payment on any Perpetual Bond Obligation that is accounted for as equity in accordance with the relevant generally accepted accounting principles, of which the aggregate outstanding principal amount does not exceed 20% of Total Assets, once our Existing 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.

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 Indenture and the indenture governing the Existing 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 specific 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 other financing arrangements also impose operating and financial restrictions on our business. See the section entitled “Description of Other Material Indebtedness.” Such restrictions in the 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.

The terms of the Notes give us enhanced flexibility to pay dividends and repurchase our shares

We pay dividends to our shareholders or repurchase our common stock from time to time. Under the Indenture and the indenture governing the Existing Notes, any such dividend payment or repurchase will be a “Restricted Payment,” which could not be made unless we can, among other things, satisfy the Fixed Charge Coverage Ratio. However, such restriction is subject to important exceptions and qualifications. Under the terms of the Notes, we may pay dividends on our common stock or redeem our common stock in an aggregate amount up to 20% of our profit for the year without satisfying the Fixed Charge Coverage Ratio. With such an exception, once our Existing Notes are fully redeemed or their terms are similarly amended, we may be able to pay substantial amount of dividends or repurchase a substantial amount of our common stock even when we are highly leveraged, which may materially and adversely affect our ability to service our indebtedness, including the Notes.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries and any dividends from such subsidiaries may not qualify for reduced treaty rates

As a holding company, we depend on the receipt of dividends and interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our debt 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 particular, a number of our subsidiaries in the PRC are parties to bank loan agreements that restrict their ability to pay dividends. See the section entitled “Description of Other Material Indebtedness.” In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity would not be available to us to make payments on the Notes. Further, certain loan agreements and secured trust financing agreements obtained by our PRC subsidiaries from lender banks and trust companies in the PRC contain provisions that restrict or prohibit the payment or declaration of dividends or distributions. 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 addition, 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 that specifically exempts or reduces such withholding tax. Currently, we invest in most of our PRC operating subsidiaries through Yuen Ming (Hong Kong) Investments Company Limited (“Yuen Ming”) and Kam Wang (Hong Kong) Investments Company Limited (“Kam Wang”), companies incorporated in Hong Kong. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region 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》) (the “Hong Kong Tax Treaty”), Yuen Ming and Kam Wang may be subject to withholding tax at a rate of 5% on dividends received from our PRC operating subsidiaries. However, according to the Circular in Relation to the Understanding and Determination of “Beneficial Owners” in Tax Treaties (《關於如何理解和認定稅收協定中“受益所有人”的通知》) issued by the PRC State Administration of Taxation on October 27, 2009 (“Circular 601”), tax treaty benefits will be denied to “conduit” or shell companies without substantive business activities. It is unclear whether Circular 601 applies to dividends from our PRC operating subsidiaries paid to us through Yuen Ming and Kam Wang. It is possible, however, that under Circular 601, Yuen Ming and Kam Wang would not be considered as the “beneficial owners” of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10% rather than the favorable 5% rate applicable under the Hong Kong Tax Treaty, in which case our results of operations and financial position would be materially and adversely affected. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet our payment obligations under the Notes or to satisfy the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or the 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.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders’ loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on our behalf on the interest paid under any shareholders’ loans. PRC regulations require approval by SAFE prior to any of our non-PRC subsidiaries making shareholder loans in foreign currencies to our PRC subsidiaries (except the loans to a foreign-invested enterprise within the difference between its total investment and registered capital), and require such loans (including the loans to a foreign-invested enterprise within the difference between its total investment and registered capital) to be registered with SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

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 the JV Subsidiary Guarantees (as the case may be). Any limitation on the ability of our PRC subsidiaries to pay dividends to us may also materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses or otherwise fund and conduct our business.

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. On March 17, 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0%. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 24.5% from July 21, 2005 to December 31, 2016. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the central parity rate of the RMB against the U.S. dollar depreciated by nearly 2.0% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Since October 2016, the RMB against the U.S. dollar continued to depreciate at an increasing rate. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies.

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 and other indebtedness denominated in foreign currencies.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any hedging transactions to reduce our exposure to such risks. Following the offering of the Notes, we may enter into foreign exchange or interest rate hedging 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, 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.

Any hedging obligation entered into or to be entered into by us or our subsidiaries, may contain terms and conditions that may result in the early termination, in whole or in part, of such hedging obligation upon the occurrence of certain termination or analogous events or conditions (howsoever described), including such events relating to us and/or any of our subsidiaries, and the terms and conditions of such hedging obligation(s) may provide that, in respect of any such early termination, limited or no payments may be due and payable to, or that certain payments may be due and payable by, us and/or any of our subsidiaries (as relevant) in respect of any such early termination. Any such early termination, in whole or in part, of any such hedging obligation(s), and the payment and any other consequences and effects of such early termination(s), may be material to our financial condition and/or any of our subsidiaries and may be material in relation to the performance of our or their respective obligations under or in relation to the Notes (if applicable), any indebtedness or any other present or future obligations and commitments.

The notes are subject to optional redemption by us

As set forth in “Description of the Notes—Optional Redemption,” the Notes may be redeemed at our option in the circumstances set out therein. An optional redemption feature is likely to limit the market

value of the Notes. During any period when we may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be the case prior to any redemption period. We may be expected to redeem Notes when the current financing cost is lower than the interest rate on the Notes. In such case, a Noteholder generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to reinvest so at a significantly lower rate. It may therefore cause a negative financial impact on the Noteholders. Potential investors should consider reinvestment risk in light of other investments available at that time.

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

Upon the occurrence of a Change of Control Triggering Event, the holder of each Note will have the option to require us to redeem all or some of the holder's Notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See the section entitled "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 the outstanding Notes. Our failure to make the offer to purchase or to 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 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 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 terms of the Notes permit us to make investments in Unrestricted Subsidiaries and minority owned joint ventures

In light of land prices, the capital intensive nature of land acquisitions, sizes of projects, the competitive landscape and other factors, we may from time to time consider developing properties jointly with other property developers. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries under the Indenture governing the Notes. Although the Indenture governing the Notes restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or joint ventures, these restrictions are subject to important exceptions and qualifications. See the section entitled "Limitation on Restricted Payments" and the definition of "Permitted Investment" in "Description of the Notes."

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 tax "resident enterprise", we may be required to withhold PRC tax on interest payable to certain of our non-resident investors. See "Taxation — PRC." 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 specified tax laws or certain other circumstances, including any change in the existing official position or the stating of an

official position regarding the interpretation of tax laws, 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 redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

The insolvency laws of the Cayman Islands and the PRC and other local insolvency laws applicable to us may differ from those of any other jurisdiction with which holders of the Notes are familiar

Because we are incorporated under the laws of the Cayman Islands, an insolvency proceeding relating to us, even if brought in the United States, would likely involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the laws of the United States or other jurisdictions with which holders of the Notes are familiar. In addition, the Subsidiary Guarantors are 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. We and our 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 in the insolvency laws of the Cayman Islands, the BVI, Hong Kong, the PRC and other jurisdictions applicable to us carefully before you invest in our Notes.

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

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

The Indenture 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, merger, restructuring or changes in shareholding in subsidiaries.

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

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

The Notes are a new issue of securities for which there is currently no trading market. Although approval-in-principle has been received from the SGX-ST for the listing and quotation of the Notes on 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 the section entitled "Transfer Restrictions." We cannot predict whether an active trading market for the Notes will develop or be sustained.

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

The Notes are expected to be assigned a rating of "B1" by Moody's Investors Service and "BB-" by Fitch Ratings. 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. Additionally, we have been assigned a corporate family rating of "Ba3" 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 will be confirmed or they or our corporate credit ratings will remain for any given period of time or that a rating

will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant (such circumstances include, for example, if we or our Restricted Subsidiaries were to incur substantial additional indebtedness to the extent permitted under the Indenture). We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

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

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

The “Limitation on Transactions with Shareholders and Affiliates” covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and

- (a) any holder (or any Affiliate of such holder) of 10% or more of shares of the Company; or
- (b) 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 to obtain approval from independent shareholders. 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, fluctuations in price for comparable companies and government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally 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.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of an investment in the Notes in light of its own circumstances. In particular, each potential investor should consider, either on its own or with the help of its financial and other professional advisors, whether it: (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this offering memorandum; (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in

the Notes, including where the currency for principal or interest payments is different from the currency in which the potential investor's financial activities are principally denominated; (iv) understands thoroughly the terms of the Notes and is familiar with the behavior of any relevant indices and financial markets; and (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, our financial statements are prepared and presented in accordance with HKFRS, which differs in certain significant respects from GAAP in other jurisdictions, 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 other GAAP. You should consult your own professional advisors for an understanding of the differences between HKFRS and other GAAP 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 and such standards may be different from those applicable to debt securities listed in certain other countries

We will be subject to continuing listing 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. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

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 certificate form and held through Euroclear and Clearstream. Interests in the Notes represented by the global certificate will trade in book entry form only, and 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. The nominee of the common depository for Euroclear and Clearstream will be the sole registered holder of the global certificate representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global certificate 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 certificate representing the Notes and credited by such participants to indirect participants. After payment to the nominee of 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 or, 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 Noteholder 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 Noteholders. 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.

Similarly, upon the occurrence of an Event of Default under the Indenture, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

RISKS RELATING TO THE SUBSIDIARY GUARANTEES AND THE JV SUBSIDIARY GUARANTEES

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 will provide a Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of the PRC or their future PRC or non-PRC subsidiaries, or that are not permitted by applicable laws or regulation to guarantee the Notes (the “Exempted Subsidiaries”), or that are listed on a qualified exchange and their subsidiaries (the “Listed Subsidiaries”) will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. In addition, certain of our offshore subsidiaries will not be required to guarantee the Notes if the consolidated assets of these subsidiaries (other than the Exempted Subsidiaries and Listed Subsidiaries) do not exceed 30% of our total assets, once our Existing Notes are fully redeemed or their terms are similarly amended. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of our PRC subsidiaries and other Non-Guarantor 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.

Moreover, under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse JV Subsidiary Guarantee following the sale or issuance to, or purchase from, a third party of an equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under the JV Subsidiary Guarantees provided by a JV Subsidiary Guarantor and its shareholders and subsidiaries are 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.

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

Under bankruptcy laws, fraudulent transfer laws, insolvency laws in the BVI or bankruptcy law, fraudulent transfer laws, insolvency or unfair preference or similar laws in Hong Kong and other jurisdictions where future Subsidiary Guarantors or JV Subsidiary Guarantors (if any) may be established or where insolvency proceeding 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:

For Subsidiary Guarantors or JV Subsidiary Guarantors (if any) incorporated in the BVI:

- incurred the debt with the intent to defraud creditors (whenever the transaction took place and irrespective of insolvency);
- either (i) 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 or (ii) received no consideration, or received consideration in money or money’s worth that is significantly less than the consideration supplied by the guarantor unless it is entered into in good faith for the purposes of its business with reasonable grounds for believing that it would benefit the guarantor (although in either case a guarantee

will only be voidable if it (i) was entered into at a time when the guarantor was insolvent or if it became insolvent as a consequence of doing so, insolvent in this context means that the guarantor fails to comply with the requirements of a statutory demand, execution or other process issued on a judgement, decree or order of a BVI court in favour of a creditor of the guarantor is returned unsatisfied or the guarantor is unable to pay its debts as they fall due, and (ii) was given within the six months, or, if the guarantee and beneficiary are connected entities, two years, before the onset of insolvency).

For Subsidiary Guarantors or JV Subsidiary Guarantors (if any) incorporated in other jurisdictions:

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

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the jurisdiction which are being applied. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debt as it became absolute and matured. 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 any). In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration, and, as a result, such guarantee would be rendered void.

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 (if any) 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 (if any) without rendering the guarantee, as it relates to such Subsidiary Guarantor or JV Subsidiary Guarantor (if any), voidable under such applicable insolvency or fraudulent transfer laws.

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

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions payable by us in connection with this offering, will be approximately US\$440 million, which we plan to use for refinancing our existing indebtedness and for general corporate purposes.

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 further widened to 1.0% on April 16, 2012. From July 21, 2005 to December 31, 2013, the value of the Renminbi appreciated by approximately 26.9% against the U.S. dollar. On March 17, 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0%. 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. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the central parity rate of the RMB against the U.S. dollar depreciated by nearly 2.0% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Since October 2016, the RMB against the U.S. dollar continued to depreciate at an increasing rate. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies.

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⁾	Low	High
		<i>(RMB per US\$1.00)</i>		
2011	6.2939	6.4475	6.2939	6.6364
2012	6.2303	6.3085	6.2221	6.3879
2013	6.0537	6.1412	6.0537	6.2438
2014	6.2046	6.1704	6.0402	6.2591
2015	6.4778	6.2869	6.2046	6.4778
2016	6.9430	6.6400	6.9580	6.4480
November	6.8837	6.8402	6.7534	6.9195
December	6.9430	6.9198	6.9580	6.8771
2017				
January	6.8768	6.8907	6.9575	6.8360
February	6.8665	6.8694	6.8821	6.8517
March	6.8832	6.8440	6.9132	6.8687
April	6.8900	6.8876	6.8988	6.8778
May (through May 5)	6.9021	6.8959	6.9021	6.8900

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⁾	Low	High
		<i>(HK\$ per US\$1.00)</i>		
2010	7.7810	7.7692	7.7501	7.8040
2011	7.7663	7.7793	7.7634	7.8087
2012	7.7507	7.7556	7.7493	7.7699
2013	7.7539	7.7565	7.7503	7.7654
2014	7.7531	7.7554	7.7495	7.7669
2015	7.7507	7.7519	7.7495	7.7686
2016	7.7534	7.7620	7.8270	7.7505
November.....	7.7566	7.7560	7.7546	7.7581
December.....	7.7534	7.7586	7.7674	7.7534
2017				
January	7.7579	7.7560	7.7580	7.7540
February	7.7627	7.7596	7.7627	7.7575
March.....	7.7714	7.7658	7.7714	7.7611
April	7.7779	7.7737	7.7806	7.7687
May (through May 5)	7.7839	7.7810	7.7839	7.7775

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 December 31, 2016 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 payable by us in connection with this offering. This table does not give effect to the issuance of the January 2017 Notes.

	As of December 31, 2016			
	Actual		As adjusted	
	<i>RMB'000</i>	<i>US\$'000⁽⁸⁾</i>	<i>RMB'000</i>	<i>US\$'000⁽⁸⁾</i>
Cash and cash equivalents⁽¹⁾	13,559,827	1,953,021	16,614,747	2,393,021
Short-term borrowings:⁽²⁾				
Bank and other loans.....	3,370,501	485,453	3,370,501	485,453
The December 2014 Notes.....	1,747,637	251,712	1,747,637	251,712
Total short-term borrowings	5,118,138	737,165	5,118,138	737,165
Long-term borrowings:⁽³⁾⁽⁴⁾				
Bank and other loans.....	11,707,510	1,686,232	11,707,510	1,686,232
Corporate Bonds ⁽⁵⁾	12,400,000	1,785,971	12,400,000	1,785,971
The June 2014 Notes and the January 2016 Notes	3,960,889	570,487	3,960,889	570,487
Notes to be issued ⁽⁶⁾	—	—	3,054,920	440,000
Total long-term borrowings⁽⁷⁾	28,068,399	4,042,690	31,123,319	4,482,690
Total equity	25,751,346	3,708,965	25,751,346	3,708,965
Total capitalization⁽⁸⁾	53,819,745	7,751,655	56,874,665	8,191,655

Notes:

- (1) Cash and cash equivalents exclude restricted and pledged deposits of RMB1,010.2 million (US\$145.5 million). The cash and cash equivalents as adjusted do not give effect to the issuance of the January 2017 Notes.
- (2) Short-term borrowings include the current portion of long-term borrowings.
- (3) Our long-term borrowings do not include any accrual for capital commitments or contingent liabilities. As of December 31, 2016, our capital commitments were RMB24,266.2 million (US\$3,495.1 million) and our contingent liabilities, which were in the form of guarantees for mortgage bank loans granted to purchasers of our properties, were RMB9,806.2 million (US\$1,412.4 million). See the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Indebtedness and Contingent Liabilities—Capital Commitments and Contractual Obligations” and “—Indebtedness and Contingent Liabilities.”
- (4) Subsequent to December 31, 2016, we have, in the ordinary course of business, entered into additional financing arrangements to finance our property developments. These additional borrowings are not reflected in the table above. See the section entitled “Description of Material Indebtedness and Other Obligations.”
- (5) Corporate Bonds include the Public Corporate Bonds and the Private Corporate Bonds issued by Shenzhen Logan to qualified investors in tranches in 2015 and 2016.
- (6) The net proceeds from the Notes (with the aggregate principal amount of US\$450 million), after deduction of underwriting discounts and commissions of approximately US\$10 million, is approximately US\$440 million.
- (7) The total long-term borrowings as adjusted do not give effect to the issuance of the January 2017 Notes in an aggregate principal amount of US\$200 million. See “Description of Other Material Indebtedness—January 2017 Notes” for details.
- (8) Total capitalization equals total long-term borrowings plus total equity.
- (9) Amounts in Renminbi have been translated into U.S. dollar amounts, and vice versa, for convenience only at the exchange rate of RMB6.9430 to US\$1.00 based on the noon buying rate for U.S. dollars in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2016.

In our ordinary course of business, we may consider various financing opportunities and incur additional debt, including, among others, bank borrowings and domestic bonds or other securities issuances. Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalization and indebtedness since December 31, 2016.

See “Risk Factors—Risks Related to the Financial Information Included in this Offering Memorandum—The audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016, contains two qualifications” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Factor Affecting the Comparability of our Results of Operations—Qualifications in the audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016.”

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables present our selected consolidated financial and other data. The selected consolidated statement of profit or loss data for the years ended December 31, 2015 and 2016 and the selected consolidated statement of financial position as of December 31, 2015 and 2016 set forth below (except for other financial data and US\$ data) have been derived from our consolidated financial statements as of and for the year ended December 31, 2016, which are included elsewhere in this offering memorandum. Potential investors must exercise caution when using such data to evaluate our financial condition and results of operation. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from GAAP 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. The summary financial data below is qualified in its entirety by reference to our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

The consolidated financial statements for the year ended December 31, 2016 were audited by KPMG and the auditor’s report, which was reproduced on pages F-2 to F-10 in this offering memorandum, was qualified in respect of the following matters:

- (a) certain joint ventures incurred payments to third parties to fund the costs for the acquisition of certain urbanization projects. These payments of approximately RMB900 million have been included in receivables as of December 31, 2016. However, KPMG have been unable to obtain sufficient audit evidence to ascertain the nature of these payments, and thus cannot satisfy themselves as to the appropriateness of accounting for these payments as receivables as of December 31, 2016.
- (b) our Group has entered into capital contribution agreements with Shenzhen Pingan Dahua Huitong Wealth Management Co., Ltd. (“Pingan Dahua”) in 2015 and 2016, pursuant to which Pingan Dahua has made capital contributions to two subsidiaries of our Group (Shenzhen Logan Junjing Real Estate Development Co., Ltd. (深圳市龍光駿景房地產開發有限公司) (“Shenzhen Logan Junjing”) and Huizhou Daya Bay Dongzhen Property Co., Ltd. (惠州大亞灣東圳房地產有限公司) (“Huizhou Dongzhen”). As of December 31, 2016, Pingan Dahua contributed a total of RMB4,800 million and RMB3,960 million to Shenzhen Logan Junjing and Huizhou Dongzhen, respectively (2015: RMB2,800 million and nil, respectively). In 2016, Pingan Dahua received RMB2,086 million from our Group on the repurchase of Pingan Dahua’s 49% interest in our subsidiary, Shenzhen Jinjun Property Co., Ltd. (“Shenzhen Jinjun”). These transactions have been accounted for as equity transactions whereby adjustments have been made to the amount of other reserves within controlling shareholders’ interests and non-controlling interests in our consolidated financial statements as of December 31, 2016 and 2015. KPMG stated in their audit report that during their audit of the consolidated financial statements as of December 31, 2016, it came to their attention that certain agreements specified certain payments obligations by Shenzhen Logan Junjing and Huizhou Dongzhen to Pingan Dahua in connection with the above capital contributions. In KPMG’s opinion, as the agreements contain obligations for our Group to repurchase its own equity instruments in certain circumstances, accounting for these transactions entirely as equity transactions is not in accordance with the requirements of Hong Kong Accounting Standard 32 *Financial Instruments: Presentation*. KPMG stated in their audit report dated March 30, 2017 on our consolidated financial statements for the year ended December 31, 2016 that they have been unable to quantify the financial effect of this departure as of the date of their audit report as they have been unable to satisfy themselves that they have a full understanding of the rights and obligations of both sides to the agreements and any other similar transactions accounted for as equity transactions in our Group’s consolidated financial statements as of December 31, 2016 and 2015. KPMG further stated that any adjustments to these amounts would affect the amount of liabilities and net assets we reported as at those dates and may affect the profit recognized for the years then ended.

As a result of the above qualifications, we believe that some of the line items of our financial statements for each of the years ended, and as of, December 31, 2016 and December 31, 2015 were

potentially affected, the magnitude of which impact was uncertain. See “Risk Factors—Risks Related to the Financial Information Included in this Offering Memorandum—The audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016, contains two qualifications” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Factor Affecting the Comparability of our Results of Operations—Qualifications in the audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016”. **Investors should exercise caution when reviewing the offering memorandum and our consolidated financial statements included elsewhere in this offering memorandum.**

SELECTED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER FINANCIAL DATA

	For the year ended December 31,		
	2015	2016	
	RMB	RMB	US\$
	(in thousands, except for percentages)		
Revenue	14,574,010	20,538,838	2,958,208
Direct costs	(10,143,907)	(13,979,010)	(2,013,396)
Gross profit	4,430,103	6,559,828	944,812
Other revenue	134,635	423,523	61,000
Other expenses	(144,029)	(196,327)	(28,277)
Selling and marketing expenses	(573,138)	(714,249)	(102,873)
Administrative expenses	(587,839)	(556,700)	(80,181)
Net increase in fair value of investment properties ..	943,057	2,681,903	386,274
Net increase in fair value of derivative financial instruments	6,936	81,720	11,770
Share of profit of an associate	—	31,723	4,569
Share of losses of joint ventures	—	(6,137)	(884)
Profit from operations	4,209,725	8,305,284	1,196,210
Finance costs	(36,215)	(371,850)	(53,558)
Profit before taxation	4,173,510	7,933,434	1,142,652
Income tax	(1,485,692)	(2,733,551)	(393,713)
Profit for the year	2,687,818	5,199,883	748,939
Attributable to:			
—Equity shareholders of the Company	2,649,279	4,487,736	646,368
—Non-controlling interests	38,539	712,147	102,571
Profit for the year	2,687,818	5,199,883	748,939
Other financial data:			
EBITDA ⁽¹⁾	3,873,696	6,584,236	948,327
EBITDA margin ⁽²⁾	26.6%	32.1%	32.1%

Notes:

- (1) EBITDA for any period consists of profit from operations less changes in fair value of investment properties, and other borrowing costs included in finance costs plus capitalized interest included in direct costs and depreciation expenses included in administrative 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. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. 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 the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures” for a reconciliation of our profit from operations 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. See the section entitled “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 STATEMENT OF FINANCIAL POSITION

	As of December 31,		
	2015	2016	
	RMB'000	RMB'000	US\$'000
Non-current assets			
Investment properties	6,117,500	11,890,879	1,712,643
Other property, plant and equipment	165,622	184,317	26,547
	6,283,122	12,075,196	1,739,190
Deferred tax assets	385,210	273,500	39,392
Interest in joint ventures and an associate.....	—	15,404,313	2,218,683
Restricted and pledged deposits	343,065	227,304	32,739
	7,011,397	27,980,313	4,030,003
Current assets			
Inventories	28,198,344	40,197,099	5,789,586
Trade and other receivables	10,025,722	2,943,357	423,932
Tax recoverable	402,045	810,941	116,800
Assets under cross-border guarantee arrangements..	286,600	—	—
Restricted and pledged deposits	2,212,300	1,010,172	145,495
Cash and cash equivalents	8,635,258	13,559,827	1,953,021
	49,760,269	58,521,396	8,428,834
Current liabilities			
Trade and other payables	16,969,129	23,919,327	3,445,100
Liabilities under cross-border guarantee arrangements	286,600	—	—
Bank and other loans	4,044,885	3,370,501	485,453
Senior Notes	—	1,747,637	251,712
Tax payable	1,320,647	2,017,405	290,567
	22,621,261	31,054,870	4,472,832
Net current assets	27,139,008	27,466,526	3,956,003
Total assets less current liabilities	34,150,405	55,446,839	7,986,006
Non-current liabilities			
Bank and other loans	7,117,037	11,707,510	1,686,232
Corporate bonds	5,000,000	12,400,000	1,785,971
Senior notes	3,588,720	3,960,889	570,487
Deferred tax liabilities	983,731	1,627,094	234,350
	16,689,488	29,695,493	4,277,041
NET ASSETS	17,460,917	25,751,346	3,708,965
CAPITAL AND RESERVES			
Share capital	439,821	434,591	62,594
Reserves	13,108,958	18,992,258	2,735,454
Total equity attributable to equity shareholders of the Company	13,548,779	19,426,849	2,798,048
Non-controlling interests	3,912,138	6,324,497	910,917
TOTAL EQUITY	17,460,917	25,751,346	3,708,965

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 generally accepted accounting principles in other jurisdictions. In this section of the offering memorandum, references to "2015" and "2016" refer to our financial years ended December 31, 2015 and 2016, respectively.

OVERVIEW

We are a property developer in the PRC focusing on the residential property market, and our products are primarily targeted at first-time homebuyers and upgraders. We believe demand from such customers is less susceptible to fluctuations in property prices and thus provides stability to our business profile. In 2017, we were ranked as the 29th-largest property developer in the PRC by comprehensive strength⁽¹⁾.

We have a land bank comprising land we acquired at competitive prices, and we strive to build our land bank by establishing and expanding our presence in economic regions which we believe hold high growth potential. As of December 31, 2016, we had a land bank with an aggregate GFA of 14.1 million sq.m., primarily comprising residential property projects with ancillary retail shops, as well as an office property project where our headquarters is located. As of December 31, 2016, approximately 50% of our land bank was located in the Pearl River Delta region, among which 40% of our land bank was located in Shenzhen; and approximately 16% and 26% of the land bank was located in Shantou and Nanning, respectively. We believe our current land bank will be sufficient to meet our development needs for the next five to six years, based on our current projections and our historical sales and land development records.

We have established a replicable property development process, which is supported by our in-house departments and subsidiaries specializing in design and planning, construction, decoration, procurement, sales, customer services and each other major step in the property development process. We leverage our ability to build projects through Logan Construction, our own construction subsidiary, and our centralized and strategic procurement, quick development operation model and cost control over the whole property development process to optimize our costs, shorten development cycles, improve cash flow and maintain profitability. Through our strategic planning and disciplined property development process, we aim to achieve high asset turnover for our projects. We generally target commencing pre-sales of properties within six to 10 months of acquiring a parcel of land for a substantial majority of our projects.

As of December 31, 2016, we had completed a total GFA of over 15 million sq.m. Over the past 20 years, we have established ourselves as one of the leading developers focusing on residential properties in China's economically developed cities, regions and emerging areas, including, among others, Shenzhen and other cities located in the Pearl River Delta region, Shantou and Nanning. In 2017, our Group was recognized as a "2017 Top 100 Chinese Real Estate Developers—Top 10 in Profitability" jointly by the Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所), the Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所) and China Index Academy (中國指數研究所). We believe that our track record, together with the strength of our "Logan" (龍光) brand and the leadership and vision of our management team, positions us well to expand into other cities in the PRC. In 2015 and 2016, our revenue was RMB14,574.0 million and RMB20,538.8 million (US\$2,958.2 million), respectively, and our net profit was RMB2,687.8 million and RMB5,199.9 million (US\$748.9 million), respectively, for the same periods.

Note:

- (1) The ranking is based on a joint evaluation by Enterprise Institute of the Development Research Center of the State Council of China, Institute of Real Estate Studies of Tsinghua University and China Index Academy of the largest property developers in the PRC by comprehensive strength in 2017.

We have developed a diversified product portfolio which includes high-rise apartment buildings and low-rise garden apartments, among others, catering to the residential property market. We have developed two distinctive product styles, namely neoclassical and art deco, each of which comprises standardized designs for facades, interior designs and landscaping, as well as standardized parts and materials. We leverage our quick development operation model and our standardized control over each step of our property development process to ensure product and service quality, maintain and improve our future development and profitability.

KEY FACTOR AFFECTING THE COMPARABILITY OF OUR RESULTS OF OPERATIONS

As a result of the following key factor, our operating results for each financial period discussed in this offering memorandum may not be directly comparable with our operating results for any other financial period discussed herein, or with future financial periods.

Qualifications in the audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016

The audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016, contains two qualifications (as reproduced on pages F-2 to F-10 in this offering memorandum), both of which apply to our financial year ended December 31, 2016, and one of which may impact our financial year ended December 31, 2015.

Qualification (a)

Two of our joint ventures (in which we held 50% of the equity interests and the financial performance of which are not consolidated with us) (collectively, the “**Shenzhen JVs**”) acquired certain assets in Shenzhen in 2016. As part of the acquisition consideration for such assets, each Shenzhen JV incurred certain payments to third parties, which payments were recorded on the books and records of the Shenzhen JVs as receivables in the aggregate amount of RMB900 million during the year ended December 31, 2016. KPMG indicated that they were not able to obtain sufficient audit evidence to ascertain the nature of these payments, and were uncertain about the appropriateness of the treatment of such payments as receivables on the books and records of the Shenzhen JVs.

Since these Shenzhen JVs are not consolidated entities of the Company, their financial performance and financial position will be reflected on “share of losses/profits of joint ventures” and “interest in joint venture and an associate” of our financial statements. If there is any adjustment to the share of losses/profits of joint ventures as it appears on our financial statements, our profit from operations, profit before taxation and profit for the year may in turn be affected.

Qualification (b)

In 2015 and 2016, pursuant to certain capital contribution agreements, Pingan Dahua contributed a total of RMB8,760 million to our subsidiaries Shenzhen Logan Junjing and Huizhou Dongzhen (RMB2,800 million of which was contributed in 2015).

These capital contribution transactions have been accounted for as equity transactions, as a result of which we made adjustments to the amount of other reserves within controlling shareholders’ interests and non-controlling interests in our consolidated financial statements as of December 31, 2016 and 2015.

However, because such capital contribution agreements contain certain obligations by us to repurchase from Pingan Dahua the equity interests of Shenzhen Logan and Junjing Huizhou Dongzhen, KPMG is of the view that accounting for these transactions as equity transactions in their entirety is not in accordance with the requirements of Hong Kong Accounting Standard 32 Financial Instruments: Presentation. KPMG is also unable to quantify the financial effect of such departure from such accounting standard. According to KPMG, any adjustments to these amounts which are currently accounted for as equity transactions would increase the amount of liabilities and finance costs and decrease net assets, as reported on our financial statements for each of the years ended, and as of, December 31, 2016 and December 31, 2015. Generally, any adjustments to the finance costs and other income statements related items will affect the profit for the year.

As a result of the above qualifications, we believe that any of the following line items of our financial statements for each of the years ended, and as of, December 31, 2016 and December 31, 2015 were potentially affected, including total assets, total liabilities, total equity, current assets, non-current assets, trade and other payables, bank and other loans, current liabilities, non-current liabilities, profit from operations, profit before taxation, profit for the year, finance costs, share of losses of joint ventures, long term and short term liabilities, net cash generated from operating activities and net cash generated from financing activities the magnitude of which impact was uncertain.

Separately, in 2016, Pingan Dahua received RMB2,086 million from our Group on the repurchase of Pingan Dahua's 49% interest in our subsidiary, Shenzhen Jinjun. The related original capital contribution transaction was accounted for as equity transactions prior to 2015, as a result of which we made adjustments to the amount of other reserves within controlling shareholders' interests and non-controlling interests in our historical consolidated financial statements.

See "Risk Factors—Risks Related to the Financial Information Included in this Offering Memorandum—The audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016, contains two qualifications".

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are affected by a number of factors, many of which may be beyond our control, including those factors described in the section entitled "Risk Factors" and those described below.

The Performance of National and Local Economies and the Property Markets in China

Substantially all of our revenue in 2015 and 2016 was generated from operations relating to residential property market in the PRC, and in Guangdong and Guangxi Provinces in particular. The performance of these markets has been closely tied to macroeconomic factors, including rates of economic growth and urbanization, as well as fluctuations in the demand for residential properties. The growth of our business and results of operations have, as a result, been driven to a significant extent by GDP growth and increasing urbanization in the PRC generally, and in Guangdong and Guangxi Provinces in particular.

Since 2010, global economic growth has slowed on fears that the sovereign debt crisis of certain eurozone countries would deepen, resulting in uncertainty with regard to China's economic growth, which affected the PRC property development industry. In 2012, there were renewed signs of uncertainty with regard to China's economic growth. If China's economic slowdown or the global economic slowdown continues or becomes more severe than we currently anticipate, our business prospects, revenues, cash flows and financial condition could be materially and adversely affected.

Governmental Policies and Regulations in the PRC relating to the Property Development Industry

Governmental policies and regulations in the PRC relating to property development and related industries have a direct impact on our business and results of operations, including policies and regulations relating to:

- land acquisition;
- pre-sales;
- the availability of mortgage financing;
- the availability of capital through loans or other sources;
- the transfer of land use rights and completed properties;
- tax;

- planning and zoning; and
- building design and construction.

From time to time the PRC government adjusts its macroeconomic control policies to encourage or restrict development in the private residential property sector through regulations relating to, among other things, land grants, pre-sales of properties, bank financing and taxation.

In recent years, the PRC government has implemented a series of measures with a view to managing the growth of the economy, including various restrictive measures to discourage speculation in the property market and to increase the supply of affordable residential properties. These policies have led, and may continue to lead, to changes in market conditions, including changes in price stability, costs of ownership, costs of development and the balance of supply and demand in respect of residential properties. Measures taken by the PRC government to control money supply, credit availability and fixed assets also have a direct impact on our business and results of operations. The PRC government may introduce further initiatives that affect our access to capital and the means by which we finance our property development business.

Changes in the economic or regulatory environment in the PRC in general or in the cities and regions in which we operate may affect the selling price of our properties as well as the time it will take us to pre-sell or sell the properties we have developed. Lower selling prices, without a corresponding decrease in costs, will adversely affect our gross profit and reduce cash flow generated from the sales of our properties, which may increase our reliance on external financing and negatively impact our ability to finance the continuing growth of our business. A prolonged selling period will increase our selling and distribution costs as well as reduce the cash flow generated from the sales of our properties for a particular period. On the other hand, higher selling prices and a shorter selling period may increase our gross profit, reduce our selling and distribution costs and increase our cash flow for a particular period to enable us to fund the continuing growth of our business.

Access to and Cost of Financing

Property development requires substantial capital investment for land acquisition and construction, and it may take many months or years before positive cash flows can be generated from a project. In 2015 and 2016, we primarily used internal funds (including proceeds from the pre-sale and sales of our projects) to acquire land for our project, and a combination of internal funds and bank loans to fund the construction of our projects. We have also financed and will continue to finance the development of our projects using funds raised from capital markets, including the offering of the Existing Notes and the Corporate Bonds. Please see the sub-section entitled “—Liquidity and Capital Resources” below.

Our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC government on bank lending for property development. We are highly susceptible to the effects of any regulations or measures adopted by the PBOC that restrict bank lending, particularly those that restrict the ability of property developers to obtain lending. Moreover, a substantial portion of our purchasers depend on mortgage financing to purchase our properties. Regulations or measures adopted by the PRC government that are intended to restrict the ability of purchasers to obtain mortgages, that limit their ability to resell their properties or that increase the cost of mortgage financing may decrease market demand for our properties and adversely affect our sales revenue.

As commercial banks in China link the interest rates on their loans to PBOC benchmark interest rates, any increase in such benchmark interest rates will increase our finance costs. We expect that any increases in interest rates will increase our borrowing costs in general and the financing cost of leveraged property buyers and, as a result, may delay potential purchasers from making a purchase. The effect of any increases in interest rates on our borrowing costs will not be immediately apparent due to our capitalization of borrowing costs. Upon completion of a project and once the property has been delivered to buyers, the capitalized interest expenses of the relevant property are recognized as direct costs on our consolidated income statements. As a result, such capitalized borrowing costs have impacted our results in 2015 and 2016 and may adversely affect our gross profit margins upon the sales of such properties.

Income Tax

CIT

We are subject to CIT in China. Effective from January 1, 2008, all enterprises with operations in China, including our PRC subsidiaries, are subject to a uniform income tax rate of 25%. Certain of our subsidiaries incorporated in Shenzhen and Shantou previously enjoyed preferential tax rates which were gradually phased out and those subsidiaries became subject to the uniform tax rate beginning in 2012. Significant judgment is required in determining the provision for income tax. If the final tax applicable is different from the provisions, such difference will impact the income tax and deferred tax provision in the period in which the determination is made, which can have a significant effect on our results of operations.

LAT

Under PRC tax laws and regulations, our income from the sales of land use rights and buildings or related facilities is subject to LAT. LAT is payable at progressive rates ranging from 30% to 60% of the appreciation in value as defined in the relevant tax laws.

In 2015 and 2016, we made LAT provisions of RMB563.0 million and RMB971.6 million (US\$139.9 million), respectively. In the same periods, we made LAT payments of RMB312.2 million and RMB879.7 million (US\$126.7 million), respectively. The provision for LAT is made based on our management's best estimates according to their understanding of the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to determination by the tax authorities upon the completion of the property development projects and could be different from the amounts that were initially recorded, and any such differences will impact our profits after tax and deferred tax provision in the periods in which such taxes are finalized with the relevant tax authorities.

Although we believe our provisions have been made in material compliance with LAT laws and regulations, they may or may not be sufficient to cover future LAT payments.

Fluctuations in Results relating to the Timing of Completion of Our Property Developments

The number of property developments that a property developer can undertake during any particular period is limited due to the substantial amount of capital required to fund land acquisitions and to pay for the cost of construction, as well as by its management resources. Property developments may take many months, or possibly years, before any pre-sale takes place and even longer to complete. While the pre-sale of a property generates positive cash flow for us in the period in which it is made, pursuant to HKFRS, we only recognize revenue upon the delivery of our properties, which takes place approximately six to 30 months after the commencement of pre-sales of our properties. Since the delivery of our properties varies according to our construction timetable, our results of operations may vary significantly from period to period depending on the aggregate GFA delivered and the timing of the delivery of the properties that we sell. Periods in which we deliver more aggregate GFA typically generate a higher level of revenue. Periods in which we pre-sell a large amount of GFA, however, may not generate a correspondingly high level of revenue if the properties pre-sold are not delivered within the same period. The effect of the timing of project delivery on our operational results is accentuated by the fact that we can only undertake a limited number of projects during any particular period. As a result, our results of operations may fluctuate in the future.

Changes in Estimated Fair Value of Our Investment Properties

Our results of operations have in the past been affected by adjustments in the estimated fair value of our investment properties and may continue to be affected by such adjustments in the future. In 2015 and 2016, we recognized net increases in fair value of investment properties of RMB943.1 million and RMB2,681.9 million (US\$386.3 million), respectively, which represented 22.6% and 33.8% respectively, of our profit before taxation in those periods. Please see the sub-section entitled “—Description of Selected Income Statement Line Items—Net Increase in Fair Value of Investment Properties” below. Our net profit margins (excluding changes in fair value of investment properties and derivatives and the

relevant deferred taxes)⁽¹⁾ in 2015 and 2016 were 13.6% and 15.1%, respectively. In accordance with HKFRS, we are required to reassess the fair value of our investment properties on each reporting date, and we include the gains or losses arising from changes in the estimated fair value of such investment properties in our income statement in the period in which they arise. Pursuant to Hong Kong Accounting Standard 40, the value of our investment properties may be recognized by using either the fair value model or the cost model. We state the value of our investment properties at their estimated fair value because we are of the view that periodic estimated fair value adjustments in accordance with prevailing market conditions provide a more up-to-date picture of the value of our investment properties. The fair values of our investment properties are based on valuations of such properties conducted by our independent property valuer, using property valuation techniques involving certain assumptions about market conditions.

The increases in fair value of investment properties included in our consolidated income statements reflect unrealized capital gains in the estimated fair value of our investment properties at the relevant reporting date and do not constitute profit generated from our operations or generate any actual cash inflow to us unless and until such investment properties are sold at or above such estimated fair values. Favorable or unfavorable changes in the assumptions of market conditions used by our independent property valuer would result in changes to the fair value of our investment properties and corresponding adjustments to the amount of gains or losses reported in our income statement in the future. The amounts of revaluation adjustments have been, and may continue to be, significantly affected by the prevailing property markets and may fluctuate significantly.

Land Acquisition Costs

To have a steady stream of properties available for sale and to achieve continuous growth in the long term, we need to replenish and increase suitable land reserves at commercially acceptable prices. The cost of acquiring land has a direct and substantial effect on our gross margins. We expect competition among property developers for suitable land reserves to remain intense, which affects land prices.

Our costs of land use rights are influenced by a number of factors, including the location of the property, the timing of the acquisition, as well as the project's plot ratios. Costs of land use rights are also affected by our method of acquisition. For example, the public tender, auction and listing-for-sale practice in respect of the grant of state-owned construction land use rights is likely to increase competition for available land and to increase land acquisition costs.

In November 2007, the PRC government introduced regulations to increase the transparency related to the grant of state-owned land use rights for residential and commercial property developments through competitive processes administered by local governments, including public tenders, auctions or listing-for-sale. Under such regulations, land use rights certificates are no longer separately issued according to the proportion of the land premium paid. Instead, land use rights certificates are not issued until the land premium has been fully paid up pursuant to the land grant contract. Furthermore, in November 2009, five PRC regulatory agencies promulgated the Notice on Strengthening of Land Grant Revenues and Expenditures (《關於進一步加強土地出讓收支管理的通知》), which raised the minimum down-payment of 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. These regulations are expected to be an additional factor increasing the difficulty of acquiring land and contributing to higher land acquisition costs.

Note:

- (1) The calculation of net profit margin (excluding changes in fair value of investment properties and the relevant deferred taxes) is based on profit for the year (excluding changes in fair value of investment properties and the relevant deferred taxes) divided by revenue for such year and multiplied by 100%.

Construction Costs

Another key component of our direct costs are construction costs, which consist of all costs for the design and construction of a project, including, primarily, the cost of construction materials and equipment and payments to contractors. The construction costs of our projects vary not only according to the floor area and height of the buildings, but also according to the geology of the construction site. Historically, construction materials costs have been a principal driver of the construction costs of our property developments. Construction costs fluctuate as a result of changes in the prices of key construction materials such as steel and concrete. Construction costs have a direct effect on our gross margin.

We manage the procurement of base construction materials in-house based on their market prices, and generally do not cap the prices of such materials in our procurement contracts. As a result, we are subject to the risks of short-term price fluctuations and long-term movements in the prices of our construction materials. Our profitability may suffer if we cannot pass on any resulting increases in our costs to our customers. Furthermore, as we typically pre-sell our properties prior to their completion, we may not be able to pass on any increases in our costs to our customers where construction costs increase subsequent to such pre-sales.

Expansion into Other Cities

The further expansion of our operations into new cities may impose higher demands on our management's resources and affect our profit margins. We plan to monitor opportunities for expansion into the Yangtze River Delta economic region, the Bohai Bay economic region of northeast China and other high-growth regions in China and the overseas markets. However, as the property development industry is highly competitive and localized, we may not be able to compete effectively in these or other new markets with the established local property developers or national property developers with greater resources. These competitors may have better access to information and knowledge of the market. As such, the level of profitability which we will be able to achieve in such markets is uncertain.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our operating results and financial condition are based on our consolidated financial statements, as of and for the year ended December 31, 2016 which are included elsewhere in this offering memorandum. Our operating results and financial condition are sensitive to accounting methods, assumptions and estimates. The assumptions and estimates we have used have been based on our industry experience and various factors including our management's expectations of future events which they believe to be reasonable. Actual results may differ from these estimates and assumptions. In 2015 and 2016, there were no significant changes in our assumptions and estimates, and we will continuously assess our assumptions and estimates going forward.

The selection of critical accounting policies, the estimates and judgments and other uncertainties affecting application of other policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our consolidated financial statements. We believe that the following critical accounting policies involved the most significant estimates and judgments in the preparation of our consolidated financial statements.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of properties

Revenue from the sale of properties is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyers. The Group considers that the significant risks and rewards of ownership are transferred when the properties are completed and delivered to the buyers.

Revenue from the sale of properties excludes business tax and other sales related taxes and is after deduction of any trade discounts. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position as receipts in advance.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Construction income

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government subsidies

Government subsidies are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Subsidies that compensate the Group for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(vi) Design fee and construction management service income

Design fee and construction management service income are recognised at the time when the services are provided.

Direct Costs of Completed Properties Available for Delivery

We recognize the direct costs of our properties for a given period to the extent that revenue from the sales of such properties has been recognized in such period. Prior to the recognition of revenue from such sales, completed properties available for delivery are included in our consolidated balance sheets at the lower of cost and net realizable value.

Direct costs for each property sold include the specific development cost of the property, including, primarily, land premium, construction and other development costs, but exclude selling and marketing expenses and administrative expenses.

Properties under Development for Sale and Completed Properties Available for Delivery

Properties classified under inventories on our consolidated balance sheets as properties under development for sale are intended to be held for sale after completion. These properties are stated at the lower of cost and net realizable value and the line item properties under development for sale also includes land premium, development costs and capitalized borrowing costs incurred during the construction period. Upon completion, the properties are classified under inventories as completed properties available for delivery.

During construction, development costs of properties to be sold are recorded under inventories on our consolidated balance sheets as properties under development for sale and are transferred to our consolidated income statement upon recognition of the revenue from the sales of completed properties. Before the final settlement of the development costs and other costs relating to the sales of properties, these costs are accrued by our Group in amounts based on our management's estimates.

When constructing properties, we typically divide the development projects into phases. Costs directly related to the construction of a particular phase are recorded as costs of that phase. Costs that are common to multiple phases are allocated to individual phases in proportion to the saleable area.

Properties classified under inventories as completed properties available for delivery are stated at the lower of cost and net realizable value. Cost of completed properties available for delivery is determined by an apportionment of total land premium and development costs attributable to the unsold properties. Net realizable value is the estimated selling price, based on prevailing market conditions, less costs to be incurred in selling the property.

Investment Properties

Investment properties, including investment properties under development, are interests in land and buildings held to earn rental income and/or for capital appreciation. Such properties are measured initially at cost, including transaction costs (if any). Subsequent to initial recognition, investment properties are stated at fair value. The valuations of our investment properties are carried out by an independent firm of professional surveyors by using a direct comparison approach assuming sales of each of such properties in its existing state with the benefit of vacant possession and on a market value basis determined based on comparable market sales transactions as available in the relevant market and, where appropriate, on the basis of capitalization of the net rental income derived from the existing tenancy agreements and making allowance for the reversionary income potential of the relevant properties.

Gains or losses arising from changes in the fair values of investment properties are included in the income statements in the periods in which they arise. Any gains or losses arising from the retirement or disposal of an investment property are recognized in the income statement in the period of the retirement or disposal.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Income Tax

We are subject to CIT and LAT in China. For details, please see the section entitled “—Key Factors Affecting Our Results of Operations—Income Tax” above.

Deferred Tax

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

Deferred tax assets in respect of tax losses carried forward are recognized and measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. In determining the carrying amounts of deferred tax assets, we estimate future taxable profits, and such estimation involves a number of assumptions relating to the operating environment of our Group and requires a significant level of judgment exercised by our Directors. Any change in these assumptions and judgments would affect the carrying amounts of deferred tax assets to be recognized, and hence our net profit, in future periods.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenue

Revenue represents revenue earned in 2015 and 2016 from the sales of properties, rental income and construction income, attributable to our property development, property leasing and construction contracts operating segments, respectively, net of business tax and related taxes and discounts allowed. Further details on these operating segments are set forth in the sub-section entitled “—Segment Reporting” below.

The table below sets forth our revenue (before deducting sales and other taxes) by operating segment for the periods indicated:

	For the year ended December 31,		
	2015	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Revenue			
Sale of properties			
— Residential	13,796,234	17,616,239	2,537,266
— Rental	1,451,154	3,488,760	502,486
	<u>15,247,388</u>	<u>21,104,999</u>	<u>3,039,752</u>
Rental income	71,748	83,932	12,089
Construction income	120,644	212,105	30,549
Total	<u>15,439,780</u>	<u>21,401,036</u>	<u>3,082,390</u>

Sales of properties represents income generated from the sales of residential properties and retail shops. Consistent with industry practice in the PRC, after satisfying the conditions for pre-sales set forth in PRC laws and regulations, we often enter into sales contracts with customers while the relevant properties are still under development. Typically there is a difference of between six and 30 months from the time we commence pre-selling properties under development to the completion and delivery of the properties. We do not recognize any revenue from the pre-sales of our properties until such properties are delivered, even though the purchase price for a property is usually paid in stages prior to the delivery of the property. Before the delivery of pre-sold properties, deposits and purchase payments or portions thereof received from our customers are recorded as receipts in advance, which is a current liability on our consolidated balance sheets.

Rental income represents recurring income generated from our investment properties, which has been historically generated from operating leases relating to the office units and retail shops developed and held by us as part of our property development projects.

Construction income represents income from the construction of residential and office buildings and public facilities, such as hospitals and schools.

As we derived the majority of our revenue in 2015 and 2016 from the sales of properties, our results of operations for a given period depended upon the amount of total saleable GFA, location and type of properties we completed and delivered during such period and the market demand and the price we obtained for such properties at the time they were sold or pre-sold. Conditions in the property markets in which we operate change from period to period and are affected significantly by general economic, political and regulatory developments in the PRC as well as the regions in which we operate.

The table below sets forth a breakdown of our total saleable GFA delivered and ASP per sq.m. by type for the periods indicated:

	For the year ended December 31,				
	2015		2016		
	Total saleable GFA delivered	ASP per sq.m. ⁽¹⁾	Total saleable GFA delivered	ASP per sq.m. ⁽¹⁾	ASP per sq.m.
	<i>sq.m.</i>	<i>RMB</i>	<i>sq.m.</i>	<i>RMB</i>	<i>US\$</i>
Residential	2,139,011	6,199	1,640,456	10,099	1,455
Retail	101,686	14,271	218,956	15,934	2,295
Total	<u>2,240,698</u>		<u>1,859,412</u>		

Note:

- (1) ASP per sq.m. is calculated as the amount of revenue from the sales of properties derived from the relevant amount of total saleable GFA delivered, which does not include car parks, before deducting sales and other taxes, divided by the relevant amount of total saleable GFA delivered.

In 2015, Logan City contributed the largest portion of our revenue from the sales of properties, with 792,605 sq.m. of total saleable GFA delivered at an ASP of RMB6,229 per sq.m. In 2016, Acesite Mansion contributed the largest portion of our revenue from the sales of properties, with 116,392 sq.m. of total saleable GFA delivered at an ASP of RMB64,904 (US\$9,346) per sq.m.

Our retail saleable GFA delivered in 2016 had an ASP of RMB15,934 (US\$2,295) per sq.m., as compared to RMB14,271 per sq.m. for that delivered in the 2015. This increase was primarily because the overall increase of the market price in the real estate market.

Direct Costs

The principal components of direct costs are the cost of completed properties sold, which consists of land premium, development costs and capitalized borrowing costs during the period of construction, the cost of rental income and the cost of construction income. We recognize the cost of completed properties sold for a given period to the extent that revenue from the sales of such properties has been recognized in such period.

The table below sets forth information relating to our direct costs for the periods indicated:

	For the year ended December 31,		
	2015	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Cost of properties sold			
— Land Premium	3,002,776	6,880,333	990,974
— Development costs	6,362,833	6,008,771	865,443
— Capitalised borrowing costs	655,150	923,590	133,025
Cost of rental income	5,831	502	72
Cost of construction income	117,317	165,814	23,882
Total direct costs	<u>10,143,907</u>	<u>13,979,010</u>	<u>2,013,396</u>

Cost of Properties Sold

Land premium

Land premium includes costs relating to the acquisition of rights to occupy, use and develop land, including costs incurred in connection with a land grant from the PRC government or land obtained in the secondary market by transfer, cooperative arrangement or corporate acquisition, the applicable deed tax associated with the acquisition of land, resettlement costs and other land-related taxes and government surcharges. Our land acquisition costs are influenced by a number of factors, including the location of the property, market conditions, the project's plot ratios, the approved use of the land and our method of acquisition, whether through PRC government-organized tenders, auctions or listings-for-sale, through private sales transactions or through the acquisition of other companies that hold land use rights. Land acquisition costs are also affected by changes in PRC regulations.

Development costs

Development costs include all of the costs for the design and construction of a project, including payments to independent contractors and designers and the cost of materials and equipment, government fees and charges and construction management.

Cost of materials is a particularly significant component of our development costs. Development costs fluctuate as a result of changes in the prices of key construction materials, including concrete, iron, steel and other key building materials. Despite our cost control measures, we are still subject to general increases in the price of construction materials, and we expect the current trend of increasing prices for construction materials to continue in the near future, which in turn will increase our construction costs.

Capitalized borrowing costs

We capitalize a portion of our cost of borrowing (including interest expense) to the extent that such costs are directly attributable to the construction of a particular project. In general, we capitalize borrowing costs incurred from the commencement of the planning and design of a project, which predate the receipt of a permit for commencement of construction works, until the physical completion of construction. For any given project, the borrowing costs incurred after completing the construction of a project are not capitalized but are instead expensed in our consolidated income statements as finance costs in the period in which they are incurred. Where the duration of a loan extends beyond the time of the completion of the project, we are unable to capitalize the total interest costs related to the project in the year of completion. Fluctuations in the amount and timing of capitalization from period to period may affect our finance costs.

Most of our borrowing costs have been capitalized and recorded under inventories on our consolidated balance sheets as properties under development for sale or completed properties available for delivery rather than being expensed in our income statement at the time they were incurred.

Cost of Rental Income

Costs related to our rental operations primarily include our maintenance costs for the leased properties developed by us and management fees we pay to third parties for the management of our investment properties. The costs of our rental income are recognized as such costs are incurred.

Cost of Construction Income

Costs related to our construction contracts segment primarily consist of construction materials and labor.

Gross Profit

Gross profit represents revenue less direct costs. We achieved our gross profit margins of 30.4% and 31.9% in 2015 and 2016, respectively.

The table below sets forth our gross profit and gross profit margin by operating segment for the periods indicated:

	For the year ended December 31,				
	2015		2016		
	Gross profit	Gross profit margin	Gross profit	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	<i>US\$'000</i>	%
Sale of properties	4,369,093	30.4%	6,432,567	926,482	31.8%
Rental income	62,047	91.4%	81,468	11,734	99.4%
Construction income	(1,037)	(0.9%)	45,792	6,595	21.6%
Total	<u>4,430,103</u>	30.4%	<u>6,559,828</u>	<u>944,812</u>	31.9%

Other Revenue

Other revenue primarily consists of bank interest income, government subsidies and forfeited deposits.

Other Net Loss

In 2015 and 2016, other net loss primarily consisted of net losses and gains on the disposal of fixed assets and net foreign exchange loss.

Selling and Marketing Expenses

Selling and marketing expenses primarily consist of staff costs (which include salaries and benefits), advertising and promotional costs, costs of decoration and office supplies, handling charges, registration fee and other selling and marketing expenses. In 2015 and 2016, our selling and marketing expenses generally increased, which was in line with the growth of our business.

Administrative Expenses

Administrative expenses primarily include staff costs, depreciation and amortization, consultancy fees, other taxes and levies, operating lease expenses, office expenses, entertainment expenses, traveling expenses, repair and maintenance, telecommunication costs, utility expenses, motor vehicle expenses, auditors' remuneration, directors' emoluments, donations, bank charges, registration and insurance, penalty and other administrative expenses.

Net Increase in Fair Value of Investment Properties

We adopted the income capitalization method for the valuation of our completed investment properties by capitalizing the rental income derived from the existing tenancies with due provisions for the reversionary income potential of the properties. The investment properties under development have been valued on the basis that the properties will be developed and completed in accordance with our development plans. For our investment properties under development, we have adopted the direct comparison approach, which makes references to comparable sales evidence as available in the relevant market, with adjustments for development costs to be expended to complete the properties.

In 2015 and 2016, increases in the fair value of our investment properties accounted for a significant portion of our profit before taxation. Our results of operations may continue to be affected by adjustments in the estimated fair value of our investment properties. Increases in fair value of investment properties reflect unrealized capital gains in the estimated fair value of our investment properties at the relevant reporting date and do not constitute profit generated from our operations.

We recognize changes in the fair value of our investment properties, including investment properties under development, on our consolidated income statements, unless their fair value cannot be reliably determined at that time. Please see the sections entitled “—Critical Accounting Policies—Investment Properties” and “—Key Factors Affecting Our Results of Operations—Changes in Estimated Fair Value of Our Investment Properties” above.

The relevant deferred tax liability for the fair value gains recognized under income tax expenses in 2015 and 2016 was RMB235.8 million and RMB670.5 million (US\$96.6 million), respectively. The relevant deferred tax asset for the fair value gains recognized under income tax expenses in 2015 was RMB8.5 million. The net increases in fair value of our investment properties (net of deferred tax) represented 26.3% and 38.7% of our profit in 2015 and 2016, respectively.

Pursuant to HKFRS, fair value changes in our investment properties are reflected on our income statement once we determine that the relevant properties are held for investment, regardless of whether they are under development or completed in such period. The increases in fair value of our investment properties in 2015 and 2016 were mainly due to the continuous improvement of surrounding shopping and community facilities. This is primarily due to the direct comparison method adopted for valuing our investment properties under development, which makes adjustments for development costs still to be expended to complete the properties. When such properties move towards completion, the development costs to be expended would decrease, thereby increasing their overall valuation.

In 2015 and 2016, our net increase in fair value of Logan Century Center's investment properties was RMB253 million and RMB129 million (US\$18.6 million), respectively. The Nanning Bojun Xiangsi Lake Project (南寧鉞駿相思湖項目) and Logan City North Business Center (龍光城北集中商業), also significantly contributed to the valuation of our net increase in fair value of investment properties in 2015 and 2016, amounting to RMB542.0 million and RMB410.7 million, respectively.

Finance Costs

Finance costs primarily consist of borrowing costs net of capitalized borrowing costs relating to properties under development. Not all of the interest costs related to a project can be capitalized. As a result, our finance costs may fluctuate from year to year depending on the level of interest costs that are capitalized within the reporting period as well as the amount of outstanding principal and interest rates. Finance costs also include other borrowing costs which primarily consist of arrangement fees paid in connection with certain of our bank and related party loans.

The following table sets forth our finance costs for the periods indicated:

	For the year ended December 31,		
	2015	2016	
	RMB'000	RMB'000	US\$'000
Interest on bank and other loans and other borrowing costs	1,132,760	903,430	130,121
Interest on senior bonds ⁽¹⁾	368,715	532,329	76,671
Interest on corporate bonds ⁽²⁾	90,570	482,294	69,465
Total borrowing costs	1,592,045	1,918,053	276,257
Less: Capitalized borrowing costs	(1,555,830)	(1,546,203)	(222,700)
Finance costs	36,215	371,850	53,558

Notes:

(1) Refer to the June 2014 Notes, December 2014 Notes and January 2016 Notes.

(2) Refer to our Public Corporate Bonds and Private Corporate Bonds.

Income Tax

Our income tax expenses for a given period include provisions made for CIT and LAT during the period and movements in deferred tax assets and liabilities. No provision for Hong Kong profits tax has been made in 2015 and 2016 as we did not generate any assessable profits arising in Hong Kong.

The following table sets forth our income tax expense for the periods indicated:

	For the year ended December 31,		
	2015	2016	
	RMB'000	RMB'000	US\$'000
Current tax			
Provision for CIT for the period	771,588	1,212,341	174,613
Provision for LAT for the period	563,020	971,606	139,940
CIT over-provision in prior years	—	(21,459)	(3,091)
	1,334,608	2,162,488	311,463
Deferred tax	151,084	571,063	82,250
	1,485,692	2,733,551	393,713

Profit for the Year attributable to Non-controlling Interests

As of December 31, 2016, non-controlling interests mainly represent the 49% equity interest in Shenzhen Jinjun Real Estate Co., Ltd. held by Shenzhen Pingan Dahua Huitong Wealth Management Co., Ltd. We had profit attributable to non-controlling interests of RMB38.5 million and RMB712.1 million (US\$102.6 million) in 2015 and 2016, respectively, representing 1.4% and 13.7%, respectively, of our profit in the same periods.

Exchange Differences on Translation of Financial Statements of Overseas Entities

The functional currencies of certain of our subsidiaries are currencies other than Renminbi. As of each of the reporting dates, the assets and liabilities of these entities were translated into our presentation currency, Renminbi, at the exchange rates prevailing at the relevant reporting date, and their income statements were translated into Renminbi at the exchange rates approximating the foreign exchange rates prevailing at the dates of the transactions. The resulting exchange differences are included in the exchange reserve. On disposal of a foreign entity, the cumulative amount recognized in the exchange reserve relating to that particular foreign operation is reclassified from equity to profit or loss.

SEGMENT REPORTING

Our business is organized into three operating segments, namely property development, property leasing and construction contracts. Our property development segment includes the development and sales of residential properties and retail shops. Our property leasing segment leases office units and retail shops to generate rental income and to hold as investments for long-term capital appreciation. Our construction contracts segment constructs residential and non-residential projects, such as office buildings and public facilities.

The table below sets forth our revenue (before deducting sales and other taxes) by operating segment for the periods indicated:

	For the year ended December 31,		
	2015	2016	
	RMB'000	RMB'000	US\$'000
Revenue			
Sale of properties			
— Residential	13,796,234	17,616,239	2,537,266
— Rental	1,451,154	3,488,760	502,486
	15,247,388	21,104,999	3,039,752
Rental income	71,748	83,932	12,089
Construction income	120,644	212,105	30,549
Total	15,439,780	21,401,036	3,082,390

In 2015 and 2016, substantially all of our revenue and cash inflow were derived from the property development segment. The table below sets forth certain data with respect to our property development segment for the periods indicated which we have derived from our internal records and our consolidated financial statements:

	For the year ended December 31,		
	2015	2016	
	RMB'000	RMB'000	US\$'000
Receipts in advance ⁽¹⁾	11,008,496	16,049,478	2,311,606
Net revenue from external customers	14,574,010	20,538,838	2,958,208
Total saleable GFA delivered (sq.m.)	2,240,698	1,859,412	

Note:

- (1) Receipts in advance represent deposits received from purchasers with whom we have entered into sales contracts after pre-sales commenced.

YEAR ENDED DECEMBER 31, 2016 COMPARED TO 2015

Revenue

Our revenue increased by RMB5,961.3 million, or 38.6%, to RMB21,401.0 million (US\$3,082.4 million) for the year ended December 31, 2016 from RMB15,439.8 million for the corresponding period in 2015, primarily due to an increase in revenue from the sales of properties as described below, which was in turn primarily due to an increase in ASP of properties delivered for the year ended December 31, 2016 as compared to that for the corresponding period in 2015, partially offset by a decrease in total saleable GFA delivered for the same periods.

The table below sets forth a breakdown of our revenue from the sales of properties, total saleable GFA delivered and ASP per sq.m. by type for the periods indicated:

	For the year ended December 31,							
	2015			2016				
	Revenue from the sales of properties	Total saleable GFA delivered	ASP per sq.m. ⁽¹⁾	Revenue from the sales of properties		Total saleable GFA delivered	ASP per sq.m. ⁽¹⁾	
	RMB'000	sq.m.	RMB	RMB'000	US\$'000	sq.m.	RMB	US\$
Residential	13,796,234	2,139,011	6,199	17,616,239	2,537,266	1,640,457	10,099	1,455
Retail	1,451,154	101,686	14,271	3,488,760	502,486	218,956	15,934	2,295
Total	<u>15,247,388</u>	<u>2,240,698</u>		<u>21,104,999</u>	<u>3,039,752</u>	<u>1,859,412</u>		

Note:

- (1) ASP per sq.m. is calculated as the amount of revenue from the sales of properties derived from the relevant amount of total saleable GFA delivered, which does not include car parks, before deducting sales and other taxes, divided by the relevant amount of total saleable GFA delivered.

Revenue from the sales of properties increased by RMB5,857.6 million, or 38.4%, to RMB21,105.0 million (US\$3,039.8 million) for the year ended December 31, 2016 from RMB15,247.4 million for the corresponding period in 2015. This increase was primarily due to an increase in the ASP of the properties delivered from RMB6,576 per sq.m. in 2015 to RMB10,810 per sq.m. in the same period of 2016, which was partially offset by a decrease in the GFA delivered from 2,240,698 sq.m. in 2015 to 1,859,412 sq.m. in the same period of 2016.

Rental income increased by RMB12.2 million, or 17.0%, to RMB83.9 million (US\$12.1 million) for the year ended December 31, 2016 from RMB71.7 million for the corresponding period in 2015, primarily due to the annual rental increase as agreed with major tenants in their lease agreement.

Construction income increased by RMB91.5 million, or 75.8%, to RMB212.1 million (US\$6.9 million) for the year ended December 31, 2016 from RMB120.6 million for the corresponding period in 2015, primarily due to the near completion of construction activities at our related parties projects in Shantou to which we provide construction services.

Cost of sales

Our cost of sales increased by RMB3,835.1 million, or 37.8%, to RMB13,979.0 million (US\$2,013.4 million) for the year ended December 31, 2016 from RMB10,143.9 million for the corresponding period in 2015, which was primarily due to the expansion of business scale as compared with the corresponding period of 2015 leading to an increase in the property development costs.

Gross Profit

As a result of the foregoing, our gross profit increased by RMB2,129.7 million, or 48.1%, to RMB6,559.8 million (US\$944.8 million) for the year ended December 31, 2016 from RMB4,430.1 million for the corresponding period in 2015. Our gross profit margin increased to 31.9% for the year ended December 31, 2016 from 30.4% for the corresponding period in 2015, primarily due to a larger proportion of revenue attributable to projects with higher gross profit margin.

Other Revenue

Our other revenue significantly increased by RMB288.9 million to RMB423.5 million (US\$61.0 million) for the year ended December 31, 2016 from RMB134.6 million for the corresponding period in 2015, primarily due to the increases in the increase in interest income from cash at bank and amounts due from an associate and joint ventures, partially offset by the decrease in the government subsidies.

Other Expenses

Our other expenses increased to RMB196.3 million (US\$28.3 million) for the year ended December 31, 2016 from RMB144.0 million for the corresponding period in 2015 primarily due to the increase in net foreign exchange loss, investment loss under equity method and donations.

Selling and Marketing Expenses

Our selling and marketing expenses increased by RMB141.1 million (US\$20.3 million), or 24.6%, to RMB714.2 million (US\$102.9 million) for the year ended December 31, 2016 from RMB573.1 million for the corresponding period in 2015, primarily due to increased sales and marketing efforts.

Administrative Expenses

Our administrative expenses decreased by RMB31.1 million, or 5.3%, to RMB556.7 million (US\$80.2 million) for the year ended December 31, 2016 from RMB587.8 million for the corresponding period in 2015, primarily due to a decrease in staff costs.

Net Increase in Fair Value of Investment Properties

The net increase in fair value of our investment properties amounted to RMB2,681.9 million (US\$386.3 million) for the year ended December 31, 2016 and RMB943.1 million for the corresponding period in 2015. We had a higher net increase in fair value of investment properties in 2016 primarily due to two new projects' being transferred to investment property in 2016.

Net Increase in Fair Value of Derivative Financial Instruments

The net increase in fair value of our derivative financial instruments amounted to RMB81.7 million (US\$11.8 million) for the year ended December 31, 2016 and the net increase in fair value of our derivative financial instruments amounted to RMB6.9 million for the corresponding period in 2015. We had an increase in fair value of derivative financial instruments in 2016 primarily due to an increase in fair value of Existing Notes redemption call options in 2016.

Finance Costs

Our finance costs increased by RMB335.7 million, or 927.3%, to RMB371.9 million (US\$53.6 million) for the year ended December 31, 2016 from RMB36.2 million for the corresponding period in 2015, primarily due to an increase in Corporate Bonds.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased by RMB3,759.9 million, to RMB7,933.4 million (US\$1,142.6 million) for the year ended December 31, 2016 from RMB4,173.5 million for the corresponding period in 2015.

Income Tax

Our income tax increased by RMB1,247.8 million, or 84.0%, to RMB2,733.5 million (US\$393.7 million) for the year ended December 31, 2016 from RMB1,485.7 million for the corresponding period in 2015, primarily due to an increase in our taxable profit.

Profit for the Year

As a result of the foregoing, our profit for the year increased by RMB2,512.1 million, to RMB5,199.9 million (US\$748.9 million) for the year ended December 31, 2016 from RMB2,687.8 million for the corresponding period in 2015.

Profit Attributable to Non-controlling Interests

Our profit attributable to non-controlling interests significantly increased by RMB673.6 million, or 84.9%, to RMB712.1 million (US\$102.6 million) for the year ended December 31, 2016 from RMB38.5 million for the corresponding period in 2015, primarily due to an increase in fair value gain of Logan Carat Complex which was 49% owned by a third party.

Profit Attributable to our Equity Shareholders

As a result of the foregoing, profit attributable to our equity shareholders increased by RMB1,838.4 million, or 69.4%, to RMB4,487.7 million (US\$646.4 million) for the year ended December 31, 2016 from RMB2,649.3 million for the corresponding period in 2015.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The table below summarizes our consolidated cash flow statements for the periods indicated:

	For the year ended December 31,		
	2015	2016	
	RMB'000	RMB'000	US\$'000
Selected cash flow statement data			
Net cash generated			
from operating activities.....	763,629	4,828,136	695,396
Net cash used in investing activities.....	(911,430)	(12,839,828)	(1,849,320)
Net cash generated from financing activities.....	3,114,786	12,786,333	1,841,615
Net increase in cash and cash equivalents.....	2,966,985	4,774,641	687,691

Net cash generated from operating activities

In 2016, our net cash generated from operating activities was RMB4,828.1 million (US\$695.4 million), which was primarily attributable to (i) decrease in trade and other receivables of RMB6,677.7 million (US\$961.8 million), (ii) increase in trade and other payables of RMB6,500.2 million (US\$936.2 million) and (iii) operating profit before changes in working capital of RMB5,185.3 million (US\$746.8 million), offset by (i) increase in inventories and land deposits of RMB11,660.5 million (US\$1,679.5 million) and (ii) PRC tax paid of RMB1,874.6 million (US\$270.0 million).

In 2015, our net cash generated from operating activities was RMB763.6 million, which was primarily attributable to (i) operating profit before changes in working capital of RMB3,239.2 million and (ii) increase in trade and other payables of RMB5,128.6 million, partially offset by (i) an increase of inventories and land deposits of RMB6,344.1 million and (ii) PRC tax paid of RMB1,242.4 million.

Net cash used in investing activities

In 2016, our net cash used in investing activities was RMB12,839.8 million (US\$1,849.3 million), which was primarily attributable to (i) advances to joint ventures and an associate of RMB14,982.2 million (US\$2,157.9 million), (ii) addition to investment properties of RMB621.4 million (US\$89.5 million), and (iii) disposal of subsidiaries of RMB233.4 million (US\$33.6 million), all of which were partially offset by (i) increase in restricted and pledged deposits of RMB1,604.5 million (US\$231.1 million) and (ii) advances from joint ventures of RMB1,343.6 million (US\$193.5 million).

In 2015, our net cash used in investing activities was RMB911.4 million, which was primarily attributable to (i) increase in restricted and pledged deposits of RMB617.3 million, (ii) addition to investment properties of RMB296.8 million and (iii) addition to other property, plant and equipment of RMB74.3 million, which were partially offset by interest received of RMB75.5 million.

Net cash generated from financing activities

In 2016, our net cash generated from financing activities was RMB12,786.3 million (US\$1,841.6 million), which consisted primarily of (i) proceeds from bank and of RMB14,822.6 million (US\$242.3 million), (ii) proceeds from senior notes of RMB1,682.31 million (US\$254.8 million), (iii) proceeds from the corporate bonds of RMB7,355.1 million (US\$448.2 million) and (iv) contributions from non-controlling interests of RMB5,982.1 million (US\$861.6 million), partially offset by repayment of bank and other loans of RMB10,970.7 million (US\$1,580.1 million).

In 2015, our net cash generated from financing activities was RMB3,114.8 million, which consisted primarily of (i) proceeds from bank loans of RMB8,437.0 million, (ii) proceeds from the corporate bonds of RMB4,950.0 million, (iii) proceeds from the non-interest bearing payable to a financial institution of RMB1,293.8 million, (iv) proceeds from issuance of shares in 2015⁽¹⁾ of RMB1,289.1 million and (v) capital contribution from controlling interests of RMB2,800.0 million, partially offset by (i) repayment of bank loans of RMB10,156.6 million, (ii) repayment of non-interest bearing payable to a financial institution of RMB1,293.8 million, (iii) interest and other borrowing costs paid RMB1,529.8 million and (iv) payments for acquisition of additional interests in subsidiaries of RMB2,082.9 million.

Note:

- (1) On November 25, 2015 and December 3, 2015, the Company issued a total of 557,554,000 shares of HK\$0.1 par value, each at a price of HK\$2.78 per share.

INDEBTEDNESS AND CONTINGENT LIABILITIES

The following table sets forth the breakdown of our borrowings as of the dates indicated:

	As of December 31,		
	2015	2016	
	RMB'000	RMB'000	US\$'000
Bank loans	9,991,922	9,496,511	1,367,782
Other loans	1,170,000	5,581,500	803,903
Corporate bonds	5,000,000	12,400,000	1,785,971
Senior notes	3,588,720	5,708,526	822,199
Total	<u>19,750,642</u>	<u>33,186,537</u>	<u>4,779,856</u>

Bank Loans

The table below sets forth our outstanding bank loans as of the dates indicated:

	As of December 31,		
	2015	2016	
	RMB'000	RMB'000	US\$'000
Bank loans			
—secured	8,764,105	5,219,809	738,846
—unsecured.....	<u>1,227,817</u>	<u>4,276,702</u>	<u>615,973</u>
Total	<u>9,991,922⁽²⁾</u>	<u>9,496,511⁽³⁾</u>	<u>1,367,782⁽³⁾</u>

Notes:

- (1) Bearing interest rates ranging from 2.8% to 13.0% per annum.
- (2) Bearing interest rates ranging from 3.25% to 8.05% per annum.

As of December 31, 2016, our principal bank loans were obtained from banks such as Industrial and Commercial Bank of China, Agricultural Bank of China and Bank of China.

The table below sets forth the maturity profiles of our bank loans as of the dates indicated:

	As of December 31,		
	2015	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Bank loans repayable			
Within one year and included in current liabilities ..	3,674,885	3,138,501	452,038
After one year and included in non-current liabilities:			
After one year but within two years	3,288,797	2,755,320	396,849
After two years but within five years	2,758,870	3,321,240	478,358
After five years	269,370	281,450	40,537
	<u>6,317,037</u>	<u>6,358,010</u>	<u>915,744</u>
Total	<u>9,991,922</u>	<u>9,496,511</u>	<u>1,367,782</u>

Our bank loans are denominated in Renminbi, Hong Kong dollars and U.S. dollars. Our bank loans bear interest at fixed and floating interest rates. The carrying amounts of our bank loans approximate their fair values. Our bank loans are secured by investment properties, investment properties under development, properties held for development for sale, properties under development for sale, completed properties available for delivery, other land and building and pledged deposits. We may enter into additional secured bank loans in the future which may be secured by investment properties, investment properties under development, properties under development for sale, completed properties and other land and buildings.

In addition, our bank loans generally include covenants relating to the status of our property development projects, as are commonly found in loan agreements for property development projects in the PRC, the breach of which would result in the relevant bank loans becoming payable on demand.

Since December 31, 2016, we continue to enter into short-term and long-term borrowings in the ordinary course of business, including construction and project loans, to finance our property developments in the PRC. See the sections entitled “Description of Other Material Indebtedness—Industrial Bank Facility” and “Description of Other Material Indebtedness—Credit Suisse Loan Facility.”

Other Financings

In 2015 and 2016, we also obtained other financings from a number of trust companies in the PRC. See the section entitled “Description of Other Material Indebtedness—Other Financings.”

Corporate Bonds

In 2015 and 2016, we also issued the Public Corporate Bonds and the Private Corporate Bonds. See the sections entitled “Description of Other Material Indebtedness—Public Corporate Bonds” and “Description of Other Material Indebtedness—Private Corporate Bonds.”

June 2014 Notes

On June 4, 2014, we issued an aggregate principal amount of US\$300 million of the June 2014 Notes to refinance our existing indebtedness and for other general corporate purposes. As of the date of this offering memorandum, the entire principal amount of the June 2014 Notes is outstanding. See the section entitled “Description of Other Material Indebtedness—June 2014 Notes.”

December 2014 Notes

On December 8, 2014, we issued an aggregate principal amount of US\$250 million of the December 2014 Notes to refinance our existing indebtedness and for other general corporate purposes. The 2014 Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the December 2014 Notes is outstanding. See the section entitled “Description of Other Material Indebtedness—December 2014 Notes.”

January 2016 Notes

On January 19, 2016, we issued an aggregate principal amount of US\$260 million of the January 2016 Notes refinance our existing indebtedness and for other general corporate purposes. As of the date of this offering memorandum, the entire principal amount of the January 2016 Notes is outstanding. See the section entitled “Description of Other Material Indebtedness—January 2016 Notes.”

Guarantees

In the ordinary course of our business, we arrange mortgage loans for certain purchasers of our properties and provide guarantees and pledged deposits to the relevant financial institutions to secure the repayment of these mortgage loans. These guarantees and pledged deposits commence on the date of the grant of the relevant mortgage and are released upon the earlier of (i) the issuance of the real estate ownership certificate, or (ii) the satisfaction of the mortgage loan by the purchaser of the relevant property.

Pursuant to the terms of each guarantee, upon a default in mortgage payments by the purchasers, we become responsible for repaying the outstanding mortgage principal together with accrued interest and penalty owed by the defaulting purchaser to the bank and we are entitled to take over the legal title and possession of the related property.

As of December 31, 2015 and 2016, the aggregate value of the mortgage loans that we guaranteed were RMB8,157.0 million and RMB9,806.2 million (US\$1,412.4 million), respectively.

Pledges

As described above, we provide pledged deposits to the relevant financial institutions to secure the repayment of mortgage loans that we arrange for certain purchasers of our properties, which are released upon the earlier of (i) the issuance of the real estate ownership certificate, or (ii) the satisfaction of the mortgage loan by the purchaser of the relevant property. Such pledged deposits are restricted from being used or transferred before the repayment of the respective bank loans. As of December 31, 2015 and 2016, such pledged deposits amounted to RMB89.7 million and RMB401.4 million (US\$57.8 million), respectively. As of December 31, 2015 and 2016, we had pledged deposits as securities in respect of our bank loans of RMB813.9 million and RMB475.8 million (US\$68.5 million), respectively.

As of December 31, 2015, we had pledged deposits as securities in respect of our non-interest bearing payable to a financial institution of RMB1,300.0 million. We did not have such pledged deposits as of December 31, 2016.

CAPITAL COMMITMENTS AND CONTRACTUAL OBLIGATIONS

In 2015 and 2016, our commitments that were contracted for mainly represented amounts we were liable for under relevant contracts in connection with development expenditures for our properties under development, while commitments that were authorized but not contracted for mainly represented budgeted amounts that our management had authorized in connection with future investment and properties held for future development.

The table below sets forth our capital commitments as of the dates indicated:

	As of December 31,		
	2015	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Contracted for	11,983,863	5,593,891	805,688
Authorized but not contracted for	21,096,818	18,672,299	2,689,370
Total ⁽¹⁾	33,080,681	24,266,190	3,495,058

Note:

(1) Amount includes (i) our estimated further development costs to complete our property development projects, (ii) land costs that have been contracted for, and (iii) capital commitments in connection with our construction business.

OPERATING LEASES

As Lessee

We lease office space under various operating leases. The leases typically have an initial term of one to four years with options for renewal, at which time all terms are re-negotiated.

In 2015 and 2016, our lease payments for land and buildings charged on our consolidated income statements were RMB11.6 million and RMB10.8 million (US\$1.6 million), respectively.

The table below summarizes amounts that we were committed to pay under our operating leases as of the dates indicated:

	As of December 31,		
	2015	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Within one year	6,668	9,556	1,376
After one year but within five years	11,058	3,380	487
Total	17,726	12,936	1,863

As Lessor

We also lease out a number of facilities under operating leases, consisting primarily of retail shops attached to some of our property development projects and office space. The leases typically have terms of three to 15 years with annual rent reviews at fixed percentage increases or as otherwise agreed in the lease agreement and options for renewal, at which time all terms are re-negotiated. The table below summarizes the aggregate receivables from our non-cancellable operating leases as of the following dates:

	As of December 31,		
	2015	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Within one year.....	80,301	90,436	13,025
After one year but within five years	176,235	166,182	23,935
After five years	68,283	62,074	8,941
Total	324,819	318,692	45,901

The decrease in receivables from operating leases from RMB324.8 million as of December 31, 2015 to RMB318.7 million (US\$45.9 million) as of December 31, 2016 was primarily because no substantial new lease agreement was entered into in 2016 while some of the lease agreements that were in effect in 2015 terminated in 2016.

OFF-BALANCE SHEET TRANSACTIONS

Except for the contingent liabilities set forth above, as of the date of this offering memorandum, (i) we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties; (ii) we did not have a retained or contingent interest in assets transferred to an unconsolidated entity or a similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets; (iii) we had not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements; and (iv) we did not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

MARKET RISKS

Market risk is the risk of loss related to adverse changes in the market prices of financial instruments, including interest rates and foreign exchange rates. We are exposed to various types of market risk in the ordinary course of business, including changes in interest rates and foreign exchange rates. We maintain our accounting records and prepare our financial statements in Renminbi.

Our assets are predominantly in the form of investment properties, investment properties under development, completed properties available for delivery, properties under development for sale and properties held for development for sale. In the event of a severe downturn in the property market, the value of these assets may not be readily realizable.

Credit Risk

We are exposed to credit risk primarily arising from bank deposits and trade and other receivables. Our management has policies to continuously monitor the exposures to these credit risks. In addition, we rely on the credit evaluations of mortgage banks to ensure that sales of properties are made to buyers with appropriate financial strength and with the appropriate percentage of down payment. The credit risk of our other financial assets, which mainly comprise bank deposits and trade and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of each of these instruments on our balance sheets.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash from operating activities and the availability of funding through an adequate amount of committed credit facilities. We have a policy to regularly monitor our current and expected liquidity requirements and our compliance with the financial covenants pursuant to our borrowings to ensure that we maintain sufficient reserves of cash and have adequate committed credit lines available.

Interest Rate Risk

We are exposed to interest rate risks, primarily relating to our bank borrowings with floating interest rates, which were RMB9,991.9 million and RMB9,496.5 million (US\$1,367.8 million) as of December 31, 2015 and 2016, respectively. We undertake debt obligations to support our property development and general working capital needs. Upward fluctuations in interest rates increase the cost of our financing. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations.

An increase in interest rates may also adversely affect our prospective purchasers' ability to obtain financing and depress overall housing demand in China. For further information, please see the section entitled "Risk Factors—Risks relating to Property Development in the PRC—Adjustments by the PBOC to the benchmark one-year lending rate and reserve requirement ratios may increase our finance costs and the finance costs of our customers."

Commodities Risk

We are exposed to fluctuations in the prices of raw materials for our property developments, primarily steel and concrete. We currently do not and do not expect to engage in commodities hedging activities. We purchase most of our supplies of steel and concrete at market prices. As a result, fluctuations in the prices of our construction materials could have a significant impact on our results of operations.

Foreign Exchange Risk

We conduct our operation in the PRC and most of our transactions are settled in Renminbi. Our foreign exchange risk arises primarily from the exposure to fluctuations of the Renminbi against the Hong Kong dollar as a result of our investment in the PRC and certain general administrative expenses settled in Hong Kong dollars. In addition, Renminbi is not freely convertible and the conversion of Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of Renminbi to the U.S. dollar. Under this policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This floating band was further enlarged in May 2007, April 2012 and March 2014. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. On September 30, 2016, the International Monetary Fund announced that the Renminbi joins its Special Drawing Rights currency basket. The PRC government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates.

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 from our U.S. dollar-denominated debt and a loss 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.

As a result, 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 the section entitled “Risk Factors—Risks relating to the Notes—We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar.” We 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 Notes. Our obligations under these transactions may be secured by cash or other collateral.

Inflation

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 1.4% and 2.0%, respectively, for the years ended December 31, 2015 and 2016. Recent inflation and deflation have not materially affected our business, despite relatively significant increases in inflation since 2013. Deflation could adversely affect our business, as it might be a disincentive for prospective purchasers to purchase our properties.

NON-GAAP FINANCIAL MEASURES

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

- changes in fair value of investment properties;
- other borrowing costs included in finance costs;
- capitalized interest included in direct costs; and
- depreciation included in administrative expenses.

EBITDA is not a standard measure under HKFRS. As the property development business is capital intensive, capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the profit for the year of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector.

As a measure of our operating performance, we believe that the most directly comparable HKFRS measure to EBITDA is profit for the year. We operate in a capital intensive industry. We use EBITDA in addition to profit for the year because profit for the year includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization of intangible assets and interest income and interest expense. 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, EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies’ results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our profit from operations under HKFRS to our definition of EBITDA for the periods indicated.

	Year ended December 31,		
	2015	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Profit from operations.....	4,209,725	8,305,284	1,196,210
Adjustments:			
Net increase in fair value of investment properties .	(943,057)	(2,681,903)	(386,274)
Other borrowing costs included in finance costs.....	(70,966)	—	—
Capitalized interest included in direct costs	655,150	923,590	133,025
Depreciation expenses included in administrative expenses	22,844	37,265	5,367
EBITDA	<u>3,873,696</u>	<u>6,584,236</u>	<u>948,327</u>
EBITDA margin	26.6%	32.1%	32.1%

Our definition of EBITDA should not be considered in isolation or construed as an alternative to profit for the year or as an indicator of operating performance or any other standard measure under HKFRS. Our definition of EBITDA does not account for taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies. 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. See the section entitled “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.

INDUSTRY OVERVIEW

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

OVERVIEW OF THE PRC ECONOMY

The PRC economy has grown significantly since the PRC government introduced economic reforms in the late 1970s. Such growth was further accelerated by the PRC's accession to the World Trade Organization in 2001. From 2001 to 2008, the PRC's nominal GDP increased at a CAGR of approximately 13.7%. The global financial crisis in late 2008 as well as the subsequent liquidity squeeze and credit crunch caused a worldwide economic slowdown, with the PRC's GDP growth rate slowing in 2008 and 2009. In response, the PRC government introduced a number of economic stimulus measures, which alongside similar measures from major developed countries, effectively boosted short-term economic growth in 2010.

Since 2010, global economic growth slowed again on fears that the sovereign debt crisis of certain eurozone countries would deepen. In March 2012, the PRC government cut its nominal GDP growth target to 7.5% for 2012, giving rise to further concerns about the sustainability of PRC economic growth. In January 2013, the National Bureau of Statistics of China announced that GDP expanded 7.9% in the fourth quarter of 2012 from a year earlier, lifting China's whole-year GDP growth rate in 2012 to 7.8%, slightly higher than the government target of 7.5%. For 2013, 2014 and 2015, China achieved a real GDP growth rate of 7.7%, 7.3% and 6.9%, respectively.

The table below sets out selected economic statistics for and certain statistics regarding urbanization in the PRC for the years indicated:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (RMB billion) ...	26,581	31,405	34,090	40,151	47,310	51,947	56,885	64,397	68,551
Real GDP growth rate (%)	14.2	9.6	9.2	10.4	9.3	7.7	7.7	7.3	6.9
Per capita GDP (RMB)	20,169	23,708	25,608	30,015	35,198	38,420	41,805	47,201	49,992
Fixed asset investment									
(RMB billion)	13,732	17,283	22,460	25,168	31,149	37,469	44,707	51,202	56,200
Total population (million)	1,321	1,328	1,335	1,341	1,347	1,354	1,361	1,368	1,375
Urban population (million)	606	624	645	670	691	712	731	749	771
Urbanization rate ⁽¹⁾ (%)	45.9	47.0	48.3	49.9	51.3	52.6	53.7	54.8	56.1
Urban resident per capita									
disposable net income (RMB)	13,786	15,781	17,175	19,109	21,810	24,565	26,955	28,844	31,195

Source: National Bureau of Statistics of China

Note:

(1) Urbanization rate represents urban population as a percentage of total population in China.

OVERVIEW OF THE PRC PROPERTY MARKET

Between 2007 and 2015

From 2007 to 2015, investment in the real estate industry increased from RMB2,529 billion in 2007 to RMB9,598 billion in 2015. According to the National Bureau of Statistics of China, a total of approximately 1,285 million sq.m. of GFA was sold in 2015, representing a substantial increase as compared to the 774 million sq.m. sold in 2007.

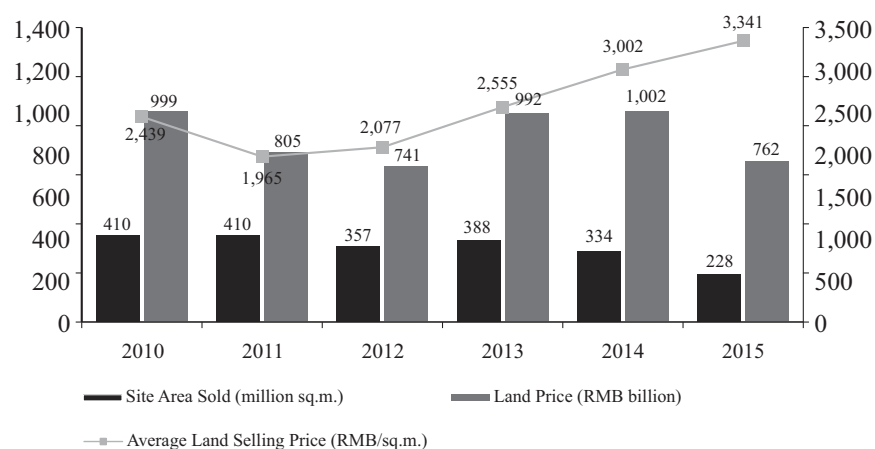
The table below sets forth certain statistics on the property market in the PRC for the years indicated:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Real estate investment (RMB billion).....	2,529	3,120	3,624	4,826	6,180	7,180	8,601	9,504	9,598
Investment in residential property development (RMB billion)	1,801	2,208	2,562	3,404	4,431	4,937	5,895	6,435	6,460
Revenue from property sales (RMB billion)	2,989	2,507	4,436	5,272	5,859	6,446	8,143	7,629	8,728
Residential									
GFA completed (million sq.m.) .	498	543	596	634	743	790	787	809	738
Total GFA sold (million sq.m.)..	701	593	862	934	965	985	1,157	1,052	1,124
ASP (RMB per sq.m.)	3,645	3,576	4,459	4,725	4,993	5,430	5,850	5,933	6,472
Total									
GFA completed (million sq.m.) .	606	665	727	787	926	994	1,014	1,075	1,000
GFA sold (million sq.m.)	774	660	948	1,048	1,094	1,113	1,306	1,206	1,285

Sources: National Bureau of Statistics of China and China Real Estate Statistics Yearbook 2005–2013

Recent Developments in the PRC Property Market

Land prices in the PRC are affected by multiple factors in recent years. Property market in the PRC has experience of a boost since 2012, in terms of selling price. Total land sales increased from RMB741 billion to 762 billion from 2012 to 2015. According to the National Bureau of Statistics of China, the average land selling prices were RMB2,077 per sq.m. in 2012, RMB2,555 per sq.m. in 2013, RMB3,002 per sq.m. in 2014, and RMB3,341 per sq.m. in 2015 reflecting a year-on-year growth rate of 23.0%, 17.4% and 11.3%, respectively, representing a significant price increase in the past per years.



Source: National Bureau of Statistics of China

Since the beginning of 2010, the PRC government has announced a series of measures designed to stabilize the growth of the PRC economy, including the property market to a more sustainable level. More recently, since September 2016, certain local governments, including without limitation Shenzhen, Zhuhai, Foshan issued notices to implement housing purchase restriction measures for the purpose of sustainable development of the local real estate market. The PRC property market experienced downward pricing pressures in the second half of 2011, as a result of the various policies and measures introduced by the PRC government aiming at “cooling off” the property market. According to a report issued by the National Bureau of Statistics of China, the total GFA sold and total property sales in China in the six months ended June 30, 2012 decreased by 10.0% and 5.2%, respectively, as compared with those in the six months ended June 30, 2011. Beginning in the second quarter of 2012 and continuing through 2013, transaction volumes recovered in the overall PRC property market, due in part to the improving market sentiment in the PRC property market as well as the absence of further major restrictive government policies or measures. According to the National Bureau of Statistics of China, the total GFA sold in 2013 was 1,306 million sq.m., representing a 17.3% increase from the 2012.

OVERVIEW OF SELECTED KEY CITIES IN WHICH WE OPERATE

As official information regarding the number and market share of residential property developers in the selected key cities in which we operate is not publicly available, we have included the names of property developers which we believe to be our main competitors in the discussion of selected key cities below.

Shenzhen

Shenzhen, China’s first special economic zone, has attracted significant foreign direct investment. In 2015, foreign direct investment in Shenzhen amounted to a total of US\$25.6 billion. Shenzhen is a major container port and manufacturing center, and is the headquarters of some China’s high-tech companies. We believe our main competitors in Shenzhen include Vanke, China Overseas (中海外發展), Shenzhen Investment (深圳控股), Kaisa (佳兆業) and China Horoy.

On July 1, 2010, the Shenzhen special economic zone was expanded from the original area of 396 sq.km. to 1,952 sq.km. Going forward, Shenzhen plans to further develop cross-border inter-commercial links with Hong Kong, including through the planned Guangzhou-Shenzhen-Hong Kong Express Rail Link.

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Shenzhen for the years indicated:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (RMB billion) ...	680.2	778.7	820.1	958.2	1,150.2	1,295.0	1,450.0	1,600	1,750
Real GDP growth rate (%)	14.8	12.1	10.7	12.0	10.0	10.0	10.5	8.8	8.9
Per capita GDP (RMB)	76,273	83,431	84,147	94,296	110,387	123,247	136,948	149,497	157,985
Retail sales (RMB billion)	193.1	227.7	256.8	300.1	352.1	400.9	443.4	491.9	501.7
Retail sales year-on-year (%) ...	14.9	17.9	12.8	17.2	17.8	16.5	10.6	10.9	2.0
Real estate investment									
(RMB billion)	46.1	44.0	43.7	45.8	59.0	73.7	87.7	106.7	113.1
GFA completed (*000 sq.m.) ...	5,077	5,797	4,152	3,760	2,473	2,894	3,536	4,253	3,603
GFA under construction									
(*000 sq.m.)	23,029	24,877	24,902	25,100	20,899	21,076	40,035	44,922	49,784

Source: Shenzhen Statistics Bureau

Note: N/A means data not available.

Guangzhou

Guangzhou is the provincial capital of Guangdong Province. In 2015, Guangzhou was one of the largest cities in China in terms of GDP, with a nominal GDP of RMB1,542.0 billion. Guangzhou had a population of approximately 12.9 million as of December 31, 2013. We believe our main competitors in Guangzhou include Vanke, Poly, Agile, Zhonghui Xiyuan (中惠熙園) and Chuangrong (創榮).

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Guangzhou for the years indicated:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (RMB billion) ...	710.9	821.6	911.3	1,074.8	1,230.3	1,355.1	1,542.0	1,670.6	1,810.4
Real GDP growth rate (%) ...	15.3	12.5	11.7	13.2	11.0	10.5	11.6	8.6	8.4
Per capita GDP (RMB) ...	71,808	81,233	88,834	87,458	97,588	105,909	119,695	127,723	134,066
Per capita disposable income									
for urban households (RMB) .	22,469	25,317	27,610	30,658	34,438	38,054	42,049	42,955	46,734
Retail sales (RMB billion) ...	262.4	318.7	361.6	447.6	524.3	597.7	688.3	769.8	793.3
Retail sales year-on-year (%) ...	19.3	21.5	13.4	24.2	17.1	15.2	15.2	11.8	3.0
Real estate investment									
(RMB billion) ...	70.4	76.3	81.7	98.4	130.7	137.0	158.0	181.6	213.7
GFA completed ('000 sq.m.) ...	7,014	7,546	7,937	7,747	8,317	8,009	11,413	19,195	11,515
GFA under construction									
('000 sq.m.) ...	35,944	36,876	34,533	39,838	48,481	49,176	81,593	93,699	93,456

Source: Guangzhou Statistics Bureau

Note: Information on the GFA sold and ASP in Guangzhou is not publicly available.

Nanning

Nanning is the provincial capital of Guangxi Province. Nanning is situated at the intersection of key railways, with a local economy supported mainly by the mineral, agricultural and tourism industries. Nanning had a population of approximately 7.4 million as of December 31, 2015. We believe our main competitors in Nanning include Guangxi Zhengheng Real Estate (廣西正恒房產), Guangxi Ronghe (廣西榮和), Hanlin Real Estate (翰林地產), Vanke and Poly.

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Nanning for the years indicated:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (RMB billion) ...	106.3	131.6	149.2	180.0	221.2	250.4	280.3	314.8	341.0
Real GDP growth rate (%) ...	17.1	14.5	15.0	14.2	13.5	12.3	10.3	8.5	8.6
Per capita GDP (RMB) ...	15,685	19,142	21,479	25,624	31,173	35,138	38,994	43,303	49,066
Per capita disposable income									
for urban households (RMB) .	11,877	14,446	16,254	18,032	20,005	22,561	24,817	27,075	29,106
Retail sales (RMB billion) ...	51.6	63.2	75.7	90.6	107.3	125.6	145.1	161.7	178.7
Retail sales year-on-year (%) ...	18.4	22.5	19.8	20.0	18.5	17.0	14.0	11.4	10.5
Real estate investment									
(RMB billion) ...	18.7	19.9	22.7	31.8	37.7	36.3	41.6	55.2	65.7
GFA completed ('000 sq.m.) ...	3,444	3,520	3,610	4,333	5,125	5,211	3,256	4,654	5,749.7
GFA under construction									
('000 sq.m.) ...	16,229	16,698	19,528	23,789	36,085	27,349	38,124	45,194	51,749.3
GFA sold ('000 sq.m.) ...	5,855	4,436	6,851	5,835	6,965	5,755	7,026	8,026	10,007
ASP (RMB/sq.m.) ...	3,404	3,720	4,463	5,290	N/A	5,619	6,959	6,627	6,646

Source: Nanning Statistics Bureau

Note: N/A means data not available.

Chengdu

Chengdu is the provincial capital of Sichuan Province and one of the most important economic and transportation hubs in southwest China. As the largest railway hub in southwest China, Chengdu operates four major railway routes including Chengdu-Chongqing, Chengdu-Baoji, Chengdu-Kunming and Chengdu-Dazhou. We believe our main competitors in Chengdu include Yanlord, Greenland and Chengdu Jinfang Group (成都金房集團).

In 2013, investment in fixed assets in Chengdu increased by 5.8% to RMB700.7 billion from the previous year. As of December 31, 2013, Chengdu had a total population of approximately 14.7 million as of 31 December 2015. The property market in Chengdu has grown significantly in recent years as urbanization continues to expand. Total investment in real estate industry increased from RMB90.5 billion in 2007 to RMB244.2 billion in 2015. Since 2010, the PRC government introduced a series of policies and measures to prevent the property market from overheating, the development of residential property was then partially suppressed by those restrictive measures.

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Chengdu for the years indicated:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (RMB billion) ...	332.4	390.1	450.3	555.1	695.1	813.9	910.9	1,006	1,080
Real GDP growth rate (%)	15.3	12.1	14.7	15.0	15.2	13.0	10.2	8.9	7.9
Per capita GDP (RMB)	30,006	34,873	39,510	41,253	48,755	57,624	63,977	70,019	74,273
Per capita disposable income									
for urban households (RMB) .	14,849	16,943	18,659	19,920	23,932	27,194	29,302	32,665	33,476
Real estate investment									
(RMB billion)	90.5	91.3	94.5	127.8	160.0	189.0	211.1	222.1	244.2
GFA sold ('000 sq.m.)	20,848	13,574	25,320	22,899	23,203	24,277	28,452	29,502	30,194
ASP (RMB/sq.m.)	4,198	4,778	4,875	5,827	6,310	6,668	N/A	7,024	6,843

Source: Chengdu Statistics Bureau

Note: N/A means data not available.

Shantou

Shantou is located on the eastern coast of Guangdong Province. Shantou was one of China's original special economic zones and remains a significant manufacturing center and port. Shantou had a population of approximately 5.6 million as of December 31, 2015. We believe our main competitors in Shantou include China Overseas and Liantai Real Estate (聯泰地產).

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Shantou for the years indicated:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (RMB billion) ...	82.9	95.2	103.6	120.9	140.3	141.5	156.6	171.7	185.0
Real GDP growth rate (%)	13.0	10.5	10.7	13.9	12.2	9.5	10.0	9.0	8.4
Per capita GDP (RMB)	16,483	18,634	19,982	22,776	25,958	26,047	28,661	31,192	33,406
GFA sold ('000 sq.m.)	1,508	1,173	1,100	1,494	1,441	1,698	1,591	1,614	2,236
ASP (RMB/sq.m.)	3,061	3,120	3,504	4,145	4,757	5,878	N/A	6,780	7,371

Source: Shantou Statistics Bureau

Note: N/A means data not available.

Huizhou

Huizhou is located in southeastern Guangdong Province. Huizhou's main industries include electronics and petrochemicals. The city is also a significant port in the Pearl River Delta region. Huizhou had a population of approximately 4.7 million as of December 31, 2015. We believe our main competitors in Huizhou include Hopson, Wongtee Group, Zhonglian Real Estate (中聯地產), Hongxin Realty (宏新實業) and Centralcon Group, Excellence Group and Dezhou Investment (德州投資).

The table below sets forth certain economic statistics for Huizhou for the years indicated:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (RMB billion) ...	111.8	130.4	141.5	173.0	209.7	236.8	267.8	300.1	314.0
Real GDP growth rate (%)	17.4	11.5	13.2	18.0	14.6	12.6	13.6	10.0	9.0
Per capita GDP (RMB)	28,945	33,077	35,819	N/A	N/A	50,884	57,144	63,665	66,231
Retail sales (RMB billion)	35.4	42.3	49.1	58.3	68.5	75.4	85.8	96.9	107.1
Retail sales year-on-year (%) ...	19.1	19.6	15.1	19.0	18.2	15.5	13.8	12.9	10.5
Real estate investment (RMB billion)	13.8	18.7	17.5	26.8	37.8	48.2	59.4	66.7	61.0

Source: Huizhou Statistics Bureau

Note: N/A means data not available.

Dongguan

Located in south-central Guangdong Province and east of the Pearl River Delta region, Dongguan is bordered by Guangzhou to the northwest and Shenzhen to the south. Dongguan is the meeting point of numerous railways including the Guangzhou-Shenzhen express railway and the Beijing-Kowloon railway. Dongguan Railway Station handles border control for passenger trains traveling between Hong Kong and the PRC. Dongguan had a population of 8.3 million as of December 31, 2015. We believe our main competitors in Dongguan includes Vanke, County Garden and Sunac.

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Dongguan for the years indicated:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (RMB billion) ...	316.0	370.4	376.4	424.6	473.5	501.0	549.0	588.1	627.5
Real GDP growth rate (%)	18.3	14.0	5.3	10.3	8.0	6.1	9.8	7.8	8.0
Per capita GDP (RMB)	45,051	50,471	48,988	52,798	57,470	60,556	66,109	70,604	75,616
Real estate investment (RMB billion)	20.9	27.1	27.8	29.9	37.4	37.7	49.8	58.8	57.5
GFA completed ('000 sq.m.) ...	1,119	3,952	2,681	2,561	2,423	3,624	2,649	2,649	3,254
GFA under construction ('000 sq.m.)	13,710	N/A	20,501	16,866	23,966	24,539	28,379	35,857	39,212
GFA sold ('000 sq.m.)	5,411	4,680	5,788	4,699	5,956	5,834	8,031	5,587	9,778

Sources: Dongguan Statistics Bureau, Guangdong Statistics Bureau

Foshan

Foshan is located in central Guangdong Province, to the southwest of Guangzhou. Foshan is a significant manufacturing center in the Pearl River Delta region. Foshan had a population of approximately 7.4 million as of December 31, 2015. We believe our main competitors in Foshan include Poly and Country Garden.

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Foshan for the years indicated:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (RMB billion) ...	366.0	437.8	482.1	565.1	658.0	670.9	701.0	760.3	800.4
Real GDP growth rate (%)	19.2	15.2	13.5	14.3	12.1	8.2	10.0	8.6	8.5
Per capita GDP (RMB)	60,917	72,975	80,579	78,503	91,001	N/A	96,310	103,437	107,716
GFA completed ('000 sq.m.) ...	N/A	3,035	2,045	5,043	N/A	N/A	6,044	5,410	3,634
GFA under construction ('000 sq.m.)	N/A	18,600	17,360	25,593	28,722	29,531	46,721	57,353	67,543

Source: Foshan Statistics Bureau

Note: N/A means data not available.

Zhongshan

Zhongshan is located in southern Guangdong Province, near Zhuhai and Macau. Zhongshan had a population of approximately 3.2 million as of December 31, 2015. We believe our main competitors in Zhongshan include Zhonghao Real Estate (中澳房產), Agile and Huiqiao Real Estate (匯喬).

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Zhongshan for the years indicated:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (RMB billion) ...	126.8	145.7	156.6	185.1	219.1	241.1	263.9	282.3	301.0
Real GDP growth rate (%)	16.6	11.1	10.2	13.9	13.0	11.0	10.0	8.0	8.4
Per capita GDP (RMB)	48,441	52,921	54,156	60,767	70,014	77,527	83,393	88,682	94,030
Per capita disposable income for urban households (RMB) .	20,317	21,560	23,088	25,357	27,700	31,130	34,274	34,304	37,254
Retail sales (RMB billion)	39.8	48.0	65.0	64.8	75.6	80.9	89.1	98.2	108.0
Retail sales year-on-year (%) ...	19.5	20.5	14.5	18.2	16.9	10.3	10.0	10.2	10.0
Real estate investment (RMB billion)	17.6	19.2	19.2	24.2	31.0	34.6	39.9	43.0	48.1
GFA completed ('000 sq.m.) ...	2,723	2,671	3,412	3,988	N/A	N/A	5,630	4,837	7,041
GFA under construction ('000 sq.m.)	12,652	14,748	14,836	8,564	N/A	N/A	37,170	40,269	46,236
GFA sold ('000 sq.m.)	4,654	2,853	5,181	6,066	N/A	N/A	7,803	7,641	10,428
ASP (RMB/sq.m.)	3,940	4,273	4,546	5,147	N/A	N/A	6,050	6,073	5,884

Source: Zhongshan Statistics Bureau

Note: N/A means data not available.

Zhuhai

Zhuhai is one of China's special economic zones and is situated immediately to the north and west of Macau. Zhuhai had a population of approximately 1.6 million as of December 31, 2015. We believe our main competitors in Zhuhai include Huafa Industrial Company Limited, Yanlord, Gemdale and Zhongzhu Real Estate (中珠房產).

The table below sets forth certain economic statistics for Zhuhai and key statistics related to the residential property market in Zhuhai for the years indicated:

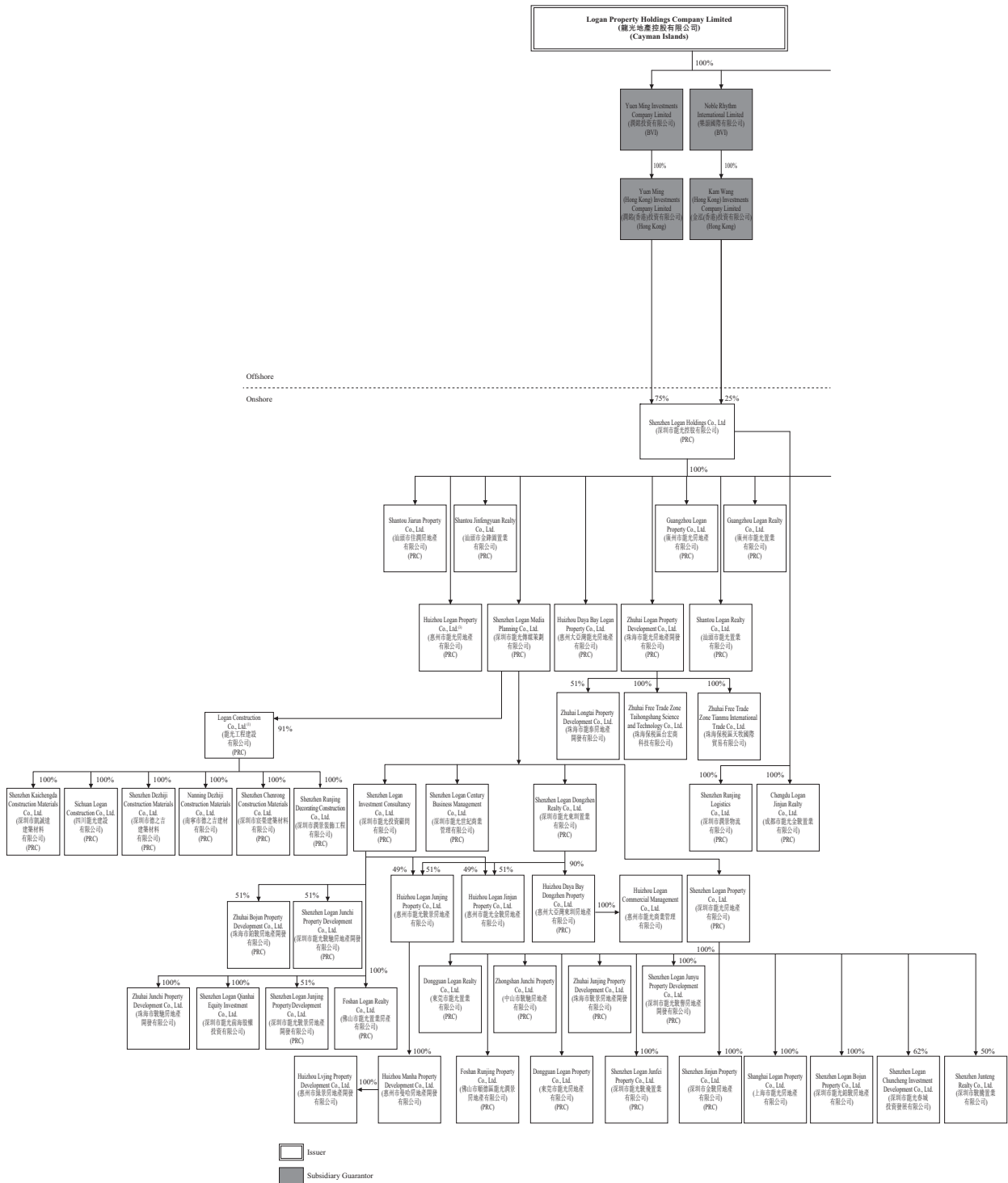
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (RMB billion) ...	89.5	99.7	103.9	120.9	140.5	150.4	166.2	186.7	202.5
Real GDP growth rate (%)	17.0	9.2	6.6	12.9	11.3	7.0	10.5	10.4	10.0
Per capita GDP (RMB)	61,303	66,798	68,042	77,888	89,794	95,471	104,786	15,900	124,700
Retail sales (RMB billion)	30.2	36.0	40.4	48.6	56.8	63.5	72.1	81.6	91.3
Retail sales year-on-year (%) ...	18.0	19.4	12.3	20.5	18.1	12.7	13.4	13.2	12.0
Real estate investment (RMB billion)	13.3	15.2	16.8	18.0	25.7	24.2	27.3	38.8	52.4
GFA completed ('000 sq.m.) ...	2,390	3,402	3,104	1,719	2,753	3,292	N/A	1,662	1,964
GFA under construction ('000 sq.m.)	7,553	9,563	8,906	9,174	11,999	13,152	N/A	20,560	22,454
GFA sold ('000 sq.m.)	3,163	1,600	2,719	2,335	2,099	2,307	3,422	3,361	4,177
ASP (RMB/sq.m.)	6,454	6,921	7,485	10,693	11,679	N/A	N/A	N/A	N/A

Source: Zhuhai Statistics Bureau

Note: N/A means data not available.

CORPORATE STRUCTURE

The following chart illustrates our simplified corporate structure as of the date of this offering memorandum:



Notes:

- Logan Construction is 91% owned by Shenzhen Logan Media Palaning Co., Ltd and 9% owned by Logan Real Estate.
- Foshan Logan Sunshine Seaward Property Co., Ltd. is 66% owned by Foshan Shunde Logan Realty Co., Ltd. and 34% owned by Guangdong Nanhai Luonan Ceramics Enterprises Group (廣東南海羅南陶瓷企業集團).

BUSINESS

OVERVIEW

We are a property developer in the PRC focusing on the residential property market, and our products are primarily targeted at first-time homebuyers and upgraders. We believe demand from such customers is less susceptible to fluctuations in property prices and thus provides stability to our business profile. In 2017, we were ranked as the 29th largest property developer in the PRC by comprehensive strength.⁽¹⁾

We have a land bank comprising land we acquired at competitive prices, and we strive to build our land bank by establishing and expanding our presence in economic regions which we believe hold high growth potential. As of December 31, 2016, we had a land bank with an aggregate GFA of 14.1 million sq.m., primarily comprising residential property projects with ancillary retail shops, as well as an office property project where our headquarters is located. As of December 31, 2016, approximately 50% of our land bank was located in the Pearl River Delta region, among which 40% of our land bank was located in Shenzhen; and approximately 16% and 26% of the land bank was located in Shantou and Nanning, respectively. We believe our current land bank will be sufficient to meet our development needs and will provide a solid foundation for our continuing growth and profitability for the next five to six years, based on our current projections and our historical sales and land development records.

We have established a replicable property development process, which is supported by our in-house departments and subsidiaries specializing in design and planning, construction, decoration, procurement, sales, customer services and each other major step in the property development process. We leverage our ability to build projects through Logan Construction, our own construction subsidiary, and our centralized and strategic procurement, quick development operation model and cost control over the whole property development process to optimize our costs, shorten development cycles, improve cash flow and maintain profitability. Through our strategic planning and disciplined property development process, we aim to achieve high asset revenue for our projects. We generally target commencing pre-sales of properties within six to 10 months of acquiring a parcel of land for a substantial majority of our projects.

As of December 31, 2016, we had completed a total GFA of over 15 million sq.m. Over the past 20 years, we have established ourselves as one of the leading developers focusing on residential properties in China's economically developed cities, regions and emerging areas, including, among others, Shenzhen and other cities located in the Pearl River Delta region, Shantou and Nanning. In 2017, our Group was recognized as a "2017 Top 100 Chinese Real Estate Developers—Top 10 in Profitability" jointly by the Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所), the Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所) and China Index Academy (中國指數研究所). We believe that our track record, together with the strength of our "Logan" (龍光) brand and the leadership and vision of our management team, positions us well to expand into other cities in the PRC. In 2015 and 2016, our revenue was RMB14,574.0 million and RMB20,538.8 million (US\$2,958.2 million), respectively, and our net profit was RMB2,687.8 million and RMB5,199.9 million (US\$748.9 million), respectively, for the same periods.

Notes:

- (1) The ranking is based on a joint evaluation by Enterprise Institute of the Development Research Center of the State Council of China, Institute of Real Estate Studies of Tsinghua University and China Index Academy of the largest property developers in the PRC by comprehensive strength in 2017.

We have developed a diversified product portfolio which includes high-rise apartment buildings and low-rise garden apartments, among others, catering to the residential property market. We have developed two distinctive product styles, namely neoclassical and art deco, each of which comprises standardized designs for facades, interior designs and landscaping, as well as standardized parts and materials. We leverage our quick development operation model and our standardized control over each step of our property development process to ensure product and service quality, maintain and improve our future development and profitability.

COMPETITIVE STRENGTHS

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

We have a land bank comprising land we acquired at competitive prices concentrated in the economically developed Pearl River Delta region and in Shantou and Nanning, which provides a solid foundation for our future growth and profitability

As of December 31, 2016, we had a land bank with an aggregate GFA of 14.1 million sq.m., which include 1.8 million sq.m. in completed projects, 6.5 million sq.m. in projects under development, and 5.8 million sq.m. in projects for future development. Driven by our knowledge of government policies and regional development trends, we have focused our strategic development on, among others, Shenzhen and other cities located in the Pearl River Delta region, Shantou and Nanning, with a substantial majority of our land bank concentrated in the economically developed Pearl River Delta region. We believe our land bank will be sufficient to meet our development needs for the next five to six years, based on our current projections and our historical sales and land development records. We believe that such holdings allow us to leverage our familiarity and experience in the areas where we have an established presence and benefit from our existing brand and reputation.

We have established a land bank comprising land we acquired at competitive prices through a combination of comprehensive development and complementary project planning. We follow a careful project selection process, and primarily acquire land for our projects through participation in the government public tender and listing-for-sale land grant processes. We acquired certain land parcels at competitive prices, such as those for Logan City, when the infrastructure and common facilities such as roads, schools or commercial districts had not yet been fully developed in their vicinity. As of December 31, 2016, the average cost of land in our land bank was RMB3,384 (US\$487.4) per sq.m. GFA, calculated by the total paid and payable land premiums for such land divided by total GFA. We believe our land bank comprising land we acquired at competitive prices not only supports our future profitability but also gives us greater financial flexibility to respond more effectively to changing market conditions.

We have effective cost control over the entire property development process

We build most of our projects through Logan Construction, our construction subsidiary, which, together with our centralized procurement management, gives us more effective control over construction costs through synergies with our property development management capabilities. Furthermore, Logan Construction possesses a National Housing Construction General Contracting Class 1 Qualification Certificate (國家房屋建築工程施工總承包一級資質認證), enabling it to continue to act as general contractor for our projects as we expand into other high-growth cities elsewhere in China.

We believe we have developed an effective cost control system covering the entire property development process, which enables us to effectively control and manage costs at each step of the project development process. At the initial stage of project design, we seek to make accurate cost projections based upon our prior experience and historical data, and strive to ensure effective cost control through continually monitoring the implementation of such target costs, monitoring market developments, and providing cost control feedback throughout the project design process.

We believe that our tight cost controls, together with our land bank acquired at competitive prices and our standardized product designs and management processes, have been essential in achieving our net profit margins. In 2015 and 2016, our net profit margins (excluding changes in fair value of investment properties and derivatives and the relevant deferred taxes)⁽²⁾ were 13.6% and 15.1%, respectively.

We have established diversified funding channels and maintained prudent financial management

In the PRC, we had established cooperative relationships with, and received loans and financings from, major PRC banks including Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Ping An Bank and China Merchants Bank as of December 31, 2016. We were granted offshore loan facilities of US\$105 million by a syndicate of lenders in October 2014. Through our initial public offering in December 2013 and the offering of the Existing Notes and Corporate Bonds, we were able to further diversify our financing sources and obtain funding through accessing the capital markets. We believe our multiple financing channels will provide us with flexibility to fund our operations and enhance our liquidity position.

We have also adopted a prudent financial management approach and carefully managed our financial resources and costs. To do so, we closely monitor our capital and indebtedness levels, the maturity profiles of our borrowings and our cost of capital. As of December 31, 2016, our current ratio, which is equal to our current assets divided by our current liabilities, was 1.9. As of the same date, our total borrowings (excluding the Existing Notes and Corporate Bonds) were RMB15,078.0 million (US\$2,171.7 million), of which RMB3,370.5 million (US\$485.5 million) was due within one year and the remaining was due after one year. Our cash and cash equivalents amounted to RMB13,559.8 million (US\$1,953.0 million) as of December 31, 2016. Our average cost of capital in 2015 and 2016 and was 6.8% and 6.1%, respectively, as calculated by (i) total borrowing costs during a year or period divided by (ii) the average of the beginning and ending balances of total borrowings for such year or period. Going forward, we believe that by adhering to our prudent financial management approach, we will be able to utilize our financial resources more efficiently and maintain healthy financial conditions.

Leveraging our considerable strength in various cities in southern China, we can readily expand into other high-growth regions

We have accumulated many years of experience developing projects in Guangdong Province, comprising, among others, Shenzhen, Guangzhou, Shantou, Zhuhai and Huizhou. Since 1997, we have established brand recognition in Shantou through the completion of 30 projects with a total GFA of over 3.9 million sq.m. Leveraging our success and valuable experience in Guangdong Province, in 2006 we expanded into Guangxi Province through the launch of Provence, which is expected to have a total GFA of 4.2 million sq.m. upon completion. In 2011, we were recognized as the second-largest property developer in Nanning by revenue, according to the China Real Estate Information Corporation. Over the past 20 years, we have established ourselves as one of the leading developers focusing on residential properties in China's economically developed cities, regions and emerging areas, including Shenzhen and other cities located in the Pearl River Delta region, Shantou, Nanning and other areas. We believe that our established market position and 20 years of experience position us well to expand our business into other high-growth regions.

We have developed multiple projects in most of the cities in which we operate, through which we believe we have established brand name recognition and customer loyalty, while maintaining a diversified presence in a variety of locations. We believe that our strategy of focusing on certain target regions and building multiple property projects per region has enabled us to consolidate our market position while distributing risk.

(2) The calculation of net profit margin (excluding changes in fair value of investment properties and the relevant deferred taxes) is based on profit for the year (excluding changes in fair value of investment properties and the relevant deferred taxes) divided by revenue for such year and multiplied by 100%.

We have a well-experienced management team and have established comprehensive human resources policies to support our future development

Our management team has a wealth of property development management experience in both the investment and operational aspects of the property development process. Mr. Kei, our founder and Chairman, has 20 years of substantial management and leadership experience in the property development industry, and our senior management have an average of over eight years of experience in the property development industry. Under their leadership, we had completed a number of projects with a total GFA of over 15 million sq.m. as of December 31, 2016, including numerous award-winning projects. For example, we successfully completed Phases one through five of Provence, which was recognized as a “Gold Medal International Cultural Community—Innovative Model Habitat” in 2007. Provence was also recognized by SouFun.com Limited as the number one project in Nanning, Guangxi Province by sales for three consecutive years between 2008 and 2010. In addition, Logan City was recognized in 2013 as the “2012 China Urban Area Most Valuable Property.”

We place strong emphasis on our training systems and structure training plans tailored to the needs of employees at different levels. For example, we have an elite manager training plan, senior management promotion program and manager promotion program. Through years of development, we have assembled an experienced core management team. As we expand our business, we engage external recruitment firms for talent searches, and work to attract elite personnel in our industry to complement the abilities of our existing management team. We have also engaged consulting firms to regularly evaluate and improve our human resources policies.

BUSINESS STRATEGIES

We intend to grow and strengthen our business through the implementation of the following core business strategies:

Consolidate our market position in Guangdong and Guangxi Provinces, and selectively expand into other high-growth regions

We will continue to focus our property development business on Guangdong and Guangxi Provinces and further enhance our market position in Shenzhen, Shantou and Nanning. We aim to strengthen our ability to develop multiple projects in our targeted regions to achieve economies of scale. We believe that, by virtue of our successful operating experience and resources in these regions, we will be able to further increase the speed and effectiveness of our project development process, enhancing the profitability and returns on investment of our projects. In addition, we plan to continue conducting in-depth research on national and regional government policies, economies and urbanization trends and monitoring and researching quality sites to selectively expand our business into regions that we believe have high growth potential.

Maintain our competitiveness by focusing on producing high-quality, value-added properties for first-time homebuyers and upgraders

We aim to continue our core focus on the residential property market, with emphasis on demand from first-time homebuyers and upgraders. We believe that our focus on these types of properties is suitable in light of urbanization trends and the recent macroeconomic control measures introduced by the PRC government, and that these types of properties will continue to benefit from high levels of demand as a result. We also plan to strengthen our customer-oriented business approach through the improvement and innovation of the design, landscaping and facilities of our property development projects to offer our customers innovative, livable, high-value-added and high-quality residences and services.

At the same time, we plan to strengthen our “Logan” (龍光) brand image and market awareness through offering high-quality product and services, and offer more value-added services to customers. We will continue to improve our customer relationship management through our membership program for purchasers of our properties, Logan Club (龍光會), to further enhance our brand equity.

Further attract, develop and retain managerial talents and further elevate managerial expertise

We aim to further attract and retain managerial talents. Toward this end, we have conditionally adopted a share option scheme to provide incentives to our directors, senior management and key department heads, entitling the holders to subscribe for share options of our Company. Furthermore, we plan to further elevate our management’s managerial expertise and develop future managerial candidates through investments in both internal and external training. Through these measures, we believe that we can establish and retain talented management personnel to enhance our current operations and support our future growth.

Continue implementing a high-efficiency operating philosophy to achieve a quick development operation model, further enhancing our operating results

We have implemented a high-efficiency operating philosophy, in which we place significant emphasis on operational efficiency, results and profitability to achieve comprehensive and balanced development and enhance our control over the property development process. We plan to leverage this operating philosophy as a platform to fully implement a quick development operation model, where we efficiently complete the development of our property projects, by expanding our strategic procurement initiatives through our standardized product designs, helping us ensure the continuing supply of high-quality materials, while taking advantage of economies of scale to reduce supply costs. We also plan to continue refining the elements of our property development process to ensure that we are able to achieve our product quality and revenue goals and achieve dynamic cost control over the entire property development process, enabling us to protect project progress, quality and profitability, realize our high-efficiency operating philosophy and further enhance our overall efficiency.

RECENT DEVELOPMENTS

Land Acquisition

Subsequent to December 31, 2016, we have entered into certain agreements in relation to the purchase of two parcels of land. The following table sets forth certain information concerning such land:

Time of acquisition	Location	Project	Attributable	Site area	Planned total	Consideration		Type
			interest		GFA	RMB in	US\$ in	
			%	sq.m.	sq.m.	millions	millions	
February 14, 2017	Liuzhou	Liudong New District Business Center (柳東新區商務中心)	100%	187,443	620,565	1,102.7	158.8	Residential and retail
February 24, 2017	Hong Kong	Ap Lei Chau	50%	11,761	42,480–70,800	14,832.4	2,136.3	Non-industrial

On February 24, 2017, the Hong Kong Lands Department announced that the tender for a site in Ap Lei Chau, Hong Kong, has been awarded to the highest tenderer, Unicorn Bay (Hong Kong) Investments Limited, an entity which will be indirectly held jointly by us and KWG Property Holding Limited, on a 50-year land grant at a premium of HK\$16,855.78 million (RMB14,832.4 million). The site has a site area of about 11,761 sq.m. and is designated for non-industrial (excluding godown, hotel and petrol filling station) purposes. The minimum GFA and the maximum GFA are 42,480 sq.m. and 70,800 sq.m., respectively. We plan to fund our portion of the premium for the acquisition of the site with our internal and external funds, including bank loans for which we are currently in discussions with certain lenders. Such loans may or may not be granted and drawn down prior to the issuance of the Notes.

OUR PROPERTY PROJECTS

Overview

As of December 31, 2016, we had a number of property projects under various stages of development located in Shenzhen, Shantou, Guangzhou, Foshan, Nanning, Dongguan, Zhuhai, Huizhou, Zhongshan, etc.

Most of our property development projects are phases of larger property developments, and each phase may be in a different stage of development. We classify our property development projects for which we have obtained some or all of the land use rights certificates, into the following three categories: (i) completed properties, (ii) properties under development and (iii) properties held for future development. Other projects, for which we have entered into contracts but have not obtained any land use rights certificates, are classified as projects contracted to be acquired.

The table below sets forth a breakdown of our total land bank by cities for our property projects as of December 31, 2016:

	Completed and unsold GFA ⁽¹⁾	Under development	Held for future development		Total
			Follow-on projects ⁽²⁾	New Projects	
	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)
Total land bank by region and city:					
Pearl River Delta region					
—Shenzhen	192,323	2,466,374	2,705,542	—	5,364,239
—Guangzhou	154,121	—	—	—	154,121
—Huizhou	193,793	—	—	—	193,793
—Foshan	219,002	699,551	—	—	918,553
—Zhongshan	56,718	—	—	—	56,718
—Zhuhai	—	272,112	—	—	272,112
—Dongguan	63,976	—	—	—	63,976
Sub-total	879,933	3,438,037	2,705,542	—	7,023,512
Shantou	391,683	1,336,230	156,907	344,051	2,228,871
Nanning	493,690	725,815	574,966	—	1,794,471
Guilin	—	169,997	337,991	—	507,988
Fangchenggang	—	389,453	952,264	—	1,341,717
Hainan	—	121,791	426,142	—	547,933
Chengdu	54,422	282,679	308,963	—	646,064
Total land bank	1,819,728	6,464,002	5,462,775	344,051	14,090,556

Notes:

- (1) Figures in the table equal total GFA less (i) total saleable GFA sold and (ii) GFA attributable to car parks sold.
- (2) Follow-on projects consisted of new phases or portions of projects that had been completed or were under development as of December 31, 2016.

The table below sets forth a breakdown of our total saleable/leasable GFA (net of saleable GFA sold) of our property projects by planned use as of December 31, 2016⁽¹⁾:

	Completed	Under development	Held for future development	Total
	<i>(sq.m.)</i>	<i>(sq.m.)</i>	<i>(sq.m.)</i>	<i>(sq.m.)</i>
Properties for sales				
Residential	626,743	798,101	675,915	2,100,759
Retail	115,506	657,920	203,326	976,752
Office	796,581	3,886,205	3,473,082	8,155,868
Sub-total	<u>1,538,830</u>	<u>5,342,226</u>	<u>4,352,323</u>	<u>11,233,379</u>
Properties held for investment				
Retail	43,741	123,581	92,112	259,435
Office	43,934	—	118,008	161,942
Others	39,178	—	—	39,178
Sub-total	<u>126,853</u>	<u>123,581</u>	<u>210,120</u>	<u>460,555</u>
Total saleable/leasable GFA (net of saleable GFA sold)	<u><u>1,665,683</u></u>	<u><u>5,465,807</u></u>	<u><u>4,562,443</u></u>	<u><u>11,693,934</u></u>

Note:

(1) Figures in the table do not take GFA attributable to car parks into consideration.

We include in this offering memorandum the project names which we have used, or intend to use, to market our properties as of the date of this offering memorandum. Some of the project names require the approval of relevant authorities as of the date of this offering memorandum, and the relevant authorities might not have accepted or may not accept the names we have used or those that we intend to use as the registered names of the projects. As a result, the actual names registered with relevant authorities may be different from the names we have used or intend to use, and the names we use or intend to use may be subject to change.

The table below sets forth details of our property development projects as of December 31, 2016:

Completed Properties

Projects	City	Use	Site area (sq. m.)	Total GFA (sq. m.)	Total saleable/ leasable GFA (inclusive of GFA sold) ⁽¹⁾ (sq. m.)	Total saleable GFA		Unsold and presold saleable GFA (sq. m.)	Total leasable GFA held as investment ⁽²⁾ (sq. m.)	Construction completion date ⁽³⁾	Pre-sales commencement date ⁽⁴⁾	Interest attributable to us ⁽⁵⁾ (%)
						Sold ⁽²⁾ (sq. m.)	Pre-sold ⁽²⁾ (sq. m.)					
1 Grand Joy Garden (水悦馨園)	Zhongshan	Residential/Retail	58,908	176,398	171,913	152,920	911	18,082	18,993	April 2016	June 2014	100%
2 Zhongshan Grand Garden (水悦熙園)	Zhongshan	Residential/Retail	36,897	115,765	102,601	96,987	—	5,614	5,614	November 2014	June 2013	100%
3 Ocean Grange (海悦熙園)	Zhongshan	Residential/Retail	36,667	113,057	103,901	99,696	3,908	297	4,205	April 2014	April 2013	100%
4 Ocean Vista Residence (海悦華庭)	Zhongshan	Residential/Retail	62,233	163,378	159,725	156,096	1,212	2,417	3,629	May 2015	November 2013	100%
5 Shenzhen Sky Palace (天悅龍庭)	Shenzhen	Residential/Retail	51,826	170,307	170,478	162,148	—	8,330	8,330	October 2005	December 2004	100%
6 Logan Century Center (世紀大廈)	Shenzhen	Office	17,203	56,600	56,600	13,018	—	43,582	42,090	June 2016	N/A	100%
7 Logan City (Completed Portion) (龍光城(竣工部分))	Shenzhen	Residential/Retail	850,867	2,307,931	2,103,356	1,701,614	15,598	386,144	401,742	December 2015	September 2011	90%
8 Shenzhen Grand Riverside Bay (君悅龍庭)	Shenzhen	Residential/Retail	66,708	30,730	176,774	168,111	—	10,663	10,663	December 2008	April 2008	100%
9 Aecisie Mansion (玖龍驛)	Shenzhen	Residential/Retail	46,647	248,439	179,122	116,392	6,254	56,476	62,730	December 2016	October 2015	100%
10 Royal & Seaward Sunshine Palace (Phase 1) (御海陽光一期)	Shantou	Residential/Retail	46,022	210,613	141,532	113,492	8,210	19,830	28,040	October 2016	June 2015	100%
11 Royal & Seaward Sunshine Palace (Phase 3) (御海陽光三期)	Shantou	Residential/Retail	13,336	61,030	35,063	12,381	10,806	11,876	22,682	October 2016	June 2016	100%
12 Royal & Seaward Sunshine Palace (Phase 2) (御海陽光二期)	Shantou	Residential/Retail	36,736	168,118	165,178	139,696	8,211	17,271	25,482	October 2016	August 2015	100%
13 Sunshine Castle (Phase 1) (陽光華府一期)	Shantou	Residential/Retail	5,166	24,474	21,556	20,946	73	537	610	December 2012	March 2012	100%
14 Seaward Sunshine (Phase 1) (尚海陽光一期)	Shantou	Residential/Retail	71,764	723,365	583,291	532,099	11,815	39,377	51,192	December 2013	November 2012	100%
15 Flying Dragon Garden (Phase 1) (龍騰嘉園一期)	Shantou	Residential/Retail	53,851	224,513	220,199	219,513	—	686	3,260	March 2012	December 2011	100%
16 Flying Dragon Landscape (Phase 1) (龍騰嘉園二期)	Shantou	Residential/Retail	43,657	667,878	575,714	475,878	17,897	81,939	99,836	November 2016	October 2015	100%
17 Shantou Century Center (汕頭世紀大廈)	Shantou	Office	—	1,843	—	—	—	1,843	1,843	N/A	N/A	91%
18 Nanning Grand Riverside Bay (水悅龍灣)	Nanning	Residential/Retail	105,952	628,124	612,208	555,393	421	56,394	14,901	July 2014	March 2012	100%
19 Provence (Completed Portion) (普羅旺斯(竣工部分))	Nanning	Residential/Retail	503,639	1,917,706	1,770,147	1,658,418	4,977	106,752	111,729	June 2016	December 2006	100%
20 Nanning Grand Joy Castle (Phase 1) (君悅華府一期)	Nanning	Residential/Retail	34,519	176,877	174,411	147,705	—	26,706	26,706	June 2016	November 2014	100%
21 Royal Castle (Phase 1) (君御華府一期)	Nanning	Residential/Retail	142,312	146,060	140,254	124,418	2,493	13,343	15,836	July 2016	May 2014	100%

Projects	City	Use	Site area (sq. m.)	Total saleable/ leasable GFA (inclusive of GFA sold) ⁽¹⁾		Total saleable GFA		Unsold and presold saleable GFA (sq. m.)	Total leasable GFA held as investment ⁽²⁾ (sq. m.)	Construction completion date ⁽³⁾	Pre-sales commencement date ⁽⁴⁾	Interest attributable to us ⁽⁵⁾ (%)	
				Total GFA (sq. m.)	Total saleable/ leasable GFA (sq. m.)	Sold ⁽²⁾ (sq. m.)	Pre-sold ⁽²⁾ (sq. m.)						Unsold ⁽²⁾ (sq. m.)
22	Guangzhou	Residential/Retail	158,431	300,122	263,934	255,919	53	7,962	8,015	December 2011	June 2010	100%	
23	Guangzhou	Residential/Retail	39,299	40,741	40,865	37,836	2,709	320	3,029	June 2011	August 2010	100%	
24	Guangzhou	Residential/Retail	102,732	308,630	311,753	272,695	20,819	18,238	39,058	October 2010	April 2008	100%	
25	Foshan	Residential/Retail	29,643	97,866	96,005	—	59,704	36,301	96,005	September 2016	October 2015	100%	
26	Foshan	Residential/Retail	83,033	374,375	330,297	329,424	267	606	873	November 2011	January 2010	100%	
27	Foshan	Residential/Retail	41,683	56,576	54,883	51,815	2,712	356	3,068	June 2016	October 2015	100%	
28	Foshan	Residential/Retail	69,947	230,695	196,631	183,527	2,800	10,304	13,104	December 2014	September 2013	100%	
29	Foshan	Residential/Retail	26,107	86,103	85,578	70,798	2,850	11,929	14,780	October 2016	April 2015	100%	
30	Foshan	Residential/Retail	18,948	72,531	64,004	52,704	8,184	3,117	11,301	November 2015	September 2014	100%	
31	Foshan	Residential/Retail	71,196	296,351	265,900	235,715	14,290	15,896	30,185	December 2014	September 2013	100%	
32	Foshan	Residential/Retail	81,468	83,164	78,950	70,902	-2,700	10,748	8,048	September 2015	November 2013	100%	
33	Fangchenggang	Residential/Retail	334,048	1,286,466	1,210,482	1,040,813	39,163	130,506	169,669	May 2015	June 2010	100%	
34	Dongguan	Residential/Retail	47,191	207,498	158,814	153,390	102	5,322	5,424	November 2013	September 2014	100%	
35	Dongguan	Residential/Retail	84,930	68,820	61,780	60,610	1,069	101	1,170	June 2015	June 2014	100%	
36	Chengdu	Residential/Retail	47,191	234,865	225,633	197,256	—	28,377	28,377	March 2014	November 2012	100%	
37	Guilin	Residential/Retail	22,298	30,365	28,409	15,070	9,721	3,618	13,339	September 2016	March 2015	100%	
38	Hainan	Residential/Retail	66,541	61,135	59,396	54,310	2,126	2,960	5,086	May 2017	February 2015	100%	
39	Huizhou	Residential/Retail	259,333	385,616	358,439	275,546	—	82,893	82,893	August 2014	June 2014	100%	
40	Huizhou	Residential/Retail	78,405	229,356	215,578	213,552	—	2,026	2,026	August 2016	April 2015	100%	
41	Hong Kong	Residential	—	2,433	—	—	—	2,433	2,433	N/A	N/A	100%	
Subtotal			3,947,332	12,786,914	11,773,354	10,238,801	256,656	1,282,173	1,538,829			131,817	

Properties under Development

Projects	City	Use	Site area (sq.m.)	Total GFA (sq.m.)	Total saleable/ leasable GFA (inclusive of GFA sold) ⁽¹⁾			Total saleable GFA		Unsold and presold saleable GFA	Total leasable GFA held as investment ⁽²⁾	Construction completion date ⁽³⁾	Pre-sales commencement date ⁽⁴⁾	Interest attributable to us ⁽⁵⁾ (%)
					Total saleable/ leasable GFA (sq.m.)	Sold ⁽²⁾ (sq.m.)	Pre-sold ⁽²⁾ (sq.m.)	Unsold ⁽²⁾ (sq.m.)	Unsold ⁽²⁾ (sq.m.)					
42	Zhuhai	Residential/Retail	49,468	191,505	187,214	—	19,134	168,080	187,214	—	N/A	July 2016	100%	
43	Zhuhai	Residential/Retail	15,877	78,911	77,153	—	24,313	52,840	77,153	—	N/A	April 2016	100%	
44	Shenzhen	Residential/Retail	23,744	92,163	2,550	—	—	2,550	2,550	87,146	N/A	December 2016	90%	
45	Shenzhen	Residential/Retail	63,553	182,638	177,515	—	160,709	16,806	177,515	—	N/A	May 2016	90%	
46	Shenzhen	Residential/Retail	59,292	170,495	166,379	—	138,388	27,991	166,379	—	N/A	July 2016	90%	
47	Shenzhen	Residential/Retail	90,619	260,421	248,481	—	152,034	96,447	248,481	—	N/A	March 2016	90%	
48	Shenzhen	Residential/Retail/ Office	28,221	254,599	178,780	—	—	178,780	178,780	118,008	N/A	April 2017	50%	
49	Shenzhen	Residential/Retail	34,250	307,777	226,936	—	—	226,936	226,936	—	N/A	N/A	50%	
50	Shenzhen	Residential/Retail	20,173	138,535	99,843	—	—	99,843	99,843	—	N/A	March 2017	100%	
51	Shenzhen	Residential/Retail/ Office	63,523	328,063	200,119	—	—	200,119	200,119	—	N/A	May 2017	50%	
52	Shantou	Residential/Retail	50,174	229,614	205,236	—	168,941	36,295	205,236	—	N/A	December 2015	100%	
53	Shantou	Residential/Retail	31,454	131,989	116,251	—	83,028	33,223	116,251	—	N/A	May 2016	100%	
54	Shantou	Residential/Retail	40,036	168,001	143,094	—	82,435	60,659	143,094	—	N/A	July 2016	100%	
55	Shantou	Residential/Retail	82,275	263,948	223,570	—	—	223,570	223,570	—	N/A	January 2017	100%	
56	Shantou	Residential/Retail	46,328	394,487	336,593	—	7,582	329,011	336,593	—	N/A	February 2016	100%	
57	Nanning	Residential/Retail	15,386	72,570	66,984	3,157	56,097	7,750	63,827	—	N/A	October 2015	100%	
58	Nanning	Residential/Retail	79,415	327,283	303,516	—	147,669	155,847	303,516	—	N/A	May 2016	100%	
59	Nanning	Residential/Retail	11,705	90,395	82,569	—	—	82,569	82,569	—	N/A	N/A	100%	
60	Huizhou	Residential/Retail	27,548	84,732	82,282	—	—	82,282	82,282	—	N/A	April 2015	100%	
61	Hainan	Residential/Retail	91,890	84,763	115,175	—	80,256	34,919	115,175	—	N/A	November 2015	100%	

Projects	City	Use	Site area (sq.m.)	Total GFA (sq.m.)	Total saleable/ leasable GFA (inclusive of GFA sold) ⁽¹⁾		Total saleable GFA		Unsold and presold saleable GFA (sq.m.)	Total leasable GFA held as investment ⁽²⁾ (sq.m.)	Construction completion date ⁽³⁾	Pre-sales commencement date ⁽⁴⁾	Interest attributable to us ⁽⁵⁾ (%)
					Sold ⁽²⁾ (sq.m.)	Pre-sold ⁽²⁾ (sq.m.)	Sold ⁽²⁾ (sq.m.)	Unsold ⁽²⁾ (sq.m.)					
62 Logan Provence (Phase 1) (龍光•普羅旺斯一期)	Guilin	Residential/Retail	136,977	190,569	157,234	65,097	37,156	54,980	92,137	—	N/A	March 2015	100%
63 Grand Garden (Phase 1) (水悅熙園一期)	Foshan	Residential/Retail	41,683	195,989	161,891	—	110,529	51,362	161,891	—	N/A	October 2015	100%
64 Foshan Grand Riverside Bay (Phase 1) (水悅龍灣一期)	Foshan	Residential/Retail	1,249	4,119	2,765	—	2,352	413	2,765	—	N/A	October 2013	100%
65 Foshan Grand Riverside Bay (Phase 2) (水悅龍灣二期)	Foshan	Residential/Retail	34,733	114,554	59,986	—	37,132	22,854	59,986	—	N/A	July 2014	100%
66 Foshan Joy Palace (Phase 1) (君悅龍庭一期)	Foshan	Residential/Retail	632	2,630	2,616	—	—	2,616	2,616	—	N/A	September 2013	100%
67 Acesite Bay (Phase 1) (玖龍灣一期)	Foshan	Residential/Retail	53,732	212,601	211,349	—	—	211,349	211,349	—	N/A	March 2017	100%
68 Acesite Bay (Phase 2) (玖龍灣二期)	Foshan	Residential/Retail	27,736	109,742	107,889	—	—	107,889	107,889	—	N/A	September 2017	100%
69 Sunshine Seaward (Phase 1) (Front Plaza Complex No. 1) (陽光海岸一期前廣場綜合體1號)	Fangchenggang	Residential/Retail	21,001	59,849	59,849	—	16,951	42,898	59,849	—	N/A	November 2015	100%
70 Sunshine Seaward (Phase 5) (Villas) (陽光海岸五期洋房)	Fangchenggang	Residential/Retail	15,829	45,111	41,622	—	7,339	34,283	41,622	—	N/A	September 2016	100%
71 (Sunshine Seaward (Phase 4) (Group 1) (陽光海岸四期一組團)	Fangchenggang	Residential/Retail	42,322	80,892	114,578	—	35,414	79,165	114,578	—	N/A	September 2015	100%
72 Grand Joy Castle (Phase 1) (君悅華庭一期)	Chengdu	Residential/Retail	41,719	170,398	163,754	76,714	43,645	43,395	87,040	—	N/A	June 2016	100%
73 Grand Joy Castle (Phase 2) (君悅華庭二期)	Chengdu	Residential/Retail	43,211	176,496	173,518	—	107,791	65,727	173,518	—	N/A	March 2015	100%
Subtotal			1,385,755	5,215,839	4,497,292	144,969	1,518,894	2,833,429	4,352,323	205,154			

Properties Held for Future Development

Projects	City	Use	Site area (sq.m.)	Total GFA (sq.m.)	Total saleable/leasable GFA (inclusive of GFA sold) ⁽¹⁾		Total saleable GFA		Unsold and presold saleable GFA (sq.m.)	Total leasable GFA held as investment ⁽²⁾ (sq.m.)	Construction completion date ⁽³⁾	Pre-sales commencement date ⁽⁴⁾	Interest attributable to us ⁽⁵⁾ (%)
					Sold ⁽²⁾ (sq.m.)	Pre-sold ⁽²⁾ (sq.m.)	Sold ⁽²⁾ (sq.m.)	Unsold ⁽²⁾ (sq.m.)					
74 Logan City (Remaining Land) (龍光城(擬建部分))	Shenzhen	Residential/Retail	607,269	2,025,591	1,752,624	—	—	1,752,624	1,752,624	—	N/A	N/A	90%
75 Logan Carat Complex No. 9 (玖鑽09地塊)	Shenzhen	Residential/Retail	24,575	220,737	171,470	—	—	171,470	171,470	—	N/A	N/A	50%
76 Accessite Park (Phase 3) (玖龍台三期)	Shenzhen	Residential/Retail	44,531	229,980	219,530	—	—	219,530	219,530	—	N/A	N/A	50%
77 Accessite Park (Phase 2) (玖龍台二期)	Shenzhen	Residential/Retail	44,387	229,234	89,350	—	—	89,350	89,350	—	N/A	N/A	50%
78 Royal & Seaward Sky Joy (Phase 2) (御海天禧二期)	Shantou	Residential/Retail	48,969	156,907	153,707	—	—	153,707	153,707	—	N/A	N/A	100%
79 East Coast Land Parcel (Phase 1) (東海岸大地塊一期)	Shantou	Residential/Retail	48,958	170,000	170,000	—	—	170,000	170,000	—	N/A	N/A	100%
80 East Coast Land Parcel (Phase 2) (東海岸大地塊二期)	Shantou	Residential/Retail	48,958	174,051	174,051	—	—	174,051	174,051	—	N/A	N/A	100%
81 Xiangsi Lake Land Parcels B&C (Phase 1) 相思湖B、C地塊一期	Nanning	Residential/Retail	36,932	181,521	132,683	—	—	132,683	132,683	50,000	N/A	N/A	100%
82 Jiulong Lake (Phase 2) (玖龍湖二期)	Nanning	Residential/Retail	62,897	283,341	261,898	—	—	261,898	261,898	—	N/A	N/A	100%
83 Jiulong Castle (Phase 1) (玖龍府一期)	Nanning	Residential/Retail	37,763	291,625	249,072	—	—	249,072	249,072	—	N/A	N/A	100%
84 Seaside Dragon Bay (海語龍灣)	Lingshui	Residential/Retail	259,333	426,142	426,142	—	—	426,142	426,142	—	N/A	N/A	100%
85 Logan Provence (Phase 2) (龍光•普羅旺斯二期)	Guilin	Residential/Retail	85,910	337,991	315,454	—	—	315,454	315,454	—	N/A	N/A	100%
86 Sunshine Seaward (Remaining Land) (陽光海岸(擬建部分))	Fangchenggang	Residential/Retail	344,351	952,264	936,670	—	—	936,670	936,670	—	N/A	N/A	100%
87 Chenghua Project (Phase 1) (成華項目一期)	Chengdu	Residential/Retail	31,803	300,358	289,575	—	—	289,575	289,575	73,581	N/A	N/A	100%
Subtotal			1,726,636	5,979,742	5,342,226	—	—	5,342,226	5,342,226	123,581			
Total			7,059,722	23,982,495	21,612,872	10,383,770	1,775,550	9,457,828	11,233,378	460,553			

Notes:

(1) Total GFA (including GFA that has been sold) minus car parks, non-saleable areas and public areas.

(2) The total saleable GFA sold, pre-sold, remaining unsold and total leasable GFA held as investment do not include car parks, non-saleable areas and public areas and have been derived from our internal records.

- (3) The actual or estimated construction completion date represents the completion date of the whole project. Certain properties within the project may have been completed before that date. Actual construction completion date is based on the completion certificate or other relevant documents, depending on which documents are available. Expected construction completion date is based on our current estimation.
- (4) The actual or expected pre-sales commencement date is based on pre-sale permits or our project plans (for projects for which we have not obtained pre-sale permits).
- (5) Attributable interest is based on our effective ownership interest in the respective project companies.

Description of Our Projects

The map below sets out the cities where we had property projects as of December 31, 2016:



INVESTMENT PROPERTIES

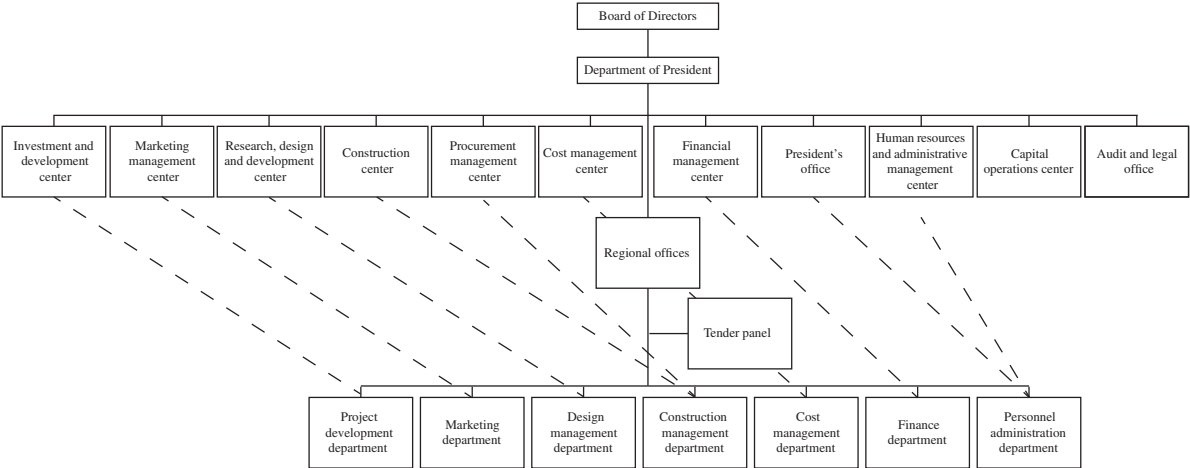
We focus on the development and sales of residential properties. In addition, we hold retail and office units and clubhouses as investment properties for capital appreciation and rental use as an ancillary business. As of December 31, 2016, our total leasable GFA held for investment was 460,553.7 sq.m. In 2015 and 2016, our rental income was RMB71.7 million and RMB83.9 million (US\$12.1 million), respectively, accounting for 0.5% and 0.4%, respectively, of our revenue in each of these periods. As of December 31, 2016, out of our completed investment properties, we had commenced leasing Landscape Residence, Logan Century Center, Provence (Phase 2), Provence (Phase 5), Flying Dragon Garden and Sunshine Seaward.

In leasing our retail units, we seek to maintain a balance in the composition of our tenants. Our retail leases are generally for terms of three to 15 years with annual rent reviews at fixed percentage increases or as otherwise agreed in the lease agreement. Typically, we require security deposits from our tenants of two months' rent. The rents for our retail units are generally determined according to prevailing market rates. We have appointed Guangdong Logan Group Property Management Co., Ltd. (廣東龍光集團物業管理有限公司) as the initial property manager for our property projects as of December 31, 2016. In addition to rent, our tenants are generally charged a monthly property management fee, which is payable to the property manager.

OUR PROPERTY DEVELOPMENT PROCESS

Property Development Management and Structure

We use a decentralized operations management structure between our headquarters and regional offices, wherein each regional office is responsible for the day-to-day operations of all projects within its respective region, while our corporate headquarters is responsible for overall planning, standardization and the approval of major decisions, as well as monitoring and supporting each regional office's operations. The chart below shows our general property development management structure:



This property development management structure helps us ensure the efficiency and unity of our strategic decisions, while allowing our regional offices the flexibility to respond to the local environment. In general, our headquarters is responsible for:

- formulating corporate strategy and operations and management goals;
- supervising our operations and information management platform;

- project investment decision making;
- setting human resources policies;
- standardization of design and management processes;
- centralized selection and evaluation of suppliers;
- cost management;
- developing and unifying financial systems;
- risk management and internal audit; and
- brand management and maintenance of customer, investor and government relations.

Our regional offices are responsible for:

- implementing corporate headquarters strategy in the relevant project city;
- conducting project exploration and market research;
- obtaining the relevant government permits;
- formulating and implementing operations and management goals;
- managing the project development process; and
- sales and marketing.

Our headquarters exercises particularly careful control over the key business segments that have a significant impact on our results of operations, including strategic and operational goals, land acquisition, project market positioning, planning and design, target cost management, marketing strategy, general contractor selection, planning and design of ancillary facilities and completion inspection. We coordinate and supervise the operations of each project as a whole through our operations planning department as well as specialized departments for the key project development functions, enhancing our operational management efficiency.

In addition, to ensure our financial independence and increase the efficiency of our use of capital, we have implemented a vertical management structure for the finance departments of our regional offices, and we station staff from our dedicated audit and legal department at each regional office to handle risk management and monitoring of the internal audit process. We believe these initiatives facilitate our project operations management and internal controls.

Our regional offices are responsible for the day-to-day aspects of our project development business. Our regional offices generally establish a project development department, a design management department, a construction management department, a sales department, a cost management department, a finance department and a personnel administration department. These departments report to the corresponding central departments, which support them in their operations.

Project Development Process

We have established a mature project development model and process. In general, our project development process follows the core elements set out below, which may be adjusted for each project in accordance with the local environment and laws and regulations:

	Project selection and land acquisition	Planning and design	Pre-construction	Construction	Marketing	Delivery and after-sales services
Process explanation	<ol style="list-style-type: none"> Analyze target market (economic and regulatory environment, demographics, market capacity and customer demand). Perform feasibility study (including cost estimates, investment analysis and risk assessment), and complete in-depth schematic design and cost estimates. Approval by ad-hoc investment committee. Acquire land through the government land grant process or a third party and obtain land use rights certificate. 	<ol style="list-style-type: none"> Determine project market positioning (including product and customer positions, preliminary planning and valuation). Conduct further in-depth conceptual design and design optimization. Formulate planning and design proposal and allocate design tasks. Use a custom design control platform to manage and monitor design progress and quality. 	<ol style="list-style-type: none"> Obtain relevant permits (including construction land planning permit, construction works planning permit, construction commencement permit). Appoint Logan Construction or another general contractor through tendering. 	<ol style="list-style-type: none"> Conduct construction management in accordance with standardization and control processes and workmanship standards. Monitor development process in real time through project management information platform. Regularly inspect and evaluate construction progress. 	<ol style="list-style-type: none"> Independently develop and implement marketing strategies and conduct promotional activities. Complete project pricing analysis and set prices. Obtain pre-sale permit and begin the sales process. Assist customers with registration and obtaining mortgage loans. 	<ol style="list-style-type: none"> Obtain property ownership certificate and deliver units. Gather and process customer feedback, and collect post-delivery project evaluation for continuous improvement. Manage Logan Club and organize customer events.
Responsible department	<p>Headquarters: investment and development center, research, design and development center, marketing management center and cost management center</p> <p>Regional office: project development department</p>	<p>Headquarters: marketing management center, research, design and development center</p> <p>Regional office: project construction management department and design department</p>	<p>Headquarters: construction center and procurement management center</p> <p>Regional office: Project development department and construction management department</p>	<p>Headquarters: construction center and procurement management center</p> <p>Regional office: construction management department and construction department</p>	<p>Headquarters: marketing management center and brand management department</p> <p>Regional office: marketing department</p>	<p>Headquarters: marketing management center</p> <p>Regional office: marketing department</p>

	Project selection and land acquisition	Planning and design	Pre-construction	Construction	Marketing	Delivery and after-sales services
Whole-process cost	Prepare target cost estimates (feasibility study version)	Prepare target cost estimates (planning version)	Prepare target cost estimates (construction version)	Implement contract planning and cost indicator controls	Conduct project profit estimation and cost control	

Project Selection

Project selection is the most important and basic step of our project development and operations management processes. We acquired certain land parcels at competitive prices, such as those for Logan City, when the infrastructure and common facilities such as roads, schools or commercial districts had not yet been fully developed in their vicinity.

Before developing a new project, we conduct in-depth research and analysis on the relevant market to identify regional development trends by analyzing market information obtained through a variety of channels, including land supply information obtained through the government land grant process. Our various specialized departments conduct in-depth feasibility analyses of potential projects, providing full support for our investment decision-making process. We also monitor and assess companies with land or projects under development for suitable acquisition or partnership opportunities. Prior to acquiring land, we generally follow these steps in selecting or developing a new project:

- the regional office determines regional investment planning and goals in accordance with our corporate strategy;
- the regional office's project development department gathers and analyzes information and completes a market analysis report in accordance with regional investment planning;
- the regional office's general manager conducts initial review, screening and selection of project proposals;
- submit an initial proposal to our investment and development center, which cooperates closely with our design and marketing teams in evaluation and assessment and performing a feasibility study (including detailed market analysis, development plans and investment budgeting) which, after completing an in-depth conceptual product design, is submitted to our cost management center for target cost and profit estimation; and
- submit a feasibility study and profit estimation to our ad-hoc investment committee for approval.

Land Acquisition

We primarily acquire land for our projects through participation in the government public tender, auction and listing-for-sale land grant processes. In addition, we also acquire land from non-governmental land interest holders pursuant to land transfer agreements and through acquiring companies holding land interests. All of our property development projects as of December 31, 2016 were acquired through the government public tender, auction or listing-for-sale land grant process except for Sunshine Castle, Flying Dragon Garden, Seaward Sunshine, certain parcels of Grasse Vieille Ville, Easy Life, Zhongshan Grand Garden, Zhongshan Grand Joy Garden and Foshan Grand Riverside Bay, which we acquired through transfers from non-governmental land interest holders, and Seaside Dragon Bay, which we acquired through the acquisition of a company holding the land interest. In accordance with the Regulation on Bidding, Auction and Listing-for-Sale for the Granting of State-owned Construction Land (《招標拍賣掛牌出讓國有建設用地使用權規定》), effective from November 1, 2007, all land planned for development (such as residential property, tourism, entertainment, commercial and industrial property) must be granted through public tender, auctions or listing-for-sale. Grantees of land use rights may dispose of their land use rights through private sales, subject to the terms and conditions of the original land grant contracts and the relevant PRC laws and regulations. We carry out our projects in accordance with the provisions of the relevant PRC laws and regulations.

Our land grant contracts may contain certain conditions or undertakings, which are made known to participants in the land grant processes. For example, as a condition to develop Fragrant Valley, we agreed with the relevant local government to develop Landscape Residence on a one-off basis, which was completed in October 2010 and is a limited-price housing project. Similarly, in order to acquire land for Huizhou Sky Palace, we agreed with the relevant local government contract to develop Golden Bay Garden on a one-off basis, which was completed in December 2010 and is an affordable housing project. As of the date of this offering memorandum, Landscape Residence is our only limited-price housing project, and Golden Bay Garden was our only affordable housing project. Such limited-price and affordable housing projects are conditions to acquiring and developing our property projects, and we do not plan to engage in the development of affordable or limited-price housing independent of such acquisitions.

In 2015 and 2016, we acquired 2.4 million sq.m. and 2.0 million sq.m. of GFA, respectively, and our land premium amounted to RMB16,690.1 million and RMB19,052.6 million (US\$2,744.1 million), respectively, leading to average land cost of RMB6,988 per sq.m. and RMB13,393 (US\$1,929.0) per sq.m., respectively. Our land premium may continue to rise in the future, and in such event our gross profit margin may be materially and adversely affected.

As of December 31, 2016, we had a land bank with an aggregate GFA of 14.9 million sq.m., which, based on current development and growth targets and our historical sales and land development records, we estimate will be sufficient for our development needs for the next five to six years.

In 2015 and 2016, we did not acquire any land requiring us to resettle the original occupants.

Planning and Design

To ensure product quality and enhance project value, we have a dedicated product research, design and development center, responsible for organizing project market positioning, planning and design and controlling the implementation thereof, as well as developing and implementing our product standardization system and product innovation. In addition, we also have an in-house design institute responsible for the various design plans of our projects and controlling the implementation thereof, enabling us to achieve synergies with our other capabilities and ensure that each project design meets our standards for quality and efficiency.

Before conducting project planning and design, we collaboratively determine the project's market position generally through our product research, design and development center and marketing management center and the regional office's design department. During the project selection phase, our product research, design and development center participates in the feasibility analysis process and completes an in-depth design plan taking into account the project's individual characteristics, to ensure that construction can begin quickly after successfully obtaining the land for the project. After the land is obtained, our product research, design and development center works with our in-house design institute or an approved design consultant to further develop the design plan. Each regional office's design department determines the detailed design plan and cost estimation and oversees design implementation. We appoint a person responsible for coordinating the activities of our internal specialized design department and external design companies and closely monitoring every aspect of the design process, from planning to the completion of construction, to ensure the strict and efficient implementation of our design plans.

We also work with recognized domestic and international design consultants, according to the planning, market positioning and scale of the project. These partnerships have produced many of our award-winning project designs, such as our Provence project, which was recognized as a "Gold Medal International Cultural Community—Innovative Model Habitat" in 2007.

Pre-construction

We begin the pre-construction process by obtaining the necessary permits and certificates from the relevant government departments prior to the commencement of construction and following the grant of the development rights to a parcel of land. Details of the certificates and permits required to commence construction are set out below:

- construction land planning permit—a permit authorizing a developer to begin the survey, planning and design of a property project;
- construction works planning permit—a permit evidencing government approval of the overall planning and design of a property project and allowing a developer to apply for a construction commencement permit; and
- construction commencement permit—a permit required for commencement of construction of a property project.

As of the date of this offering memorandum, we have obtained the land use rights certificates for all of our projects, except in respect of Liudong New District Business Center (柳東新區商務中心). In addition, for all of our projects under development, we had obtained all relevant certificates and permits prior to the commencement of construction as required under PRC laws and regulations.

Appointment of Logan Construction or Other General Contractor

As part of our fully integrated property development process, we have acted as the general contractor for a majority of our property development projects. Logan Construction, our construction subsidiary, possesses a National Housing Construction General Contracting Class 1 Qualification Certificate (國家房屋建築工程施工總承包一級資質認證), enabling it to continue to act as general contractor for our projects as we expand into additional high-growth cities elsewhere in China.

Key Terms of Our General Contractor Agreements

The agreements under which we are appointed as general contractor delineate our work scope. The project owner supplies us with the design blueprints and geological data, and we are generally responsible for a variety of construction tasks such as earthworks and installation of utilities and equipment. Unless agreed in the agreement or separately, we may not sub-contract our work.

The agreement stipulates a construction commencement date, construction period and expected completion date. Any construction delay may result in financial penalties on us. Generally on a monthly basis, we present to the project owner a construction progress report and a forecast on construction progress and expenditures for the upcoming month. The agreement also contains specific quality requirements, and we may be penalized if we fail to adhere to them.

We are generally paid monthly for a percentage of our work performed during such month. When the construction is completed, the project owner will make additional payments to bring the settled amount to a specified percentage of the total contract value. The remainder of the contract value is retained for up to two years, and is remitted to us in installments, as security for the construction's quality. If any quality issue arises before final remittance, the project owner may deduct directly from the unpaid remainder as compensation. For more information, see the section entitled “—Construction Business” below.

Key Terms of Agreements with Our Contractors

In addition to using Logan Construction as general contractor for a majority of our projects, we also work with a variety of qualified independent contractors and subcontractors to provide services such as labor, general construction, equipment installation, engineering and decoration. We select our contractors based on their relevant experience and reputation, conduct regular evaluations of all our contractors and establish long-term strategic cooperative relationships with outstanding contractors.

In general, the contracts we sign with our contractors contain provisions for quality assurance and the timely completion of projects. We require our contractors comply with the laws and regulations of the PRC and our internal standards. Each level of our construction management closely monitors workmanship quality, construction progress and cost control. If construction quality does not meet our standards, we will refuse to accept such work as completed until we are satisfied that our standards have been met. We generally pay our contractors in accordance with the percentage of completion of the relevant project. Except for up to 5% of the contract price which we withhold for up to five years to better ensure construction quality, we pay our contractors the remaining balance when the construction quality certificate is issued by the relevant government department.

Project Financing

We generally finance the development of our projects primarily through bank loans, internally generated cash flows (including proceeds from the pre-sales and sales of our projects) and funds raised from capital markets, such as our initial public offering in December 2013, the offering of the Existing Notes. According to the Guideline on the Risk Management of Property Loans of Commercial Banks (《商業銀行房地產貸款風險管理指引》) issued by the China Banking Regulatory Commission (the “CBRC”) on September 2, 2004, no loans may be granted to projects which have not obtained the relevant land use rights certificates, construction land planning permits, construction works planning permits and construction commencement permits. According to the Notice on Adjusting the Capital Ratio of Fixed Assets Investment Projects of Certain Industries (《國務院關於調整固定資產投資項目資本金比例的通知》) (Guofa [2009] No.27) issued by the State Council on May 25, 2009, the minimum capital requirement for affordable housing and ordinary commodity apartments is 20%, and the minimum capital requirement for other real estate development projects is 30%.

We primarily use internal funds to acquire land for our projects, and a combination of internal funds and bank loans to fund the construction of our projects. In addition, we use proceeds from the pre-sales of our properties to fund part of the construction costs of the relevant projects and to settle the related bank loans, and we use funds raised from capital markets for acquiring land, refinancing our existing indebtedness and for other general corporate purposes. Proceeds from pre-sales of properties form the integral source of our operating cash inflows during project development. According to the laws of the PRC, we may pre-sell properties under construction after certain criteria are met, and proceeds from the pre-sales must be used for the construction of such properties. Our policy is to finance our property developments with internal resources to the extent practicable so as to reduce our level of external funding.

Bank loans are our primary source of external financing, and we have long-term relationships with many major banks in the PRC, including Industrial and Commercial Bank of China, Agricultural Bank of China and Bank of China. As of December 31, 2016, we had outstanding bank and other loans (excluding the Existing Notes and Corporate Bonds) of RMB15,078.0 million (US\$2,171.7 million). Our ability to obtain financing for our projects also depends on various economic measures introduced by the central and local governments. In recent years, the PRC government has adopted macroeconomic and monetary policies aimed at stabilizing the growth of the national economy, particularly including the regulation and control of the property market, which may influence our ability to obtain financing from commercial banks.

Construction

Construction Management and Quality Control

Our construction management team consists of over 300 professionals. In addition, our headquarters has an operations planning department, which uses hierarchical program management and an information system to exercise real-time control over many aspects of the property development process, enhancing our control over product quality and construction progress.

We use a multi-level supervision model for our projects, the management of which is structured from bottom to top as follows: Logan Construction (or an outside general contractor, as applicable); an independent construction supervision consultant; the project company's construction management department; the regional office's construction management department; and our headquarters' construction management department. The general contractor carries out construction in accordance with the laws and regulations of the PRC and our strict workmanship standards. Each step of the construction process is subject to inspection, and a completion inspection is conducted by all the parties mentioned above. The project company's construction management department is responsible for supervision of and coordination with the general contractor and independent construction supervision consultant, as well as for the direct inspection of key work processes. The regional office's construction management department is responsible for providing supervision and technical support. Our headquarters' construction management department is responsible for improving management systems, conducting technical training, auditing and monitoring construction plans and conducting monthly project assessments during the development process. We have built in an incentive system for the general contractor as part of the monthly project assessments conducted by our headquarters' construction management department in order to align interests during the construction process.

We have a complete construction management system and strict workmanship standards that we implement throughout the construction process. We have developed a comprehensive construction management manual, covering construction quality, progress, costs, safety and materials and equipment supply, among other things, and we strictly require our construction contractors to comply with such standards and procedures, as well as the relevant laws and regulations, in carrying out construction.

The regional office's project management department conducts on-site monitoring and regularly produces an assessment report, and promptly follows up on and implements solutions for any problems discovered. We also appoint an independent third-party construction supervision consultant to assist in controlling construction progress, quality and safety, among other things.

In addition to our close monitoring of construction progress and workmanship quality, we also place strong emphasis on worksite safety and environmental awareness. In 2009, our Logan Century Center project was recognized as a "2008 Guangdong Model Construction Site for Construction and Engineering Safety" by the Construction Industry Safety Association of Guangdong Province, and in 2004, our Sunshine Coast project was recognized as a "Green Ecologically Friendly Residence" by the Planning Department of the Ministry of Housing and Urban-Rural Development and the China Real Estate and Housing Research Association.

Supplier Tendering and Procurement

We procure substantially all of the supplies needed for our projects through our own in-house procurement department. We generally conduct supplier tendering and procurement using our database of suppliers with whom we have established cooperative relationships. Our headquarters' procurement department generally places special emphasis on strategic purchasing for elevators, diesel generators and other large equipment for our projects, and also conducts large-scale, centralized procurement for supplies commonly used between multiple projects. The regional office's procurement department is responsible for determining with the supplier the contract price, payment terms and delivery arrangements, among other things. We believe that centralized procurement allows us to benefit from economies of scale and increased bargaining power with suppliers, thereby reducing costs and bringing greater value to our customers.

We have a comprehensive procurement system composed of our procurement department, cost management department, and related specialized technical departments such as design and engineering. These departments cooperate in assessing and selecting our suppliers. After the completion of the assessments, we select the supplier that best meets our requirements, in accordance with the requirements set forth in the relevant tender documents. We strive to ensure all of the materials that we use comply with relevant standards of quality and contractual requirements before accepting them or making payments for delivery. Materials that do not meet our quality standards are not used in our projects and are returned to suppliers. We evaluate and grade the quality of our supplies on a monthly basis.

Marketing

We have a specialized marketing management team. Our headquarters' marketing management center is responsible for formulating our marketing and sales strategies, conducting market research, managing the overall sales process, managing customer relations and providing sales guidance to sales agents. Each of our regional offices also has a marketing department to formulate sales prices for the properties in their respective regions and marketing and sales promotion strategies and related cost estimates for implementation after approval by our headquarters. We believe that our dedicated marketing management team assists us in attaining our marketing goals and strategies, while maintaining flexibility in the sales strategy for each project.

Our marketing department is involved in project development from an early stage to ensure the successful execution of our marketing strategy. After we acquire the land for a new project, our marketing management center, together with the relevant regional office, conducts customer, marketing and positioning research with regard to the land, and prepares a detailed project market positioning report. During the planning and design process, the marketing department provides opinions for consideration. The marketing department is also generally responsible for driving customer demand and sales for the project by planning, designing and operating an on-site project exhibition center to demonstrate our products to our customers, as well as planning and implementing a comprehensive project marketing and promotional program through various media outlets. In addition, we have an incentive program to reward employees who successfully refer customers to purchase our products. Our marketing and promotional activities contributed to our selling and marketing expenses, which amounted to RMB573.1 million and RMB714.2 million (US\$102.9 million) in 2015 and 2016, respectively.

As part of our fully integrated property development process, we generally manage the sales of our property projects through our in-house sales team. In addition, we sell a portion of our property projects through real estate sales agents, selected after careful consideration of the agents' understanding of our projects and relevant regional markets, marketing strategies and their market share. We enter into sales agency agreements with sales agents that meet our criteria, pursuant to which the agents are paid commissions of a certain percentage of their total sales, in accordance with market practice.

Pre-sales and Sales

The sales process for our property projects generally begins with pre-sales. There are various PRC laws and regulations governing the pre-sales of properties that impose conditions to be fulfilled before the required pre-sale permit will be issued and the pre-sales of a property can commence. These include obtaining the relevant land use rights certificate, the construction works planning permit and the construction commencement permit.

Our pre-sales and sales contracts are based on standard form contracts regulated by the relevant land and commercial bureau, and vary from city to city. We did not experience any material cancellation of sales contracts in 2015 and 2016.

Customer Payment Arrangements and Financing

Our customers can generally purchase our properties through lump sum payments or through mortgage loans. Where a customer chooses to pay by lump sum payment, the customer will be required to fully settle the purchase price shortly after the date of the execution of the contract. Where a customer elects to pay by mortgage payment, such customer is required to pay a portion of the purchase price in a cash payment, which is normally 30% to 60% of the total purchase price, and the remaining amount is settled through proceeds from the relevant mortgage. In line with market practice, we have arrangements with various banks for the provision of mortgage facilities to our customers and we provide guarantees for the mortgages until construction has been completed and the relevant property ownership certificates or mortgage registration documents are submitted to the relevant bank. In line with market practice, we rely on credit checks conducted by the relevant bank and do not conduct independent credit checks on our customers. As of December 31, 2016, our outstanding guarantees in respect of our customers' mortgage loans were RMB9,806.2 million (US\$1,412.4 million).

Delivery of Properties

We are committed to the timely delivery of units to our customers in accordance with our sales contracts and PRC laws and regulations. We are only permitted to deliver completed property units after they pass on-site inspections by, and receive completion certificates from, the local urban construction bureaus or equivalent authorities. Before delivering units to our customers, our project companies coordinate the completion inspection of units to be delivered with the construction, marketing and customer relations departments and the relevant property management company, and make any necessary improvements to ensure that customers are satisfied with the units we deliver. Our customer relations department, which is a department under our marketing management center, works to obtain and follow up on customer feedback at the time of delivery to increase customer satisfaction and for the continual improvement of our products and services. We had appointed Guangdong Logan Group Property Management Co., Ltd. (廣東龍光集團物業管理有限公司) to initially manage our property projects as of December 31, 2016.

In general, we assist our customers in applying for property ownership certificates. We may be subject to risks involved in obtaining property ownership certificates. As of December 31, 2016, we had not experienced any material delay in the issuance and delivery of property ownership certificates, any material delay in property delivery under the sales contracts, or any return of delivered properties.

Customer Relations Management

We have a dedicated customer relations management department, which is a department under our marketing management center primarily responsible for promoting our customer-oriented corporate culture and strategy. Our customer relations management department also brings a customer-oriented perspective to our various project development activities, by auditing and improving design drawings, evaluating the reasonableness of costs, and strictly inspecting product quality prior to delivery to our customers. Our customer relations management department is also responsible for the delivery of properties, assisting customers in obtaining property ownership certificates, following up on any product warranty issues, handling customer complaints and sponsoring cultural events for customers. At the same time, our customer relations management department gathers views for product improvement from customer feedback and internal evaluations to improve our product design standards and adjust the requirements of our cost management and construction management departments, to optimize the customer experience and reduce customer risk.

From time to time, we receive customer complaints concerning minor defects on their purchased property units, which often occur in the initial months after delivery, and we believe such complaints are common in our industry. We strive to rectify the minor defects to our customers' satisfaction in accordance with the relevant residential property quality warranties. Moreover, to ensure efficient provision of maintenance services, we have established detailed internal guidelines on repair and maintenance specifications and processes in relation to property units and public facilities within the warranty period. We also have received complaints concerning our marketing, pre-sales and sales

practice, which predominantly relate to perceived deficiencies in our staff's etiquette and manners. We strive to continuously improve our staff's professionalism, and have made detailed internal policies on the proper etiquette to interact with our customers. After receiving complaints, our customer relations management department follows our established complaint response policies to (i) record the complaints, (ii) investigate the factual background of the complaints, (iii) coordinate with the responsible departments, such as the marketing department, construction management department, design management department and the project development department, to devise appropriate solutions, and (iv) follow up on subsequent customer feedback after the solutions have been implemented. We strive to address our customers' complaints, and as of December 31, 2016, we had not received material complaints regarding our properties' quality or our marketing, pre-sales and sales practice.

We offer our customers a variety of channels for communication, including email and a telephone hotline, so that our customer relations department is able to follow up on customer comments and complaints related to our products and services. We also regularly conduct customer satisfaction surveys on the quality of our products and services to assist in improving the market positioning, design, marketing strategy and service quality of our projects. Purchasers of our properties can also join our customer membership program, Logan Club (龍光會). We place great emphasis on customer service as we believe it enhances property value for our customers and improves our brand and reputation.

STANDARDIZATION

We use standardized product designs and management processes, wherein the work of our project design, construction, decoration, engineering and procurement departments and project subsidiaries can be replicated efficiently across our projects. These standardized product designs and management processes form the key element of our quick development operation model, through which we seek to efficiently complete the development of our property projects. We believe our standardized product designs and management processes have been essential in allowing us to ensure product and service quality, control costs, shorten development cycles, improve cash flow and maintain profitability.

Design

Central to our standardization process is a standardized product line, illustrated by our portfolio of residential property projects which includes high-rise residential apartments and low-rise garden apartments. Our distinctive product series are generally classified into two styles, neoclassical and art deco, each comprising standardized designs for facades, interior designs and landscaping, as well as standardized parts and materials.

For the clubhouses, marketing centers and retail units in many of our projects, we implement our neoclassical or art deco designs according to the grade and scale of each project. We regularly inspect and assess our projects and make continuous improvements to our project design and standardization based on real use case results to ensure our project designs can be replicated efficiently across projects while maintaining high quality and reliability.

Procurement

Our product design departments generally cooperate with our procurement department on consolidated purchase orders of parts and materials to be used across our projects, enabling us to enter into larger and longer-term supply contracts to achieve economies of scale and consistent product quality. We selectively enter into strategic, long-term supplier relationships in accordance with the actual needs of our projects.

We generally select suppliers for our projects through a standardized bidding and competitive negotiation process, which is completed in close coordinate between our headquarters and the management of each regional office. Our headquarters is responsible for managing our supplier relationships, to ensure fairness, consistency and efficiency in entering into supplier relationships across our regional companies.

Construction

We use a standardized operations management structure and management system across our regional offices, and our regional offices follow standardized guidelines developed by our headquarters, to help ensure we are able to efficiently meet our product quality, pre-sales and sales goals.

Cost Management

We employ standardized cost management processes across our projects and throughout the property development process through our cost management center, which prepares and reviews budgets and tracks project progress through a comprehensive cost management system to provide timely estimates of costs and profits and to align actual and target development costs.

We conduct cost management from the preliminary design stages in order to achieve dynamic cost control over the entire property development process and prepare timely profit estimates. We develop target costs for each major stage of the property development process, comprising a feasibility study version, a planning version and a construction version, and track progress to align actual and target development costs. We begin cost management during project selection and land acquisition stage, and compare the planned cost estimates with our library of historical data and provide design feedback to achieve cost-efficient design. Throughout the property development process, our cost management center reviews expenditures and proposed agreements with suppliers and contractors and proposes changes to achieve dynamic cost control over our projects.

CONSTRUCTION BUSINESS

Logan Construction, our subsidiary, possesses a National Housing Construction General Contracting Class 1 Qualification Certificate (國家房屋建築工程施工總承包一級資質認證), which enables it to provide general contracting services for housing projects in cities throughout the PRC. Logan Construction was established in 2005 primarily to service the projects of our predecessors.

In its role as general contractor for such construction projects, Logan Construction is generally responsible for the day-to-day oversight of the projects, including appointing and managing subcontractors to provide services such as labor, general construction, equipment installation, engineering and decoration, as applicable, and coordinating with the project owner and other relevant parties. As a general contractor, Logan Construction outsources basic construction works, and relies on the construction workers of its subcontractors to carry out such work. For such projects, Logan Construction is also responsible for quality and safety control during the course of construction and Logan Construction maintains accident insurance for workers of Logan Construction as required by PRC laws and regulations. For further details, please see the section entitled “—Insurance” below. For information on our general contractor agreements and our agreements with our subcontractors, please see the section entitled “—Our Property Development Process—Project Development Process—Appointment of Logan Construction or Other General Contractor” below.

During 2015 and 2016, Logan Construction primarily provided construction services to our own projects, and the revenue derived from providing such services amounted to 96.7% and 94.3% of Logan Construction’s total revenue, respectively. During 2015 and 2016, Logan Construction also provided construction services to related companies. Revenue derived from such services amounted to 3.3% and 5.7% of Logan Construction’s total revenue in 2015 and 2016, respectively. Logan Construction has adopted a uniform pricing policy for related companies and independent third-party customers and strives to keep its pricing competitive and in line with market price. In 2015 and 2016, Logan Construction recorded construction income of RMB120.6 million and RMB212.1 million (US\$30.5 million), respectively, from construction services provided to external parties, of which 100.0% and 100.0% consisted of construction income from related companies, respectively. Logan Construction acted as general contractor for various of our predecessors’ businesses.

In 2015 and 2016, some of our largest customers were companies controlled by Mr. Kei or his associates. In 2015 and 2016, customers of our construction business accounted for three and two of our five largest customers, respectively. For further details, please see the section entitled “—Suppliers and Customers” below. In 2015 and 2016, Logan Construction provided construction services to our related companies on normal commercial terms and on an arm’s-length basis. Going forward, Logan Construction will prioritize our projects, and may accept new appointments from our related companies to act as general contractor for their property projects.

PROPERTIES USED BY US

Our corporate headquarters is located in Logan Century Center at Room 2002, Tower B, Logan Century Center, south side Xinghua Lu, Bao'an District, Shenzhen, PRC. In addition, we occupy a number of premises through lease arrangements.

SUPPLIERS AND CUSTOMERS

Our major suppliers are construction material suppliers, equipment suppliers and construction contractors. In 2015 and 2016, our five largest suppliers accounted for approximately 9.9% and 15.9% of our total purchases excluding land costs, respectively, and our largest supplier accounted for approximately 2.3% and 4.4% of our total purchases excluding land costs, respectively.

Our major customers are purchasers of residential and commercial properties and customers of our construction business. In 2015 and 2016, our five largest customers accounted for approximately 1.3% and 1.3% of our revenue, respectively, and our largest customer accounted for approximately 0.8% and 0.8% of our revenue, respectively. In the same periods, companies controlled by Mr. Kei or his associates accounted for three and one, respectively, of our five largest customers. The companies controlled by Mr. Kei or his associates were all customers of our construction business for non-residential projects, such as the construction of public facilities.

COMPETITION

The property market in China is highly fragmented. Our major competitors include large national and regional property developers and overseas developers, including a number of leading Hong Kong property developers, some of which may have better track records and greater financial, land and other resources, broader name recognition and greater economies of scale than us. We compete with them in relation to a number of factors, including the acquisition of land, brand recognition, financial resources, price, product quality, service quality and other factors.

HONORS, AWARDS AND CERTIFICATES

We, together with our predecessors, have received awards from various organizations in the PRC in recognition of, among other things, our brand, environmental and safety standards, financial results and overall reputation in the property development industry in southern China and the PRC. The table below sets forth some of the awards to us and our projects:

<u>Year</u>	<u>Recipient/Project</u>	<u>Honor/Award</u>	<u>Awarding body</u>
2011– 2017	Our Group	Top 100 Chinese Real Estate Developers (中國房地產百強企業)	Enterprise Institute of the Development Research Center of the State Council of China; Institute of Real Estate Studies of Tsinghua University; and China Index Academy (國務院發展研究中心企業研究所、清華大學房地產研究所和中國指數研究院)
2017	Our Group	Ranked as the 29th-largest property developer in the PRC by comprehensive strength (中國房地產企業綜合實力排名29位)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)
2017	Our Group	Top 100 Chinese Real Estate Developers – Top 10 in Profitability (中國房地產百強企業盈利性Top 10)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)
2016	Our Group	2016 Best 50 of China Real Estate Developers Brand Value (2016中國房地產開發企業品牌價值50強)	China Real Estate Association; China Real Estate Appraisal (中國房地產業協會；中國房地產測評中心)

Year	Recipient/Project	Honor/Award	Awarding body
2016	Our Group	2016 Top 100 Chinese Real Estate Developers – Top 10 in Profitability (2016中國房地產百強企業盈利性Top 10)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)
2016	Our Group	Ranked as the 32nd-largest property developer in the PRC by comprehensive strength (中國房地產企業綜合實力排名32位)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)
2016	Our Group	2016 Forbes Top 50 Asia’s Best Big Public Companies (《福布斯》2016年亞太區最佳上市公司50強)	Forbes (《福布斯》)
2015	Our Group	2015 Top 10 Best Investment Value China Mainland Real Estate Company Listed in Hong Kong (2015中國大陸在港上市房地產公司投資價值Top 10)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)
2015	Our Group	2015 Top 100 Chinese Real Estate Developers—Top 10 in Profitability (2015中國房地產百強企業盈利性Top 10)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)
2015	Our Group	2015 Best Investment Value Chinese Real Estate Developer (2015中國最具投資價值地產企業)	Committee of Boao Real Estate Forum (博鰲房地產論壇組委會)
2014	Our Group	Ranked as the 40th-largest property developer in the PRC by comprehensive strength (中國房地產企業綜合實力排名40位)	Enterprise Institute of the Development Research Center of the State Council of China; Institute of Real Estate Studies of Tsinghua University; and China Index Academy (國務院發展研究中心企業研究所、清華大學房地產研究所、中國指數研究院)
2014	Our Group	Top 100 Chinese Real Estate Developers—Top 10 in Profitability (中國房地產百強企業—盈利性TOP10)	Enterprise Institute of the Development Research Center of the State Council of China; Institute of Real Estate Studies of Tsinghua University; and China Index Academy (國務院發展研究中心企業研究所、清華大學房地產研究所、中國指數研究院)
2014	Our Group	Top 50 Chinese Real Estate Developers (中國房地產開發企業50強)	China Real Estate Research Association; China Real Estate Association; China Real Estate Appraisal (中國房地產研究會、中國房地產業協會、中國房地產測評中心)
2014	Our Group	Top 20 Credible Property Developers of Guangdong (廣東地產資信20強) for 12 years from 2003 to 2014	Bank of China, China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and Chinese Media (中國銀行、中國建設銀行、中國工商銀行、中國農業銀行聯合中央媒體)

Year	Recipient/Project	Honor/Award	Awarding body
2014	Our Group	2013 China Real Estate Leadership Summit—Best Investment Value Listed Property Developer (2013中國地產領袖峰會—最具投資價值上市房企)	Shenzhen News and China Real Estate Chamber of Commerce (深圳商報社、全國工商聯房地產商會)
2014	Our Group	2013 Top Property Developer in Huizhou by sales	SouFun (搜房)
2014	Seaward Sunshine	2013 Top Property Project by sales volume	Shantou Property Management Authority (汕頭市房產管理局)
2013	Our Group	2012 China Real Estate Industry Honorable Brand Enterprise (2012中國房地產行業誠信品牌企業)	China Real Estate Industry Association and China Real Estate Investment Research Association (中國房地產產業協會、中國房地產投資研究會)
2013	Our Group	Top 100 Chinese Real Estate Developers—Top 10 in Profitability (中國房地產百強企業—盈利性TOP10)	Enterprise Institute of the Development Research Center of the State Council of China; Institute of Real Estate Studies of Tsinghua University; and China Index Academy (國務院發展研究中心企業研究所、清華大學房地產研究所和中國指數研究院)
2013	Logan City	2012 China Urban Area Most Valuable Property (2012中國城市區域最具價值樓盤)	China Real Estate Industry Association and China Real Estate Investment Research Association (中國房地產產業協會、中國房地產投資研究會)
2013	Seaward Sunshine	2012 China Real Estate International Noble Community (2012中國房地產國際化高尚社區)	China Real Estate Industry Association and China Real Estate Investment Research Association (中國房地產產業協會、中國房地產投資研究會)
2003–2013	Guangdong Logan (Group) Co., Ltd.	Guangdong Top 20 Creditworthy Real Estate Developers (廣東地產資信20強)	Guangdong Branches of Bank of China, China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, and China Central Media (工、農、中、建四大國有銀行廣東省分行與中央媒體)
2012	Logan Real Estate	Top 100 Chinese Real Estate Developers (中國房地產開發企業100強)	China Real Estate Research Association; China Real Estate Association; China Real Estate Appraisal (中國房地產研究會、中國房地產協會、中國房地產測評中心)
2012	Logan Real Estate	Top 100 Chinese Real Estate Developers—Top 10 in Profitability (中國房地產百強企業—盈利性TOP10)	Enterprise Institute of the Development Research Center of the State Council of China; Institute of Real Estate Studies of Tsinghua University; and China Index Academy (國務院發展研究中心企業研究所、清華大學房地產研究所和中國指數研究院)
2012	Our Group	Ranked as the 46th-largest property developer in the PRC by sales	China Index Academy (中國指數研究院)
2012	Logan Real Estate	Top 100 Chinese Real Estate Developers—Top 10 in Growth (中國房地產開發企業成長速度10強)	China Real Estate Research Association; China Real Estate Association; China Real Estate Appraisal (中國房地產研究會、中國房地產協會、中國房地產測評中心)

Year	Recipient/Project	Honor/Award	Awarding body
2012	Logan City	2012 Best Livable Property in Shenzhen, Dongguan and Huizhou (2012年深莞惠最佳宜居樓盤)	szhome.com and zhujia.com (深圳房地產信息網、築家)
2011	Logan Real Estate	Top 100 Chinese Real Estate Developers—Top 10 Financing Capabilities (中國房地產百強企業—融資能力TOP10)	China Real Estate Top 10 Research Group (中國房地產Top10研究組)
2011	Logan Real Estate	Top 10 Real Estate Brands in Southern China (中國華南房地產公司品牌價值TOP10)	China Real Estate Top 10 Research Group (中國房地產Top10研究組)

EMPLOYEES

We had 2,350 full-time employees as of December 31, 2016, respectively. The table below sets forth a breakdown of our employees by function, as of and December 31, 2016:

Function	Number of employees
Marketing	664
Investment and operations	45
Research, development and design	164
Cost management	139
Engineering and procurement	391
Audit and supervision	17
Integrated management	930
Total	2,350

Note:

- (1) As Logan Construction only acts as general contractor, we outsource basic construction works, and rely on the construction workers of our subcontractors to carry out such work.

We enter into individual employment contracts with our employees covering matters such as wages, employee benefits, safety and sanitary conditions at the workplace, confidentiality obligations for commercial secrets, and grounds for termination. These employment contracts generally have a term of three years, after which we evaluate renewal based on a performance appraisal.

All of our full-time employees are paid a fixed salary and may be granted other allowances, based on their position. Our sales staff is also eligible for commissions. In addition, quarterly and year-end bonuses may also be awarded to our employees, at our discretion and based on employee performance. Quarterly and yearly performance appraisals are conducted to ensure that our employees receive feedback on their performance.

We continue to provide training for our staff to enhance technical and product knowledge as well as knowledge of industry quality standards and work place safety standards. We believe we have maintained good working relationships with our employees. Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. As of December 31, 2016, no significant labor disputes occurred which adversely affected or were likely to have an adverse effect on our business.

INSURANCE

We carry employer's liability insurance for medical and related expenses that our employees may incur as a result of personal injuries at their workplaces or on the construction sites of our property developments. However, property developers are not required under national or local laws or regulations to maintain insurance coverage in respect of their property development operations. We do not maintain insurance coverage on our properties developed for sales other than with respect to those developments over which our lending banks have security interests, or for which we are required to maintain insurance coverage under the relevant loan agreements. We also do not require the construction companies we engage to maintain insurance coverage on properties under construction. As we construct most of our property projects through our subsidiary, Logan Construction, we are responsible for quality and safety control during the course of construction and we maintain accident insurance for workers of Logan Construction as required by PRC laws and regulations. Independent construction companies hired during our construction projects are required to maintain their own accident insurance pursuant to PRC laws and regulations, and we also carry construction group accidental injury insurance, which generally covers injuries occurring within the construction areas of our projects.

To help ensure construction quality and safety, we have a set of standards and specifications that we require both our own workers as well as workers employed by independent construction companies to follow during the construction process. In addition, we engage qualified supervision companies to oversee the construction process. We did not experience any material destruction of or damage to our property developments, and there were no material personal injury-related claims brought against us in 2015 and 2016.

ENVIRONMENTAL MATTERS

We are subject to certain laws and regulations concerning the protection of the environment. The particular environmental laws and regulations that apply to any given property development project vary according to its location, the environmental factors associated with such development, construction or operations and the current and future usage of the land and the properties.

SOCIAL, HEALTH AND SAFETY MATTERS

Property developers in the PRC are subject to various PRC laws and regulations with respect to labor, health, safety, insurance and accidents, including the Labor Law of the PRC (《中華人民共和國勞動法》), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), the Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), Regulations on Work-related Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》), the Trial Procedures for Childbirth Insurance for Enterprise Employees (《企業職工生育保險試行辦法》), the Production Safety Law of the PRC (《中華人民共和國安全生產法》) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time.

In 2015 and 2016, we did not violate any applicable PRC social, health and safety regulations in any material respect. We have complied with the new PRC labor laws in all material respects in the past and will continue to do so and do not expect any non-compliance to affect our business operations in any material respect. We believe that by protecting the interests of our employees, we are able to enhance employee morale and improve our long-term retention rate of quality personnel.

In order to comply with the relevant laws and regulations, we participate in various defined retirement contribution plans organized by the PRC provincial and municipal governments for our employees. We pay on behalf of our employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, industrial injury insurance, maternity insurance and housing provident fund. Our human resources department personnel look after our social, health and safety issues. They generally have sound knowledge of administration on employment and related matters and are aware of the latest legal developments in this area and our compliance with the relevant requirements.

INTELLECTUAL PROPERTY RIGHTS

Our intellectual property forms an integral basis for our strong brand recognition and is important to our business. As of 2016, intellectual property material to our business consisted of 112 trademarks registered in the PRC, 27 trademarks registered in Hong Kong.

As of December 31, 2016, we were not aware of any infringement (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us.

LEGAL PROCEEDINGS AND COMPLIANCE

We are in compliance in all material respects with the applicable laws and regulations in all jurisdictions where we operate businesses. We have obtained all material approvals, permits, licenses and certificates for our operations from the relevant government authorities, all of which are valid and current or to be renewed upon its expiry. We have not been subject to significant fines or legal action involving non-compliance with any laws or regulations relating to our business. So far as we are aware, there are no pending or threatened actions against us by any regulatory authority in the PRC.

From time to time we may be involved in legal proceedings or disputes in the ordinary course of business, including claims relating to our guarantees for the mortgage loans we provide to our customers and contract disputes with our customers and suppliers. We are not aware of any material legal proceedings, claims or disputes currently existing or pending against us. We had not experienced any material disputes with any parties or disagreements with regulatory bodies in 2015 and 2016.

REGULATION

The following is a summary of PRC laws and regulations relating to the various aspects of the property sector in China, including:

- Establishment of property development enterprises;
- Foreign-invested property development enterprises;
- Qualifications of property developers;
- Development of property projects;
- Property transactions;
- Property financing;
- Insurance of property projects;
- Major taxes applicable to property developers;
- Measures on stabilizing housing prices;
- Environmental protection;
- Overseas listing; and
- Foreign exchange control.

ESTABLISHMENT OF PROPERTY DEVELOPMENT ENTERPRISES

Pursuant to the Urban Property Administration Law of the PRC (《中華人民共和國城市房地產管理法》) (Decree No. 72 of the President) (the “Urban Property Law”) promulgated by the Standing Committee of the National People’s Congress on July 5, 1994, which became effective on January 1, 1995 and was amended on August 30, 2007 and August 27, 2009, a property development enterprise (or “property developer”), is defined as an enterprise which engages in development and sales of property for the purpose of making profit.

Pursuant to the Regulations on Administration of Development of Urban Property (《城市房地產開發經營管理條例》) (Decree No. 248 of the State Council) (“Development Regulations”) promulgated by the State Council, which became effective on July 20, 1998 and was amended on January 8, 2011, an enterprise which is to engage in the development of property shall satisfy the following requirements:

- it shall have registered capital no less than RMB1,000,000; and
- it shall have at least four full-time professional property/construction technicians and at least two full-time accounting officers, each of whom shall hold the relevant qualification certificate.

Pursuant to the Development Regulations, the local people’s government of a province, autonomous region and/or provincial-level municipality may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a property developer.

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

Pursuant to the Notice of the State Council on Adjusting the Capital Ratio for Fixed Asset Investment Projects (《國務院關於調整固定資產投資項目資本金比例的通知》) (Guofa [2009] No.27), issued by the State Council, which became effective on May 25, 2009, the minimum capital ratio for ordinary commodity housing projects and affordable housing projects was reduced to 20%, while that for other property projects was decreased to 30%.

Pursuant to the Notice of the State Council on Adjusting and Improving the Capital System of Fixed Asset Investment Projects (《國務院關於調整和完善固定資產投資項目資本金制度的通知》) (Guofa [2015] No.51), issued by the State Council, which became effective on September 9, 2015, the minimum capital proportion of government-subsidized housing and ordinary commodity housing projects shall remain unchanged at 20%, and that of other real estate development projects shall be adjusted from 30% to 25%.

FOREIGN-INVESTED PROPERTY DEVELOPMENT ENTERPRISES

Pursuant to the new Foreign Investment Industrial Guidance Catalog (2007 Revision) (《外商投資產業指導目錄(2007年修訂)》) (Decree No.57 of the National Development and Reform Commission of the PRC (“NDRC”) and the MOFCOM) jointly promulgated by MOFCOM and NDRC on October 31, 2007, which became effective on December 1, 2007, the development and construction of ordinary residential houses was removed from the category of industries in which foreign investment is encouraged to the category of industries in which foreign investment is permitted. In addition, the category of industries in which foreign investment is subject to restrictions (the “restricted category”) has been adjusted as follows:

- the development of large-scale land, which shall be operated only by Sino-foreign joint ventures or Sino-foreign cooperative ventures;
- the construction and operation of upscale hotels, villas, premium office buildings and international conference centers; and
- the secondary property market and housing agents or brokerages.

The construction and operation of large scale theme parks was removed from the property industry to the culture, sports and entertainment industries, which are still in the restricted category.

Pursuant to the new Foreign Investment Industrial Guidance Catalog (2011 Revision) (《外商投資產業指導目錄(2011年修訂)》) (Decree No.12 of NDRC and MOFCOM) jointly promulgated by MOFCOM and NDRC on December 24, 2011, which became effective on January 30, 2012, the development and construction of villas was removed from the restricted category to the category of industries in which foreign investment is prohibited (the “prohibited category”), and the restricted category has been adjusted as the following:

- the development of large scale of land lots which shall be operated only by Sino-foreign joint venture or Sino-foreign co-operative venture;
- the construction and operation of upscale hotels, premium office buildings and international conference centers; and
- the secondary property market and housing agents or brokerages.

The new Foreign Investment Industrial Guidance Catalog (2015 Revision) (《外商投資產業指導目錄(2015年修訂)》) (Decree No.22 of NDRC and MOFCOM) jointly promulgated by MOFCOM and NDRC on March 10, 2015, was issued and supersedes the 2011 Revision. Compared with its 2011 revision, the development of tracts of land, the construction and operation of high-end hotels, office buildings, international conference centers, and real estate intermediary/agency business have been removed from restricted category, with the construction and operation of large-scale scheme parks remaining in the category.

Pursuant to the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Property Market (《關於規範房地產市場外資准入和管理的意見》) (Jianzhufang [2006] No.171) jointly promulgated and implemented by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) or its predecessor, the Ministry of Construction of the PRC (中國建設部) (“MOHURD”), MOFCOM, NDRC, PBOC, SAIC and SAFE on July 11, 2006 and partly amended by the Notice on the Adjusting Policies on the Admittance and Administration of Foreign Capital in the Property Market (《關於調整房地產市場外資准入和管理有關政策的通知》) (Jianfang [2015] No.122) jointly issued by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部), MOFCOM, the NDRC, the PBOC, SAIC and SAFE on August 19, 2015, the admittance and administration of foreign capital in the property market must comply with the following requirements:

- an overseas institution or individual shall, when investing in China to purchase any not-for-self-use property, abide by the principles of commercial presence and apply, according to the relevant provisions on foreign investment in property, to establish a foreign investment enterprise and may, upon obtaining the approval of the relevant department as well as completing the relevant registration, engage in the relevant operation according to its approved business scope;
- an overseas investor that has not obtained an approval certificate of foreign-invested enterprises or a business license shall not engage in any development or operation of property;
- as to a foreign-invested property enterprise with an investment amount of at least US\$10 million, its registered capital shall not be less than 50% its investment amount. Where the total investment is less than US\$10 million, its registered capital shall be governed by the existing provisions;
- as to the establishment of a foreign-invested property enterprise, MOFCOM or relevant local counter-parts and SAIC or relevant local counter-parts shall grant an approval for establishment according to law, handle the relevant formalities for registration and issue a one-year term approval certificate of foreign-invested enterprises and business license. Where an enterprise fully contributes its transfer fee of the right to land use, it can, upon the strength of the aforesaid certificates, go to the administrative department of land to apply for a use certificate of state-owned land and may obtain an official approval certificate of foreign-invested enterprises in the MOFCOM or relevant local counter-parts on strength of the said use certificate of state-owned land and thereafter, obtain a business license with a term the same as the approval certificate of foreign-invested enterprises and then go through registration in the taxation authority; and
- the transfer of shares in and projects of foreign-invested property enterprises as well as the acquisition of domestic property enterprises by overseas investors shall be subject to the examination and approval of MOFCOM or relevant local counterparts, among others, in strict accordance with the relevant laws and regulations. An investor shall submit the guarantee letters for performance of the contract on the transfer of state-owned land use right, the license for the planning of construction land and the license for the planning of construction projects and the use certificate of state-owned land, certification on the alteration of archival files in the administrative department of construction (property) as well as the relevant certification materials of tax return as produced by the taxation authority.

Pursuant to the Circular of the General Office of the MOFCOM on Relevant Issues Concerning the Implementation of the Opinions Concerning Regulating the Access to and Administration of Foreign Investment in the Property Market (《商務部辦公室關於貫徹落實《關於規範房地產市場外資准入和管理的意見》有關問題的通知》) jointly promulgated and implemented by MOFCOM on August 14, 2006, where the amount of investment of a property enterprise established by foreign investment is not less than US\$10 million, its registered capital shall not be less than 50% of its amount of investment; if the investment amount is more than US\$3 million but less than US\$10 million, its registered capital shall not be less than 50% of its amount of investment; if the investment amount is not more than US\$3 million, its registered capital shall not be less than 70% of its amount of investment. Where an overseas investor

merges domestic property enterprises through equity transfer or any other means, it shall make appropriate arrangements for the relevant employees, settle the bank debts and pay the transfer fee with its self-owned capital in a one-off manner within three months as of the day the business license of the foreign-invested enterprise was issued. Where an overseas investor acquires the equities of the Chinese party of a foreign-invested property enterprise, it shall make appropriate arrangements for the relevant employees, settle the bank debts and pay the transfer fee with its self-owned capital in a one-off manner within three months as of the day the equity transfer agreement came into force.

The Notice Concerning Further Strengthening and Regulating the Examination, Approval and Supervision of Direct Foreign Investment in Property (《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》) (Shangzihan [2007] No. 50) jointly issued and implemented by MOFCOM and SAFE on May 23, 2007, and partly amended by the Decision of the Ministry of Commerce on Amending Some Rules and Regulatory Documents (《商務部關於修改部分規章和規範性文件的決定》) MOFCOM [2015] No. 2) issued by MOFCOM on October 28, 2015, provides stricter control measures, among other things, as follows:

- foreign investment in the property sector in the PRC relating to upscale properties should be strictly controlled;
- an applicant for establishing a property company shall acquire the land use right or the ownership of real property or building, or conclude a contract on the advance assignment/purchase of the land use right or building property right with the relevant administrative department of land, land developer or owner of the building property right. The examining and approving organ may not approve the application of any applicant that fails to satisfy the above-mentioned requirement;
- where an established foreign-invested enterprise intends to enter the property development or operation business or where a foreign-invested property enterprise intends to engage in a new property development or operation project, it shall apply to the examining and approving organ for extending its business scope or enlarging its business scale in accordance with the relevant laws and regulations governing foreign investment;
- the merger of or investment in domestic property enterprises by way of return on investment (including the same actual controller) shall be placed under strict control. No overseas investor may avoid subjecting its foreign investment in the property industry to examination and approval by means of changing the actual controller of any domestic property enterprise. Where the administrative department of foreign exchange discovers that any foreign-invested property enterprise is illegally established through illegal means as malicious evasion or false statement, the department shall investigate its activities involving the illegal outward remittance of capital and income therefrom and subject it to the liabilities for obtaining foreign currency under false pretenses and not turning over foreign currency owed to the government;
- overseas investors engaging in the property development or operation business in China shall observe the principle of commercial presence, apply for establishing foreign-invested property enterprises according to law and engage in the relevant business within the authorized business scope. Neither the Chinese party nor the foreign party of any foreign-invested property enterprise may enter into any clause directly or indirectly ensuring a fixed return for either party;
- local examining and approving organs shall file the approval of the establishment of foreign-invested property enterprises with MOFCOM for record in a timely manner according to law;
- no administrative department of foreign exchange or designated bank of foreign exchange may handle formalities for the sales and settlement of foreign exchange under the capital account for any foreign-invested property enterprise that fails to go through the formalities for filing with the MOFCOM for record; and

- where any local examining and approving department illegally approves the establishment of any foreign-invested property enterprise, the MOFCOM shall find out the violation and give punishment accordingly to correct it. No administrative department of foreign exchange may handle formalities for foreign exchange registration for any illegally established foreign-invested property enterprise.

Pursuant to the Notice on Proper Handling of Archival Documents for Foreign Investment in the Property Industry (《商務部關於做好外商投資房地產業備案工作的通知》) (Shangzihan [2008] No. 23) issued by MOFCOM on June 18, 2008, the competent departments of commerce at the provincial level are authorized to verify the materials for archiving as submitted by the foreign-invested property enterprise, and MOFCOM together with other departments of the State Council shall conduct spot-checks over the above enterprises.

Pursuant to the Several Opinions on the Sound Development of the Property Market (《國務院辦公廳關於促進房地產市場健康發展的若干意見》) (Guobanfa [2008] No.131) promulgated by the General Office of the State Council on December 20, 2008, in order to speed up the development of social security housing, encourage purchases of properties for self-use, and direct property developers to actively cope with the changing market, the following measures will be adopted to facilitate the development of properties:

- increasing credit financing support to ordinary residential housing developments of low to medium level prices or of small to medium sizes, particularly those under construction;
- providing financial support and other related services to property developers with good credit standing for their merger and acquisition activities;
- developing pilot housing provident fund and providing various funding channels;
- supporting bond issuances by property developers with good credit and financial positions; and
- eliminating urban property tax, and unifying the property taxes applicable to domestic and foreign-invested enterprises and individuals, who will all be subject to the PRC Tentative Regulations on Property Tax (《中華人民共和國房產稅暫行條例》).

Pursuant to the Several Opinions of the State Council for Further Improving 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》) (Guofa [2010] No. 9) issued by the State Council on April 6, 2010, foreign-invested projects with a total investment not exceeding US\$300 million within the encouraged or permitted category, other than those requiring the approval of relevant authorities under the State Council according to the Foreign Investment Industrial Guidance Catalog (《外商投資產業指導目錄》), may be examined and approved by the competent authorities of the local departments. Pursuant to the Circular on Issues Concerning the Authorization for the Review and Approval of Foreign Investment (《關於下放外商投資審批權限有關問題的通知》) (Shangzifa [2010] No.209) promulgated by MOFCOM on June 10, 2010, the establishment and change of registration of foreign-invested enterprises with a total investment not exceeding US\$300 million within the encouraged or permitted category, and with a total investment of no more than US\$50 million within the restricted category may be examined and approved by the competent authorities of MOFCOM at the provincial level.

QUALIFICATIONS OF PROPERTY DEVELOPERS

Classification and Assessment of the Qualifications of Property Development Enterprises

Pursuant to the Development Regulations, a property developer must file for record its establishment to the property development authority in the location of the registration authority within 30 days after receiving its business license. The property development authority shall assess the qualifications of the property developer based on its assets, professional personnel and development and operational records. A property development enterprise shall only engage in property development projects in compliance with its approved qualification.

Pursuant to the Provisions on Administration of Qualifications of Property developers (“Provisions on Administration of Qualifications”) (《房地產開發企業資質管理規定》) promulgated by MOHURD, which came into effect on March 29, 2000, and partly amended by the Decision of the Ministry of Housing and Urban-Rural Development on Amending the Provisions on the Administration of the Qualifications of Real Estate Development Enterprises and Other Departmental Rules (《住房和城鄉建設部關於修改《房地產開發企業資質管理規定》等部門規章的決定》) (MOHURD No.24) issued by MOHURD on May 4, 2015, a property developer shall apply for registration of its qualifications according to the Provisions on Administration of Qualifications. An enterprise may not engage in the development and operation of property without a qualification classification certificate for property development. In accordance with the Provisions on Administration of Qualifications, qualifications of property development enterprises are classified into four classes: class 1, class 2, class 3 and class 4. Different classes of qualification should be examined and approved by the corresponding authorities. After a newly established property developer reports its establishment to the property development authority, the latter shall issue a provisional qualification certificate to an eligible property developer within 30 days of receipt of the report. The provisional qualification certificate shall be effective for one year from the date of its issuance. The property development authority can extend the validity period for not more than two years after considering the actual business situation of the enterprise. The property developer shall apply for qualification classification by the property development authority within one month before the expiry of the provisional qualification certificate.

Business Scope of Property Developers

Pursuant to the Provisions on Administration of Qualifications, a developer of any qualification classification may only engage in the development and operation of property within its approved scope of business and may not engage in business which falls outside its approved scope. A class 1 property developer may undertake property development projects anywhere in the PRC without any limit on the scale of such projects. A property developer of class 2 or lower may undertake projects with a GFA not exceeding 250,000 sq.m., and the specific scopes of business shall be as formulated by the construction authority under the people’s government of the relevant province, autonomous region or municipality.

Annual Qualification Review of Property Developers

Pursuant to Provisions on Administration of Qualifications, the qualifications of property developers should be annually reviewed. The construction authority under the State Council or the entrusted institution is responsible for carrying out the annual review of class 1 property developers’ qualifications. Procedures for the annual review of the qualifications of property developers of class 2 or lower qualifications shall be formulated by the construction authority under the people’s government of the relevant province, autonomous region or municipality.

DEVELOPMENT OF PROPERTY PROJECTS

Land for Property Development

The Provisional Regulations on the Grant and Transfer of Right to Use State-owned Land in Urban Areas of the PRC (《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》) (Decree No.55 of the State Council) (“Provisional Regulations on Grant and Transfer”), promulgated and implemented by the State Council on May 19, 1990, adopted a system of granting and transferring the rights to use state-owned land. Pursuant to these regulations, the PRC government, in accordance with the principle of land ownership being separate from land use rights, implemented a system whereby the right to use state-owned land in urban areas may be assigned and transferred, with the exclusion of underground resources, objects buried underground, and public works. The term “state-owned land in urban areas” as used in the preceding paragraph refers to land owned by the public within the limits of cities, county sites, administrative towns and industrial and mining areas. The assignment of land use rights refers to the act of the PRC government as the owner of the land who, with a term of a certain number of years, assigns the right to use the land to land users, who shall in turn pay fees for the assignment thereof to the PRC government. An assignment contract shall be signed for assignment of the land use rights. The maximum term with respect to the assigned land use rights shall be determined based on type of use as listed below:

- 70 years for residential purposes;

- 50 years for industrial purposes;
- 50 years for the purposes of education, science, culture, public health and physical education;
- 40 years for commercial, tourist and recreational purposes; and
- 50 years for comprehensive utilization or other purposes.

Pursuant to the Provisional Regulations on Grant and Transfer, the land user shall, within 60 days of the signing of the land use right grant contract, pay the total amount of the assignment fee thereof, failing which, the assigning party shall have the right to terminate the contract and may claim compensation for breach of contract. After paying the total fee for the assignment of the land use right, the land user shall, in accordance with the relevant provisions, register the land use right, obtain the land use rights certificate and accordingly the right to the use of the land.

Pursuant to the Notice on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use for Construction Projects in Urban Areas (《關於加強城市建設用地審查報批工作有關問題的通知》) (Guotuzifa [2003] No.345) (“Land Use Approval Notice”) issued by the Ministry of Land and Resources on September 4, 2003, commencing from the date of the issuance of the Land Use Approval Notice, land use for luxury commodity houses shall be stringently controlled, and applications for land use for building villas shall be stopped. From the date of the issuance of this notice, with respect to land use for construction projects submitted to the State Council for approval and relating to land for property development, a written statement regarding the status of utilization of the approved land for property development, and supply and demand information of the relevant city’s property market, property prices and vacancy rates shall be made.

The Notice on Strengthening the Administration of Idle Land promulgated by the Ministry of Land and Resources on September 8, 2007 (《關於加大閒置土地處置力度的通知》) (Guotuzidianfa [2007] No.36) provides that land use rights certificates shall not be issued before the land grant premium has been paid in full, nor be issued separately according to the ratio of payment of land grant premium.

The Regulation on Bidding, Auction and Listing-for-Sale for the Granting of State-Owned Construction Land (《招標拍賣掛牌出讓國有建設用地使用權規定》) promulgated by the Ministry of Land and Resources on September 28, 2007, which became effective on November 1, 2007, provides that:

- with respect to land for industrial, commercial, tourism, entertainment, commodity housing or other business operations, or on which there are two or more intended land users, the assignment thereof shall be conducted through public tender, auction or listing-for-sale. Land for industrial use includes the land for storage but excludes the land for mining;
- a grantee shall not apply for land registration or be granted the certificate of state-owned construction land use right until it has paid the land premium in full in accordance with the land use right grant contract;
- a grantor shall, at least 20 days before bid invitation, auction or quotation, release the announcement on public tender, auction or listing-for-sale at the tangible land market or at the designated place or mass media, and announce the basic conditions about the land for the assignment through public tender, auction or listing-for-sale as well as the time and place for public tender, auction or listing-for-sale;
- after a successful grantee is determined through public tender, auction or listing-for-sale, the bidding deposit paid by such grantee shall be used as the earnest money for land assignment. The grantor shall send out a notice of successful bid to the successful grantee or conclude a transaction confirmation letter with such grantee; and
- a grantee of a public tender, auction or listing-for-sale shall conclude a contract on the assignment of state-owned construction land use right with the grantor at the time stipulated in the notice of successful bid or transaction confirmation letter. The deposit for bidding or

competitive purchase as paid by a winner of bidding, auction or quotation shall be taken as the land assignment fee. The deposits as submitted by other bidders or competitive buyers shall be refunded by the grantor within five working days upon conclusion of public tender, auction or listing-for-sale, without interest.

Pursuant to the Notice on Issues Regarding Further Increasing Supply and Strengthening Control of Lands for Property Development (《關於加強房地產用地供應和監管有關問題的通知》) (Guotuzifa [2010] No.34) promulgated by the Ministry of Land and Resources on March 8, 2010, at least 70% of total land supply must be reserved for economically affordable housing, redevelopment of shanty towns and small to medium-sized residential units for self-use while land supply for large residential units will be strictly controlled and no land shall be provided for villa projects. The land premium must not less than 70% of the standard land premium of the applicable category of land and the bid deposit paid by the property developer must not less than 20% of the minimum land premium. The land grant contract must be executed within 10 working days after the land transaction is confirmed. The minimum down payment of the land premium will be 50% and must be paid within one month after the execution of the land grant contract. The remainder of the land premium must be paid in accordance with the agreement within one year. If the land grant contract is not executed in accordance with the requirements above, the land will not be handed over and the deposit will not be returned. If no land premium is paid after the execution of the land grant contract, the land must be withdrawn.

Pursuant to the Notice on Further Strengthening the Control and Regulation of Land and Construction Project 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》) (Guotuzifa [2010] No.151) jointly promulgated by the Ministry of Land and Resources and the MOHURD on September 21, 2010, standard average floor area and structure proportion of ordinary residential housing developments of small to medium sizes shall be expressly specified. The Notice also strictly limits the development and construction of low-density and large-size residential projects, and requires that the plot ratio of residential projects shall be more than one. The Ministry of Land and Resources requires that other than providing valid identity certificates and deposits for bidding, participants of auctions and listings-for-sale of land shall provide a commitment letter pledging that such deposit was not funded by means of a bank loan, shareholder loan, re-lending or raised funds, as well as a credit certificate issued by a commercial bank.

On May 22, 2014, the Ministry of Land and Resources of the PRC promulgated the Regulations on the Economical and Intensive Use of Land (節約集約利用土地規定), which became effective on September 1, 2014 and established the most stringent system of arable land protection and economical and intensive use of land.

Resettlement

Pursuant to the Regulation on Expropriation of and Compensation for Buildings on State-owned Land (《國有土地上房屋徵收與補償條例》) (Decree No.590 of the State Council) promulgated by the State Council on January 21, 2011 (“Expropriation and Compensation Regulation”), compensation shall be paid before the resettlement. The entity responsible for expropriation shall enter into a compensation agreement with the affected residents, which shall contain the method, amount and payment period of compensation, the location and size of housing where the residents are to be resettled, costs of removal, temporary settlement subsidy or temporary housing, loss caused by production or business suspension, relocation period, method and period of transition and other relevant matters. After entering into the agreement, either party may initiate proceedings according to the relevant law if another party fails to fulfill their obligations prescribed in the compensation agreement. If the entity responsible for expropriation and the affected residents fail to reach an agreement within the specified period according to the expropriation and compensation proposal, or if the title ownership of the housing to be expropriated is uncertain, the entity responsible for expropriation may report to the people’s government of the relevant city or county which made the expropriation decision to determine the compensation in accordance with the compensation proposal pursuant to the Expropriation and Compensation Regulation, and a relevant announcement shall be made within the area of the buildings to be expropriated. The entity responsible for expropriation shall file the expropriation and compensation for record, and post an announcement regarding the compensation payable to each housing unit within the area of the buildings being expropriated.

Idle Land

Pursuant to the Measures for the Disposal of Idle Land (《閒置土地處置辦法》) (Decree No.53 of Ministry of Land and Resources) promulgated by Ministry of Land and Resources on April 28, 1999 and was amended on June 1, 2012, which became effective on July 1, 2012, “idle land” shall mean any state-owned land for construction use, of which the holder of the land use right fails to begin 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. Except where the delay in the commencement of the construction and development of a plot of state-owned land for construction use is caused by acts of any government or government department, a plot of idle land shall be disposed of in the following ways:

- where the land has remained idle for more than one year, the competent department of land and resources at the municipal or county level shall, with the approval of the people’s government at the same level, issue a decision on collecting charges for idle land to the holder of the right to use the land and collect the charges for idle land at the rate of 20% of the land premium or transfer price; the said charges for idle land shall not be included in the production cost by the holder of the land use right; and
- where the land has remained idle for more than two years, the competent department of land and resources at the municipal or county level shall, with the approval of the people’s government having the jurisdiction to approve thereof, issue a decision on taking back the right to use the state-owned land for construction use to the holder of the right to use the land and take back the land use right without compensation in accordance with the provisions of Article 37 of the Land Administration Law of the PRC and Article 26 of the Law of the PRC on the Administration of Urban Property; if any mortgage is created on the idle land, a copy thereof shall be sent to each mortgagee thereof.

Planning of Property Projects

Pursuant to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) enacted by the Standing Committee of the National People’s Congress on October 28, 2007, and partly amended by the Decision of the Standing Committee of the National People’s Congress on Amending Seven Laws (《全國人民代表大會常務委員會關於修改《中華人民共和國港口法》等七部法律的決定》) (Presidential Decree [2015] No.23) issued by the Standing Committee of the National People’s Congress on April 24, 2015 which came into force as of January 1, 2008, to build any structure, fixture, road, pipeline or other engineering project within a city or town planning area, the construction entity or individual shall apply to the competent department of urban and rural planning under the people’s government of the city or county or the town people’s government specified by the people’s government of the province, autonomous region or municipality directly under the PRC government for a construction works planning permit.

In addition, to apply for a construction works planning permit, the relevant documentary evidence on land use, the engineering design plan of the project as well as other related documents shall be submitted. If the project requires a site detailed planning, such planning shall also be submitted. If the project satisfies the regulatory detailed planning and the planning requirements, the competent department of urban and rural planning under the people’s government of the city or county or the town people’s government specified by the people’s government of the province, autonomous region or municipality directly under the PRC government shall issue a construction works planning permit. If a construction project begins without obtaining the construction works planning permit or by violating the provisions of the construction works planning permit, the competent department of urban and rural planning of the local people’s government at or above the county level shall order it to stop construction. If it is still possible for the construction entity or individual to take measures to eliminate the impact on

the implementation of urban and rural planning, the department shall order it or him to correct within a certain time limit and impose a fine of not less than 5% of the construction cost but not more than 10% the cost; if it is impossible to take measures to eliminate the impact, the department shall order the construction entity or individual to dismantle the building or structure within a certain time limit and confiscate the real objects or the illegal gain, and may also impose a fine not more than 10% of the construction cost.

Construction of Property Projects

Pursuant to the Measures for the Administration of Construction Permits for Construction Projects (《建築工程施工許可管理辦法》) enacted by the MOHURD on October 15, 1999, revised on July 4, 2001 and June 25, 2014, and became effective on October 25, 2014, after obtaining the Permit for construction works planning permit, a property developer shall apply for a construction permit from the construction authority under the local people's government above the county level.

Pursuant to the Notice of the General Office of the State Council on Strengthening and Regulating the Administration of Newly Launched Projects (《國務院辦公廳關於加強和規範新開工項目管理的通知》) (Guobanfa [2007] No.64) promulgated by General Office of the State Council on November 17, 2007, a project may commence construction when the following conditions are met: it conforms to the relevant industrial policies, development and construction planning and market entry standards of the PRC government; the project has completed the formalities of examination and approval, verification or filing; the site selection and layout of the project within the planned area conform to the urban and rural planning, and the relevant planning permit has been transacted in accordance with the relevant provisions of the urban and rural planning law; the approval for land use has been obtained according to law, and the contract on non-gratuitous use of state-owned land has been concluded or the written decision on allotment of state-owned land has been obtained; the environmental impact assessment has been examined and approved in accordance with the provisions on classified administration and graded examination and approval of environmental impact assessment of the construction project; before the commencement of the construction project, the construction unit has obtained the construction permit or commencement report in accordance with the relevant provisions of the construction law, and has taken detailed measures to ensure the quality safety of the construction project, among other things.

Completion of Property Projects

Pursuant to the Development Regulations, the Regulation on the Quality Management of Construction Projects (Decree No.279 of the State Council) (《建設工程質量管理條例》) enacted and enforced by the State Council on January 30, 2000, the construction company shall, after it receives the report of construction completion of its project, organize the companies concerned such as for design, construction and engineering supervision to carry out acceptance examination. The construction company shall, within 15 days from the date on which the construction project passes the acceptance examination, submit the report of acceptance examination of the construction project and the recognized or approved documents issued by such departments as for planning, public security fire fighting and environment protection to the competent administrative department for construction or other relevant departments for their record. The competent administrative department for construction or any other relevant department shall, when it discovers that the building unit commits an act of violation of the provisions of the PRC government on the quality control of construction projects in the course of acceptance examination, order the building unit to stop the use and to organize the acceptance examination again.

The Provisional Administrative Measures for Acceptance Examination and Filing Upon Completion of Buildings and Municipal Infrastructure Construction (《房屋建築工程和市政基礎設施工程竣工驗收備案管理暫行辦法》) enacted and enforced by the MOHURD on April 4, 2000, and was revised on October 19, 2009 and the Regulations on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure Construction (《房屋建築和市政基礎設施工程竣工驗收規定》(Jianzhi [2013] No.171)) enacted by the MOHURD and became effective from December 2, 2013 provide:

- construction entities shall submit records to the relevant departments in charge of construction of local people's governments above the county level at the locations of the projects (the

“Record-filing Organ”) within 15 days of the successful passage of the acceptance examination of the projects in accordance with the provisions of these measures;

- project quality supervision institutions shall, within five days from the date of the successful passage of the acceptance examination of the project, submit the project quality supervision report to the Record-filing Organ; and
- where the relevant Record-filing Organ finds that a construction entity acted in violation of PRC government regulations on quality management of construction projects in the process of the acceptance examination, the said organs shall, within 15 days upon the full receipt of the records for the acceptance examination, order relevant projects to be stopped from using and re-organize the acceptance examination.

PROPERTY TRANSACTIONS

Transfer of Property

Pursuant to the Urban Property Law and the Administrative Regulations on Transfer of Urban Property (《城市房地產轉讓管理規定》) enacted by the MOHURD on August 7, 1995 and revised on August 15, 2001, a property owner may sell, give or otherwise legally transfer a property to another person or legal entity. When transferring a property, the ownership of the property and the state-owned land use rights attached to the site on which the property is situated are transferred simultaneously. The parties to a transfer shall enter into a property transfer contract in writing and register the transfer with the local competent property administration where the property is situated within 90 days of the execution of the transfer contract. Where the state-owned land use rights were originally obtained through the government land grant process, the property may only be transferred on the condition that:

- the land premium for the grant of the state-owned land use rights has been paid in full as provided by the grant contract and the land use rights certificate has been obtained;
- if investment and development is to be carried out according to the land grant contract and the project involves housing construction, development representing more than 25% of the total investment has been completed; where the development involves large-scale plots of land, conditions for using land for industrial or other construction purposes have been satisfied; where the construction of buildings has been completed, the property ownership certificate has been obtained; and
- where the property previously transferred according to these regulations is to be retransferred, if it is needed to go through the formalities of assignment and to pay additional land premium, the land proceeds that have been handed in shall be deducted.

Sales of Commodity Properties

Pursuant to the Regulatory Measures on the Sales of Commodity Housings (《商品房銷售管理辦法》) (Decree No.88 of MOHURD) enacted by the MOHURD on April 4, 2001 and effective on June 1, 2001, sales of commodity housing may include both pre-completion and post-completion sales.

Pursuant to the Development Regulations and the Administrative Measures Governing the Pre-sale of Commodity Housings in Urban Cities (“Pre-completion Sales Measures”) (《城市商品房預售管理辦法》) enacted by the MOHURD on November 15, 1994 and revised on August 15, 2001 and July 20, 2004, respectively, the pre-completion sales of commodity housing shall be subject to a permit system, under which a property developer intending to sell a commodity building before its completion shall make the necessary pre-completion sales registration with the property development authority of the relevant city or county to obtain a permit of pre-completion sales of commodity housing. A commodity building may only be sold before completion provided that:

- the land premium has been paid in full for the granting of the relevant state-owned land use rights and a land use rights certificate has been issued;

- the construction works planning permit and construction permit have been obtained;
- the funds invested in the development of commodity housing applied to pre-completion sales represent 25% or more of the total investment in the project and the development schedule and the completion and delivery dates have been ascertained; and
- the pre-completion sales have been registered and a pre-sale permit has been obtained.

Pursuant to the Regulations on the Sales of Commodity Housing (《商品房銷售管理辦法》), the post-completion sales of commodity housing may occur when the following preconditions have been satisfied:

- the property developer offering to sell the post-completion properties shall have an enterprise legal person business license and a property developer;
- the developer has obtained a state-owned land use rights certificate or other approval documents of land use;
- the developer has obtained the construction works planning permit and the construction permit;
- the commodity housing have been completed and passed the acceptance examination;
- the relocation of the original residents has been completed;
- the ancillary infrastructure facilities for supplying water, electricity, heating, gas and communication have been made ready for use, and other ancillary essential facilities and public facilities have been made ready for use, or the schedule of construction and delivery date have been specified;
- the property management plan has been formulated; and
- before the post-completion sales of commodity buildings, a property developer shall submit the property development project manual and other documents showing that the preconditions for post-completion sales have been fulfilled to the property development authority for its record.

Pursuant to the Opinion on Further Stabilizing Property Prices (《關於做好穩定住房價格工作意見的通知》) (Guobanfa [2005] No.26) promulgated on May 9, 2005 by the General Office of the State Council, sales of commodity housing shall comply with various regulations:

- according to the provisions of the Urban Property Law, the State Council has decided that pre-sale purchasers of commodity properties may not transfer such properties while they are still under development. Before the completion of construction, delivery of an advance sales commodity housing and the receipt of a property ownership certificate by the pre-sale purchaser, the administrative department of property shall not process property transfers. Where the applicant for property ownership fails to be in line with the advance seller as indicated in the pre-sale contract on record, the registration organ of property title shall not handle the formalities of property title. In addition, a real name system for housing purchases and an immediate archival filing network system for pre-sale contracts of commodity houses should be implemented to prevent any private dealing; and
- the local administrative departments of property should strictly regulate the market assess of those property development enterprises and agencies, seriously investigate into and punish any irregular and rule-breaking sales according to law. Where anyone fabricates contracts, corners housing resources, publicizes false information of price and sales progress, viciously drives up housing prices, misleads consumers to make purchases at a sale, or fails to meet the required construction initiation and completion times, selling prices and dwelling size areas, the local

administrative departments of property shall put the aforesaid act on the credit archival filing of property enterprises and publicize it to the general public. For more serious violations, the MOHURD shall, in collaboration with the relevant departments, impose serious punishments according to law in a timely manner and publicize them to the general public.

The Notice of the State Council on Resolutely Curbing the Soaring of Housing Prices in Some Cities (Guofa [2010] No.10) (《國務院關於堅決遏制部分城市房價過快上漲的通知》) promulgated by State Council on April 17, 2010 provides:

- for implementing more strictly differentiated housing credit policies. For families (including the borrower, the spouse and minor children) for purchases of first housing units for self-use with a construction floor area of 90 sq.m. or more, the down payment on the relevant mortgage loan shall not be less than 30% of the total price; and
- for the strict enforcement of the various means of speculation in housing and speculative purchase of housing units. In areas where the prices of commodity housing have risen too quickly or to an overly high level, or housing is in short supply, commercial banks may suspend the grant of housing loans for the third and further housing units according to the level of risk.

The Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market (《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》) (Guobanfa [2011] No. 1) promulgated by the General Office of the State Council on January 26, 2011 provides:

- for reinforcing the differentiated housing credit policy. In respect of households that purchase a second housing unit through a mortgage loan, the down payment ratio shall not be lower than 60%. The loan interest shall not be lower than 1.1 times the benchmark interest rate. The respective branches of the PBOC may raise the down payment ratio and interest rate on loans for a second home based on the price control targets set by the local people's government for newly constructed houses and the policy requirements, and on the basis of national unified credit policies. The banking supervision department shall tighten the supervision and inspection of the differentiated housing credit policy implemented by the commercial banks. Conduct violating the regulations shall be dealt with sternly; and
- for rationalizing the guidance of housing demand. All municipalities directly under the PRC government, cities specifically designated in the state plan, provincial capitals and cities in which the housing prices are excessively high or rising rapidly are to formulate and implement measures for the restriction of housing purchases strictly within a specified period. In principle, households with a local registered residence which already own one residence and households without a local registered residence which are able to produce a local tax payment certificate or a proof of social insurance contribution for a certain number of years shall be restricted to purchasing one residence (including newly constructed commodity housing and second-hand housing). In respect of households with local registered residence which already own two residences, households without local registered residence which have already owned one set and more housing, and households without local registered residence which are unable to provide a local tax payment certificate or a proof of social insurance contribution for a certain number of years, no houses shall be sold to them within its own administrative area for the time being.

Mortgage of Property

Pursuant to the Urban Property Law:

- when a property is transferred or mortgaged, the ownership of the building and the right to use the land occupied by the building are transferred or mortgaged at the same time;
- the mortgage of property shall mean the non-transfer provision of legal property by the debtor to the mortgagee as guarantee of debt payment. If the debtor fails to make repayments, the mortgagee has priority to be repaid first through the auction of the mortgaged property according to law;

- the title of a housing property plus the right to use the land occupied by the housing property obtained lawfully may be designated as mortgage right. The right to use land obtained through grant may be used as a mortgage;
- a mortgage loan shall be made only upon the presentation of the land use rights certificate and property ownership certificate;
- the mortgagor and mortgagee shall sign a written mortgage loan contract;
- for mortgage loans where the land use right was obtained through transfer, the mortgagee has the priority to be paid first only after a fund equivalent to the lease fees for the right to use the land has been paid upon an auction of the property according to law; and
- after a property mortgage contract is signed, any newly added housing property on the land does not form part of the mortgaged property. If the mortgaged property must be auctioned, the newly added housing property may be auctioned together with the mortgaged property, but the mortgagee does not receive first priority of payment for any amount derived from the auction of the newly added housing property.

The Law of the PRC on Property Rights (《中華人民共和國物權法》) (“Property Law”), which was adopted at the fifth session of the Tenth National People’s Congress on March 16, 2007 and came into effect on October 1, 2007, provides:

- where a building is mortgaged, the right to use land for construction occupied by such building shall be mortgaged together. Where the right to use land for construction is mortgaged, all buildings on such land shall be mortgaged together. In case a mortgagor fails to mortgage the properties according to the preceding paragraph, the properties that have not been mortgaged shall be regarded as having been mortgaged together;
- mortgages of buildings under construction shall be registered, and the mortgage right is established as of the date of such registration; and
- after the right to use land for construction is mortgaged, the newly constructed buildings on the land shall not form part of the properties under mortgage. If the aforesaid right to use land for construction must be auctioned, the newly added housing property may be auctioned together with the mortgaged property, but the mortgagee does not receive first priority of payment for any amount derived from the auction of the newly constructed buildings.

Pursuant to the Administrative Measures on Land Registration (《土地登記辦法》) (Decree No.40 of the Ministry of Land and Resources) issued by the Ministry of Land and Resources on December 30, 2007, which took effect on February 1, 2008, land registration refers to the registration of land-use rights of relevant land for public review. With respect to the mortgage of land use right, mortgagee and mortgagor shall apply for mortgage registration of the land use right by presenting the land rights certificate, the master debtor-creditor contract, the mortgage contract and other relevant certificates. If a parcel of land has been mortgaged more than once, the mortgage registration shall be made according to the sequence of applications for mortgage registration. If the conditions for mortgage registration are satisfied, the competent administrative department of land and resources shall record relevant items stipulated in the mortgage contract on the land register and the land use rights certificate and issue the certificate of other rights over land to the mortgagee. If the mortgage under registration application arrives at the maximum limit of mortgage, the entry of the guaranteed maximum amount of creditor’s rights and the term of maximum mortgage and other items shall be noted down. The Circular on Implementing the Land Registration Measures and Further Strengthening Land Registration Work (《關於貫徹實施《土地登記辦法》進一步加強土地登記工作的通知》) (Guotuzifa [2008] No.70), issued by the Ministry of Land and Resources on April 8, 2008, calls for stringent land registration according to relevant laws, cessation of illegal registration, and prohibition of legalizing illegal land through land registration. The Circular states that registrations will not be granted in cases involving unresolved land disputes, as well as cases where the full contract price has not been paid or where the use of land has been changed illegally.

The Procedures for Property Registration (《房屋登記辦法》), issued by MOHURD on February 15, 2008 and became effective on July 1, 2008 provide:

- building registration shall adhere to the principle of consistency between the property ownership and the subject holding the land use right within the extent as occupied by the building;
- where a property development enterprise applies for the initial registration of ownership of a building, it shall concurrently apply for registration of buildings legally co-owned by all property owners such as public areas, public facilities and property management service buildings within the building zone, which shall be recorded by the building registration authority in the building register book without the issuance of any certificate of ascription of rights in a building;
- after the forenotice registration is made, without the written consent of the right holder of the forenotice registration, the building registration authority shall not accept an application for registration of a disposition of such a building. Where, after the forenotice registration is made and the creditor's rights are extinguished or within three months from the date when the relevant building registration can be conducted, a party concerned applies for a building registration, the building registration authority shall conduct the relevant registration according to the forenotice registration matters; and
- where, after the advance seller and advance purchaser enters into a contract on the purchase and sale of a marketable building, the advance seller fails to apply for a forenotice registration together with the advance purchaser as agreed on, the advance purchaser may unilaterally apply for the forenotice registration.

Lease of Properties

Pursuant to the Urban Property Law and the Regulations on Leases of Commodity Housings (《商品房屋租賃管理辦法》) enacted by the MOHURD on December 1, 2010 and became effective from February 1, 2011, the parties to a lease of a property shall enter into a lease contract in writing. A registration system is adopted for leases of properties. The parties shall file with the property administration authority under the local government of the city or county in which the building is situated for any newly signed leases, revisions or termination of leases. A party to a residential lease may entrust another person to handle lease registration and filing formalities in writing.

Property Law

The Property Law provides detailed rules regarding the following kinds of major property rights:

- the owner of real or movable property has the right to possess, use, seek profits from and dispose of the real or movable property according to law;
- a usufructuary right holder shall enjoy the right to possess, use and seek proceeds from the real or movable property owned by another party according to law;
- the holder of real property rights for security shall enjoy priority to receive payments from the property for security in case the obligor fails to pay its due debts or the circumstance for the realization of real rights for security as stipulated by the parties concerned occurs, unless otherwise prescribed by law;
- the real property rights of the state, collectives, individuals or any other right holder shall be protected by law and shall not be infringed by any entities or individuals;
- the term of the right to use land for construction for residential purposes shall be automatically renewed upon expiration. The term of the right to use land for construction not for residential purposes shall be renewed according to law. Where there are stipulations about the ownership

of houses and other real properties on the aforesaid land, such stipulations shall prevail; if there is no such stipulation or the stipulations are not explicit, the ownership shall be determined according to the provisions in the laws and administrative regulations; and

- the owner of a building may manage the building and its affiliated facilities themselves or by entrusting a real property service enterprise or any other management personnel. The owners are entitled to change the real property service enterprise or any other management personnel hired by the construction entity according to law.

PROPERTY FINANCING

The Circular on Further Strengthening the Management of Loans for Property Business (《關於進一步加強房地產信貸業務管理的通知》) (Yinfa [2003] No.121) issued by PBOC on June 5, 2003 specifies the requirements for banks to provide loans for the purposes of property development and individual residential mortgage as follows:

- commercial banks shall issue loans applied for by property enterprises only through property development loans, and shall not issue in the form of property working capital loans or any other forms. Where non-property loans are issued to property enterprises, commercial banks shall observe the principle of “recovering only, and no issuing.” The proprietary capital (owner’s equity) of property enterprises applying for loans shall be no less than 30% of the total development investment. Property loans extended by commercial banks may only be used for local housing projects and may not be used cross-regionally;
- loans to land reserve institutions shall be mortgage loans, the amount of which shall not exceed 70% of the assessed value of purchased lands, and the term of loans shall not exceed two years. Commercial banks shall not issue loans to property enterprises for the purpose of paying for land premiums; and
- commercial banks shall further expand the spectrum of individual housing loans to allow more people to benefit from such loans. To reduce unnecessary interest for borrowers, commercial banks shall issue individual housing loans only to those who purchase housing where main structural development has already been completed. Where borrowers apply for individual housing loans to purchase their first residence for self use, the ratio of down payment shall remain 20%; for second or further residences, the ratio of down payment shall be raised appropriately.

Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks (《商業銀行房地產貸款風險管理指引》) (Yinjianfa [2004] No.57) issued by the CBRC on August 30, 2004, a commercial bank shall not grant any form of loans to a project owner that has not obtained the land use rights certificate, the construction land planning permit, the construction works planning permit or the construction commencement permit.

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

The Opinion of the MOHURD and Other Departments on Adjusting the Housing Supply Structure and Stabilizing Property Prices forwarded by the State Council (《關於調整住房供應結構穩定住房價格的意見》) (Guobanfa [2006] No.37) on May 24, 2006 provides the following:

- loan facilities for property development will be under stricter control. Commercial banks are not allowed to grant loan facilities to property developers who do not have the required 35% or more of the total capital for the construction projects. Commercial banks should be prudent in

granting loan facilities and/or revolving credit facilities in any form to property developers who have a large number of idle land and unsold commodity properties. Banks shall not accept mortgages of commodity properties remaining unsold for three years or longer; and

- from June 1, 2006 onward, individual purchasers who apply for mortgage loans shall pay a minimum of 30% of the purchase price as down payment. However, if individual purchasers purchase apartments with a floor area of 90 sq.m. or less for residential purposes, the existing requirement of 20% of the purchase price as down payment remains unchanged.

The Opinion on Standardizing the Admittance and Administration of Foreign Capital in Property Market (《關於規範房地產市場外資准入和管理的意見》) (Jianzhufang [2006] No.171) enforced by MOFCOM, the MOHURD and the NDRC on July 11, 2006 and partly amended by the Notice on the Adjusting Policies on the Admittance and Administration of Foreign Capital in the Property Market (《關於調整房地產市場外資准入和管理有關政策的通知》) (Jianfang [2015] No.122) jointly issued by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部), MOFCOM, the NDRC, the PBOC, SAIC and SAFE on August 19, 2015 provides:

- an overseas investor that has not obtained an approval certificate of foreign-invested enterprises or a business license shall not engage in any development or operation of property;
- where any foreign-invested enterprise fails to obtain the land use rights certificate or fails to make its project development capital reach 35% of the total project investment amount, it shall not deal with any domestic or overseas loan and the administrative department of foreign exchange shall not approve the settlement of the foreign exchange loan thereof; and
- the Chinese or foreign party in a foreign-invested property enterprise shall not stipulate any term on fixed return or disguised fixed return in any contract, constitution, equity transfer agreement or any other document in any form.

On July 29, 2008, the PBOC and the CBRC jointly issued the Notice on Promoting the Economical and Intensive Land Use by Financial Means (《關於金融促進節約集約用地的通知》). The major provisions of the Notice are as follows:

- Land funded by a loan shall be obtained legally, in compliance with general land use planning, urban and rural planning, and the relevant industry planning. In the case of new land for development, such land must also fall into the annual land use schedule. It is forbidden to extend a loan for a project which does not comply with the relevant planning requirements, or for a project not in compliance with relevant PRC land laws and regulations. It is strictly forbidden to extend loans to any project listed on the National Forbidden Land Use Projects Catalogue (《禁止用地項目目錄》). In the event that a loan has already been extended to such a project, the bank in question must take necessary remedial measures and gradually withdraw the loan. With regard to projects listed on the National Restricted Land Use Projects Catalogue (《限制用地項目目錄》), loans should be extended with due caution.
- Construction projects of economical and intensive land use shall be supported as a priority. Low rent housings, economically affordable housings, capped-price housings, and small to medium-sized ordinary commodity housing with units of GFA below 90 sq.m. shall be supported as a priority by complying with various policies of the PRC and conditions of extending loans by financing institutions.

The Notice on Issues Relating to Standardizing Different Residential Mortgage Loan Policies (《關於完善差別化住房信貸政策有關問題的通知》) (Yinfa [2010] No. 275) jointly issued by PBOC and CBRC on September 29, 2010 provides:

- all commercial banks shall suspend the granting of housing loans to resident families for purchasing third and further residences; commercial banks shall also suspend the granting of housing loans to non-local residents who cannot provide local tax payment proof or proof of social insurance payment for a period of one year or longer;

- for the purchase of commodity housing with loans, the down payment shall be adjusted to more than 30% of the total price; for families who purchase a second residence with a mortgage loan, the down payment shall not be less than 50%, and the loan rate shall not be less than 1.1 times the benchmark rate; and
- all commercial banks shall strengthen the management of consumption loans, and prohibit such loans from being used for purchasing houses. For property development enterprises with land idle, that change the use and nature of land, delay the time of construction initiation or completion, hold back housing units for future sales, or have other records of violations of laws or regulations, all commercial banks shall suspend the granting of loans to them for new development projects and suspend the extension of loans. Any commercial bank which fails to earnestly implement the differential credit policies shall be seriously punished once the issue is ascertained.

On November 4, 2010, the SAFE and the MOHURD jointly issued the Notice on Further Regulating the Administration of Housing Purchases 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》), which provides that unless otherwise allowed under PRC laws and regulations, an overseas individual may purchase only one self-use property in China; any overseas institution which sets up a branch or representative office in China may purchase a non-residential property required for business purposes only in the city where such branch or representative office is registered.

INSURANCE OF PROPERTY PROJECTS

Pursuant to the Construction Law of the PRC (《中華人民共和國建築法》) enacted by the Standing Committee of the National People's Congress on November 1, 1997, which took effect on March 1, 1998 and was amended on April 22, 2011, construction enterprises are required to pay for work injury insurance for workers, and encouraged to maintain and pay for accident and casualty insurance for workers engaged in dangerous operations.

The Guidance of the MOHURD on Strengthening the Insurance of Accidental Injury in Construction Works (《建設部關於加強建築意外傷害保險工作的指導意見》) (Jianzhi [2003] No.107) issued by the MOHURD on May 23, 2003 further emphasizes the importance of accidental injury insurance in construction works and provides specific guidance.

MAJOR TAXES APPLICABLE TO PROPERTY DEVELOPERS

CIT

The CIT Law provides:

- A resident enterprise shall pay corporate income tax on its income derived from both inside and outside China;
- for a non-resident enterprise with offices or establishments inside China, it shall pay corporate income tax on its income derived from China as well as on income that it earns outside China which has a real connection with said offices or establishments; for a non-resident enterprise with no office or establishment inside China, or for a non-resident enterprise whose income has no actual connection to its offices or establishment inside China, it shall pay corporate income tax on income derived from China; and
- where any provision in a tax treaty concluded between the government of the PRC and a foreign government is different from the provisions in this law, the provision in the treaty shall prevail.

Pursuant to the Implementation Rules of Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) enacted by the State Council on December 6, 2007 and became effective from January 1, 2008, income obtained by a non-resident enterprise with no office or establishment inside China, or for a non-resident enterprise whose income has no actual connection to its institution or establishment inside China shall be taxed at the reduced 10% rate. The following income shall be exempted from CIT:

- interest income obtained by a foreign government from loans to the Chinese government;
- interest income obtained by an international financial organization from loans to the Chinese government or the resident enterprises thereof at preferential rates; and
- other income as approved by the State Council.

Pursuant to the Notice of the State Administration of Taxation of the PRC (the “SAT”) on How to Understand and Determine the “Beneficial Owners” in Tax Agreements (《國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知》) (Guoshuihan [2009] No.601) issued by the SAT and became effective on October 27, 2009, the term “beneficial owner” in relevant provisions of the agreements on the avoidance of double taxation signed by the PRC government with foreign countries (including the arrangements on the avoidance of double taxation signed with Hong Kong and Macau) refers to a person who has the right to own and dispose of the income and the rights or properties generated from said income. The “beneficial owner” may be an individual, a company or any other organization which is usually engaged in substantial business operations. An agent or a conduit company is not a “beneficial owner.” The term “conduit company” refers to a company which is usually established for purposes of avoiding or reducing taxes, and transferring or accumulating profits. Such a company is only registered in the country of domicile to satisfy the organizational form as required by law, but it does not engage in such substantial business operations as manufacturing, distribution and management.

Pursuant to the Confirmation of Completion Conditions for Development of Products by Property Developer (《關於房地產開發企業開發產品完工條件確認問題的通知》) (Guoshuihan [2010] No.201) promulgated by the SAT on May 12, 2010, a property is deemed completed when its delivery procedures (including move-in procedures) have commenced or when the property is in fact put in use. Property developers should settle and calculate the amount of corporate income tax for the current year in a timely manner.

Business Tax

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》) enacted by the State Council on December 13, 1993 and became effective from January 1, 1994 and which was later amended in November 2008 and became effective from January 1, 2009, for all entities and individuals engaged in the provision of services as prescribed in the regulation, the transfer of intangible assets or the sales of real estate within the territory of the PRC shall pay the business tax in accordance with these regulations. The tax rate on the transfer of real estate, their superstructures and attachments is 5%.

Under the Provisional Regulations of the PRC on Business Tax issued by the State Council which took effect on January 1, 2009 and the implementation rules, a business tax is levied on all units and individuals engaged in taxable services, the transfer of intangible assets or the sale of immovable properties within the territory of the PRC. The tax rates range from 3% to 20% depending on the type of services provided. Most of our PRC subsidiaries which engage in services pay business tax at tax rates of 5%. Shenzhen Qianlong pays business tax at a rate of 5% for warehousing services and at a rate of 3% for transportation services. Grand City Hotel (Shenzhen) pays business tax at a rate of 5% for restaurant services. Grand City Hotel (Shenzhen) leases facilities to a third party that provides entertainment services. Grand City Hotel (Shenzhen) itself does not pay business tax regarding entertainment.

According to the Notice on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises’ Equity Transfer Incomes (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) issued by the State Administration of Taxation in December 2009, the

Announcement of the State Administration of Taxation on Issues Concerning the Special Tax Treatment Applicable to Equity Transfer by Non-resident Enterprises (國家稅務總局關於非居民企業股權轉讓適用特殊性稅務處理有關問題的公告) issued by the State Administration of Taxation in December 2013 and the Announcement on the Several Issues Relating to Enterprise Income Tax on Non-resident Enterprises' Indirect Asset Transfer (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) issued by the State Administration of Taxation in February 2015, if a non-resident enterprise transfers its shares in a foreign enterprise which holds shares in a PRC resident enterprise, this transfer may be subject to CIT at the rate of 10%, provided, if such non-resident enterprise is deemed by the relevant PRC authorities to have indirectly transferred its shares in the PRC resident enterprises through an arrangement without reasonable commercial purposes that results in the abuse of organizational structure.

According to the Circular on Printing and Issuing the Pilot Program for Transition from Business Tax to Value Added Tax jointly issued by the MOF and State Administration of Taxation on November 16, 2011, the MOF and the State Administration of Taxation introduced two new band rates of 11% (transportation and construction industries) and 6% (part of modern service industries) on the basis of the standard value-added tax rate of 17% and the lesser value-added tax rate of 13% first commenced in Shanghai on January 1, 2012. Furthermore, nine cities and provinces have also officially applied to participate, specifically Tianjin, Chongqing, Jiangsu, Anhui, Fujian, Xiamen, Shenzhen, Hunan and Hainan in accordance with the Circular on Implementing the Pilot Policy of Transition on business tax to value-added tax in eight cities and provinces including Beijing jointly issued by the MOF and State Administration of Taxation. The policy was implemented on November 1, 2012 according to the Circular for Taxpayers Handling the Taxes Issues in Shenzhen as a Pilot City on Transition from business tax to value-added tax issued by Shenzhen Municipal Office of the State Administration of Taxation and Administration of Local Taxation of Shenzhen Municipality on August 31, 2012. The transportation and part of the modern service industries are included in the scope of business tax to value-added tax. The advertisement and storage and other logistics services provided by our Company are subject to the policy of the transition from business tax to value-added tax.

On March 23, 2016, the MOF and the State Administration of Taxation jointly issued the "Notice on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax" (財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知), under which the business tax was totally replaced by value-added tax in an All-round Manner. In particular, the provision of services in transportation, construction or real property lease, the sale of real property are subject to the rate of 11%; the provision of advisement and other modern services are subject to the rate of 6%.

LAT

According to the requirements of the Provisional Regulations of the PRC on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) (Decree No.138 of the State Council), which was enacted on December 13, 1993 and amended on January 8, 2011:

- any taxpayer who gains income from the transfer of property shall be subject to land appreciation tax;
- land appreciation tax shall be subject to a regime of four progressive rates: 30% on the amount of appreciation not exceeding 50% of the sum of deductible items; 40% on the amount of appreciation exceeding 50% but not exceeding 100% of the sum of deductible items; 50% on the amount of appreciation exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% on the amount of appreciation exceeding 200% of the sum of deductible items;
- a taxpayer is exempt from land appreciation tax if: (i) the taxpayer builds houses of ordinary standard for sales and the amount of appreciation does not exceed 20% of the sum of deductible items; (ii) land and properties recalled and requisitioned for construction purposes by the PRC government according to law; and
- deductions to be made in the calculation of land appreciation comprise: (i) the lease price paid for the use of the land; (ii) the cost and expenses spent in the development of the land; (iii) the

cost and expenses in the construction of new buildings and attached installations, or the appraisal prices of old buildings and structures; (iv) tax payments arising from the transfer property; (v) other deductions as prescribed by the Ministry of Finance (“MOF”).

The Notice in respect of the Administration of the Collection of Land Appreciation Tax (《關於認真做好土地增值稅徵收管理工作的通知》) (Guoshuihan [2002] No.615) issued by SAT also on July 10, 2002 requests that local tax authorities modify the management system for land appreciation tax collection and related operation procedures, to build up a proper tax return system for land appreciation tax and to improve the methods of pre-levying tax for pre-sold properties. The Notice also indicated that the preferential policy of land appreciation tax exemption has expired and that such tax shall be levied again for first time transfer of properties under property development contracts signed before January 1, 1994 or project proposals that have been approved and capital was injected for development.

The Notice of the SAT in respect of Further Strengthening the Administration of the Collection of Land Use Tax and Land Appreciation Tax in Cities and Towns (《國家稅務總局關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知》) (Guoshuifa [2004] No.100) on August 5, 2004 indicated that the collection of land appreciation tax should be further strengthened. Deductions and exemptions of the land appreciation tax which were not approved by competent authorities, shall be corrected immediately and shall be levied again. Except for the construction of economically affordable houses, land appreciation tax for other kinds of land for property development shall not be reduced or eliminated. The Notice of Certain Issues Regarding Land Appreciation Tax (《關於土地增值稅若干問題的通知》) (Caishui [2006] No.21) issued by ministry of finance and SAT on March 2, 2006, and partly amended by the Notice of the Ministry of Finance and the State Administration of Taxation on Relevant Land Appreciation Tax Policies for Enterprise Restructuring and Reorganization (《財政部、國家稅務總局關於企業改制重組有關土地增值稅政策的通知》) (Caishui [2015] No. 5) issued by ministry of finance and SAT on February 2, 2015, clarifies the relevant issues regarding land appreciation tax as follows:

- the Notice sets out the defined standards for ordinary standard residential properties. Where any developers build ordinary standard residential properties as well as other commodity properties, the value of land appreciation shall be assessed separately. In respect of ordinary standard residential properties for which application for tax exemption has been filed with the tax authority at the locality of the property before the Notice is issued and for which land appreciation tax exemption has been granted by the tax authority on the basis of the criteria of ordinary residential properties originally set by the people’s government of the province, autonomous region or municipality, no adjustment shall be made retroactively;
- all regions shall further improve the measures for the advance collection of land appreciation tax, and decide the advance collection rate in a scientific and reasonable manner, and adjust it at a proper time according to the level of value appreciation in the property industry and market conditions within the region and on the basis of the specific property categories, namely, ordinary standard residential properties, non-ordinary standard residential properties and commercial properties. After a project is completed, the relevant settlement shall be handled in a timely manner, with any overpayment refunded or any underpayment being made up;
- if any tax pre-payment is not paid within the advance collection period, overdue fines shall be imposed additionally as of the day following the expiration of the prescribed advance collection period, according to the relevant provisions of the Law of Tax Collection and Administration (《稅收徵收管理法》) and its implementation rules; and
- as to any property project that has been completed and passed the inspection upon completion, where the floor area of the property as transferred makes up 85% or more in the saleable floor area, the tax authority may require the relevant taxpayer to settle the land appreciation tax on the transferred property according to the matching principles regarding the proportion between the income as generated from the transfer of property and the amount under the item of deduction. The specific method of settlement shall be prescribed by the local tax authority of a province, autonomous region, municipality, or a city under separate state planning.

The Notice on the Administration of the Settlement of Land Appreciation Tax of Property Developer (《國家稅務總局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》) (Guoshuifa [2006] No.187) issued by the SAT on December 28, 2006, which came into effect on February 1, 2007, provides:

- the settlement of land appreciation tax shall be made for each property development project approved by the relevant departments of the state; as for a project developed by stages, the settlement shall be made for each stage of the project. Where a development project includes both ordinary housing and non-ordinary housing, the appreciation shall be calculated separately;
- where it is under any of the following circumstances, the taxpayer shall settle its land appreciation tax when: (i) a property project is completed and sold out; (ii) when an unfinished real estate development project without the final accounting of revenue and expenditure is transferred as a whole to a third party or (iii) the land use right is directly transferred;
- the competent tax authority may ask the taxpayer to settle its land appreciation tax where: (i) for projects that have completed construction and acceptance examination, the building area already transferred makes up 85% or more of the salable building area of the whole project, or where this proportion is below 85%, the residuary salable building area has been leased or is in self-use; (ii) the sales are not completed upon the expiration of three years since the day when the sales (or pre-sale) permit is obtained; (iii) the taxpayer has applied for writing-off tax registration but has not gone through the formalities for the settlement of land appreciation tax yet; or (iv) other circumstances as prescribed by the provincial tax authorities;
- where a property enterprise uses its property development for the welfare of its workers, rewarding, foreign investment, distributions to the shareholders or investors, repaying its debts, or in exchange for the non-monetary assets of any other entity or individual, among other things, if the ownership is transferred, it shall be deemed as a sale of property, and revenue therefrom shall be determined in accordance with the following: (i) revenue shall be determined in accordance with the average price of the same kind of property sold by the company in the same region and in the same year; (ii) revenue shall be determined by the competent tax authority by referring to the market price or appraised value of the same kind of property sold in the same region and in the same year;
- where a property enterprise uses developed portions of its property development for self-use, lease or any other commercial purpose, if the relevant property ownership rights are not transferred, the land appreciation tax thereon shall be exempted, the revenue therefrom shall not be listed in the settlement of tax payment, and the corresponding costs and expenses shall not be deducted; and
- the tax authority may, by consulting the tax burdens of the local enterprises similar to it in terms of development scale and income level, collect land appreciation tax from the property developer by verification on the basis of the levying rate that is not lower than the advance levying rate, where: (i) the property developer fails to set up accounting books in accordance with the provisions of laws and administrative regulations; (ii) the property developer destroys the accounting books without authorization or refuses to provide the data of payments; (iii) the property developer has established accounting books, but the accounting items are confusing, or its cost information, revenue vouchers and expense vouchers are damaged or incomplete and it is difficult to determine the transfer income or amount under the deductible items; (iv) the property developer satisfies the settlement conditions of land appreciation tax, but it fails to go through the settlement formalities within the prescribed time limit, and it is ordered by the tax authority to conduct settlement within a certain time limit but still fails to do so upon the expiration of the time limit; (v) the taxable basis declared is obviously on the low side and without legitimate reason.

Deed Tax

Pursuant to the Provisional Regulations of the PRC on Deed Tax (《中華人民共和國契稅暫行條例》) (Decree No.224 of the State Council) enacted by the State Council on July 7, 1997 and became effective on October 1, 1997:

- the transferee, whether an entity or individual, of the title to a land site or building in the PRC shall have to pay deed tax; and
- the rate of deed tax is 3% to 5%. The people's government of provinces, autonomous regions and municipalities may, within the foresaid range, determine and report their effective tax rates to the MOF and the SAT for record.

The Adjustments to Taxation on Property Transactions (《財政部國家稅務總局關於調整房地產交易環節稅收政策的通知》) (Caishui [2008] No. 137) ("Circular 137") issued by MOF and SAT on October 22, 2008, and was amended by the Notice on Adjusting Preferential Policies on Deed and Individual Income Tax in Property Transactions (關於調整房地產交易環節契稅個人所得稅優惠政策的通知) on October 1, 2010, the stamp duty on residential properties sold or purchased by individuals, and the land appreciation tax on residential properties sold by individuals are temporarily suspended. Pursuant to Circular 137 and its amendments, the deed tax rate policy shall be levied at half the applicable rate on an individual who purchased an ordinary residential property that is the only housing owned by the family (members include the purchaser, his/her spouse and their minor child). Deed tax shall be levied at a reduced rate of 1% on an individual who purchases an ordinary residential property of no larger than 90 square meters that is the only housing owned by the family.

Urban Land Use Tax

Pursuant to the Provisional Regulations of the PRC Governing Land Use Tax in Cities and Towns (《中華人民共和國城鎮土地使用稅暫行條例》) enacted by the State Council on September 27, 1988, which came into effect on November 1, 1988, revised on December 31, 2006 and December 7, 2013, the entities and individuals using land within the scope of cities, counties, towns and industrial and mining zones shall be the taxpayers of the land use tax, and the land use tax shall be based on the areas of land actually occupied by the taxpayers for tax calculation, and shall be calculated and collected according to the amounts of tax to be paid as stipulated. The annual amounts of land use tax per square meter are as follows:

- (1) RMB1.5 to RMB30 for large cities;
- (2) RMB1.2 to RMB24 for medium sized cities;
- (3) RMB0.9 to RMB18 for small cities; and
- (4) RMB0.6 to RMB12 for cities under the county level, towns, and industrial and mining zones.

Property Tax

Pursuant to the Provisional Regulations of the PRC on Property Tax (《中華人民共和國房產稅暫行條例》) (Guofa [1986] No.90) enacted by the State Council on September 15, 1986 and became effective from October 1, 1986 and was amended on January 8, 2011, property tax shall be 1.2% if it is calculated on the basis of the residual value of a property, and 12% if it is calculated on the basis of the rental.

Stamp Duty

Pursuant to the Provisional Regulations of the PRC on Stamp Duty (《中華人民共和國印花稅暫行條例》) (Decree No.11 of the State Council) enacted by the State Council on August 6, 1988 and effective from October 1, 1988, and revised on January 8, 2011, for property rights transfer instruments, including those in respect of property ownership transfer, the rate of stamp duty shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including property ownership certificates and land use rights certificates, stamp duty shall be levied on an item basis of RMB5 per item.

Urban Maintenance and Construction Tax

Pursuant to the Provisional Regulations of the PRC on Urban Maintenance and Construction Tax (《中華人民共和國城市維護建設稅暫行條例》) enacted by the State Council on February 8, 1985, and revised on January 8, 2011, any taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall be required to pay urban maintenance and construction tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county and a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

Pursuant to the Notice of Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) (Guofa [2010] No.35) promulgated by the State Council on October 18, 2010, regulations, rules and policies regarding urban maintenance and construction tax shall be applicable to foreign-invested enterprises, foreign enterprises and foreign individuals from December 1, 2010. Regulations, rules and policies in respect of urban maintenance and construction tax and education surcharge issued by the State Council as well as finance and tax department of State Council since 1985 and 1986 shall also be applicable to foreign-invested enterprises, foreign enterprises and foreign individuals.

Education Surcharge

Pursuant to the Provisional Provisions on Imposition of Education Surcharge (《徵收教育費附加的暫行規定》) (Decree No.588 of the State Council) enacted by the State Council on April 28, 1986 and revised on June 7, 1990, August 20, 2005 and January 8, 2011, a taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall pay an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as stipulated under the Notice of the State Council on Raising Funds for Schools in Rural Areas (《關於籌措農村學校辦學經費的通知》).

Pursuant to the Notice of Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) (Guofa [2010] No.35) promulgated by the State Council on October 18, 2010, regulations, rules and policies regarding education surcharge shall be applicable to foreign-invested enterprises, foreign enterprises and foreign individuals from December 1, 2010.

MEASURES ON STABILIZING HOUSING PRICES

The General Office of the State Council enacted the Notice on Effectively Stabilizing Property Prices (《關於切實穩定住房價格的通知》) (Guobanfamingdian [2005] No.8) on March 26, 2005, requiring measures to be taken to restrain surging property prices and to promote the healthy development of the property market. On May 9, 2005, the General Office of the State Council forwarded the Notice of Opinion on Stabilizing Property Prices (《關於做好穩定住房價格工作意見的通知》) (Guobanfa [2005] No. 26) issued by departments including the MOHURD, which provides that:

- Intensifying the planning and control and improving the supply structure of houses:

All regions shall, according to the property market demand thereof, clarify the construction scale, project allocation and progress arrangement of common commodity houses and economically affordable houses of the current year and the next year as soon as possible. Where the house price is in excessive growth, the supply of common commodity houses and economically affordable houses at mediate or low prices are insufficient, emphasis shall be put on the common commodity houses and economically affordable houses at moderate or low prices in the house construction, and the areas of construction initiation and completion and the proportion of common commodity houses and economically affordable houses at moderate or low prices in the overall construction shall be clarified and be publicized to the general public as soon as possible and shall be subject to the social supervision so as to stabilize the social prediction. The people's governments at the provincial level shall reinforce the supervision and examination on the implementation of all municipalities (regions) and counties.

All the administrative departments of city planning shall, on the precondition of being in compliance with the overall city planning, accelerate the progress of work, give priority to the examination of projects in the planning and grant the guaranty for location choice according to the demand for the construction of common commodity houses and economically affordable houses at moderate or low prices. At the same time, the said administrative departments shall strictly control the construction of low-density or top-grade houses. For those construction projects of common commodity houses at moderate or low prices, before any supply of land, the administrative department of city planning shall provide such requirements of planning and designing as height of buildings, volumetric fraction and green land according to the controlling detailed plan. The administrative department of property shall, in collaboration of the relevant departments, put forward such controlling requirements as the sales prices of houses and the areas of dwelling sizes, which shall be the precondition of any land transfer, so as to ensure an effective supply of small or medium-sized houses at moderate and low prices. All regions shall intensify the supervision and administration on the planning licensing for property development projects, carry out a second planning examination on those house projects that haven't been initiated for 2 years and resolutely cancel those projects that fail to meet the requirements of planning licensing;

- Intensifying the control over the supply of land and rigorously enforcing the administration of land:

All regions shall, on the precondition of a strict implementation of the overall layout and plan of land use, adjust the structure, mode and time of land supply in proper time according to any change of the property market. For those regions where the price of any land as used for residential house and the house price is in excessive growth, we should properly elevate the proportion of the land as used for residential houses in land supply, attach importance to increasing the land supply for the construction of common commodity houses and economically available houses. We should continuously cease the land supply for villas and strictly control the land supply for top-grade houses. We should further improve the land purchase and reserve system, actively introduce the market mechanism, straighten out land development, lower the costs of land development and enhance the supplying capability of land for common commodity houses;

- Adjusting the policies of business tax in the link of house transfer and strictly regulating the collection and administration of tax:

From June 1, 2005, where anyone resells his house that has been owned for less than 2 years, the business tax shall be collected on the basis of the full amount of income from the sale of his house; where anyone resells his common house that has been owned for more than 2 years (including 2 years), the business tax thereof may be exempted; where anyone resells his non-common house that has been owned for more than 2 years (including 2 years), the business tax shall be collected on the basis of the margin between the income from house sale and the payment for house purchase; All the regions shall strictly define the application scope of the current tax preferential policies concerning house and reinforce the administration of tax collection;

- Clarifying the standard of enjoying favorable policies for common houses and guiding the construction and consumption of houses in reasonable manner:

In order to guide the construction and consumption of houses, the development of land-saving houses shall be fostered and the support of favorable policies to those common houses of medium or small sizes at moderate and low prices shall be granted. Those houses that enjoy the favorable policies shall, at the same time, satisfy the following conditions in principle: the volumetric fraction of the buildings in residential communities shall be more than 1.0, the floor space of a single set of apartment shall be less than 120 square meters, and the bargaining price is 1.2 times lower than the average dealing price of those houses as built on the land at an identical level. All provinces, autonomous regions and municipalities directly under the PRC government shall, according to the actual situations, formulate the specific standards for those

common houses that may enjoy favorable policies within the administrative regions thereof. A proper float is allowed for the standard of floor space and price of a single set of apartment. However, the upward floating proportion shall not be more than 20% of the aforesaid standard. The specific standards of all municipalities directly under the PRC government and the capital cities of all provinces shall be reported to the MOHURD, the MOF and the SAT for archival filing and shall be promulgated before May 31, 2005;

- Intensifying the construction of economically affordable houses and improving the cheap house-renting system:

Opinion on Adjusting the Structure of Property Supply and Stabilizing Property Prices forwarded by the State Council on May 24, 2006 (《關於調整住房供應結構穩定住房價格的意見》) (Guobanfa [2006] No.37) of the MOHURD and other relevant government authorities provides the following:

- Adjusting the structure of property supply:

Developers must focus on providing small to medium-sized ordinary commodity properties at low- to mid-level prices to cater to the demands of local residents. As of June 1, 2006, newly approved and commenced building construction projects must have at least 70% of the total construction works area designated for small apartments with floor areas of 90 sq.m. or below (including economically affordable units). If municipalities directly under the PRC government, cities listed on state plans and provincial capital cities intend to adjust such prescribed ratio based on special condition, they must obtain special approval from the MOHURD. Construction projects that have been approved but have not yet obtained a construction permit must follow the prescribed ratio;

- Further adjustments on tax, loan and land policies:

- (i) from June 1, 2006, business tax will be levied on the full amount of the sales proceeds on conveyance of residential properties within a period of five years from the date of purchase. If an individual sells his ordinary standard apartment after five or more years from the date of purchase, business tax will normally be exempted. If an individual sells his non-ordinary apartment after five or more years from the date of purchase, business tax will be levied on the balance between the selling price and the purchase price; Commercial banks are not allowed to approve loan facilities to property developers who do not fulfill the capital fund requirement of 35% or more for their construction projects;
- (ii) commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to the property developers who have a large reserve of idle lands and unsold commodity apartments. Banks shall not accept mortgages of commodity properties remaining unsold for three years or more;
- (iii) at least 70% of the total land supply for residential property development must be used for developing small to medium-sized ordinary housing (including economical housing) and low-cost housing. Based on the restrictions of residential property size ratio and residential property price, land supply will be granted by way of auction to the property developer. Land supply for villa construction shall continue to be suspended, and land supply for low-density and large-area housing property construction shall be strictly restricted; and
- (iv) the relevant authorities will levy a higher surcharge against those property developers who have not commenced the construction works for more than one year from the commencement date stipulated in the State-owned land use right contract and will order them to set the schedule for commencing the construction works and completion. The relevant authorities will confiscate without compensation the State-owned land use right from those property developers who have not commenced the construction works beyond two years from the commencement date stipulated in the State-owned land use right contract without proper reasons. The relevant authorities will dispose of the idle land of

those property developers who have suspended the construction works consecutively for one year without an approval, have invested less than one-fourth of the total proposed investment or have developed less than one-third of the total proposed construction area.

A supplemental Opinion on the Implementation of the Residential Property Size Ratio in Newly Built Residential Buildings (Jianzhufang [2006] No. 165) (《關於落實新建住房結構比例要求的若干意見》) promulgated by the MOHURD on July 6, 2006, provides that, as of June 1, 2006, for newly approved and newly commenced commodity residential projects in different cities including town and counties (from June 1, 2006 and onward), at least 70% of the total construction area must be used for building small apartments (including economically affordable units) with unit floor area of 90 sq.m. or below.

The Implementation of the Several Opinions of the State Council on Solving Housing Difficulties of Low-Income Household in Urban Cities and Further Strengthening Control on 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》) (Guotuzifa [2007] No.236) issued by the Ministry of Land and Resources on September 30, 2007 and amended on December 3, 2010, provides:

- to tighten the measures on the disposal of idle land, the land resources administrative bureau at the city or county level shall give priority to the construction land of low-renting housing, economically affordable housing and low-to-medium size ordinary commodity housing at low-to-medium prices when drafting the annual land supply plan and the annual supply of such houses shall not be less than 70% of the total amount of annual land supply; and
- the local authorities shall control the land supply and shorten development period, under which development period of a parcel of land shall not be more than three years in principle, in order to ensure the efficiency of land development.

Circular on Conservation of Intensive-used Land by Financial Policies (《關於金融促進節約集約用地的通知》) (Yinfa [2008] No.214) jointly issued by PBOC and CBRC on July 29, 2008 required financial institutions to tighten the credit financing granted to construction projects, municipal infrastructure and industrial land projects, rural collective construction land projects and commercial property projects. Commercial banks shall not grant loans to property developer for the purpose of paying land premium nor to finance any of the following property projects:

- construction projects which belong to the prohibited category;
- property development project on a rural collective construction land; and
- property development project on land which has been idle for two years or more.

Pursuant to Circular on Promoting the Stable and Healthy Development of the Property Market (《關於促進房地產市場平穩健康發展的通知》) (Guobanfa [2010] No.4) issued by the State Council on January 7, 2010, to further strengthen and to improve the regulation on property market. In order to manage market expectation and to promote the steady and healthy development of property market, the supply of affordable housing and general commodity apartments will be increased to meet the demand of users and to deter speculating buyers. The increase in housing supply can also facilitate risk management and market regulation. In addition, the minimum down payment of mortgage loan for additional residential property shall be 40% of the value of the property to be purchased by any member of a family (including the borrower, his or her spouse and dependent children) which has already purchased a residential property by mortgage loan. The interest rate of the mortgage loan for additional residential property shall reflect the associated risk level.

The Notice on Resolutely Curbing the Soaring of Property Price in Certain Cities (《關於堅決遏制部分城市房價過快上漲的通知》) (Guofa [2010] No.10) issued by the State Council issued on April 17, 2010 provides a series of new measures to suppress the surge of property price in certain cities of China, which included (among others) the following:

- Increasing the minimum requirement of down payment:

- (i) for the purchase of a first residential property with a GFA of 90 sq.m. or above, the down payment shall not be less than 30% of the purchase price of the relevant property;
 - (ii) for the purchase of a second residential property, the down payment shall not be less than 50% of the relevant purchase price, and the interest rate of mortgage loan shall not be lower than 1.1 times of the benchmark interest rate for loan of one-year period of PBOC; and
 - (iii) for those who purchase a third or subsequent property by mortgage loan, commercial banks shall significantly increase the ratio of down payment to the total payment and the minimum mortgage interest rate.
- Control of bank loan:

In areas where property prices grow too fast, commercial banks may suspend granting mortgage loans to purchaser who is buying the third or subsequent property; Commercial banks shall suspend granting loans to those non-local buyers who fail to provide the proofing documents of local tax payment or social insurance premium payment for more than one year; Local government may take provisional measures to limit the maximum numbers of properties a household may own; Developers which engage in speculation shall be punished; Commercial banks shall not grant loans to developers which possess idle lands or manipulate the land reserve or price; and China Securities Regulatory Commission (“CSRC”) may suspend the review of application for the listing of shares, re-organization and re-financing of developers which engage in speculations.

- Disclosure of property title ownership:

Property developers who have submitted information of the completed property for sales to the local government or have obtained the permit for pre-sales shall make an announcement regarding the property project available for sales to the public in a timely manner, and shall sell the property at the same price as that filed with the local government.

Pursuant to the Notice on Adjusting the Taxation Preferential Treatment on Deed Tax and Personal Income Tax Applicable to Property Transaction (《關於調整房地產交易環節契稅過人所得稅優惠政策的通知》) (Caishui [2010] No.94) jointly issued by the MOF, SAT and MOHURD on September 29, 2010 and became effective on October 1, 2010. According to the Notice, households (including the purchaser, his or her spouse and children under the age of 18) are entitled to a 50% reduction of deed tax for the purchase of the first residential property. If the GFA of the residential property is less than 90 sq.m., the applicable deed tax will be decreased to 1%. No exemption will be granted to any purchaser who purchases another residential property within one year after the disposal of the original property.

Pursuant to the Notice on Issues Relating to Further Regulating the Control of Property Market (《關於進一步做好房地產市場調控工作有關問題的通知》) (Guo banfa [2011] No.1) issued by the General Office of the State Council on January 26, 2011 provides:

- greater effort is required for the construction of affordable housing. It is required that 10 million units of affordable housing units and redeveloped units in squatter areas shall be developed in 2011. Local governments shall ensure that not less than 70% of its land supply shall be restricted for the development of affordable housing units, redevelopment of squatter areas and small and medium-sized commodity housing units. The quality of new property developers and their sources of funds shall be stringently scrutinized;
- entities and individuals participating in bidding for lands are required to disclose and prove the sources of their funding. Change of use of land for affordable housing is prohibited and violation of this restriction will be severely punished. The land use right of land allocated for property development but remain undeveloped for more than two years shall be forfeited. If a land remains undeveloped for more than one year, penalty for idling will be imposed. Local governments are required to identify any illegal transfer of land use right and take necessary actions accordingly. No allocation of land shall be made and no property development project

shall be approved if the investment of a property development project (exclusive of land premium) is less than 25% of the value of the project; and

- if any individual sells his or her residential property within five years from the date of purchase, a unified business tax will be levied on the proceeds from such sale. For those who purchase a second residential property by credit loans, the down payment shall not be less than 60% of the total purchase price, while the interest rate of such loan shall not be lower than 1.1 times of the benchmark interest rate. In any city, local families who already own a residential property, or non-local families who can provide the proofing documents of the payment of local tax or social insurance for certain years may only purchase one residential property (including new commodity apartments and second-hand properties). Local families who already own two or more properties or non-local families who fail to provide the proofing documents of the payment of local tax or social insurance for specified periods may not purchase any property in that city.

The Regulation on Clear Pricing of Commercial Property (《商品房銷售明碼標價規定》) (Fagaijiage [2011] No.548) promulgated by NDRC on March 16, 2011, which took effect on May 1, 2011, provides:

- property developers and intermediary service agencies within the territory of the PRC (“business operators of commodity housing”) shall sell newly built commodity housing at expressly marked prices in accordance with these Provisions. Intermediary service agencies shall sell second-hand housing at expressly marked prices with reference to these provisions;
- competent price departments of governments at all levels shall be the organs for administration of sales of commodity housing at expressly marked prices, and shall conduct supervision and inspection, in accordance with the law, over the compliance by business operators of commodity housing with the requirements for clear indication of prices and public notice of the charges;
- property business operators with the pre-sale license and those selling completed housing shall expressly indicate the prices of the housing when disclosing the housing resources;
- a business operator of commodity housing shall place price tags, price lists or price brochures in eye-catching places of property transaction venues, and may, where conditions permit, adopt other means such as electronic information screens, multimedia terminals or computer inquiry at the same time. Prices expressly marked through multiple means mentioned above shall be consistent with one another;
- when marking the price of a commodity housing, the seller shall make sure that all chargeable items are disclosed, that the price is true, definite and marked in a legible and eye-catching manner, and that the number of the complaint hotline of the competent pricing department is given; and
- in the sales of commodity housing, one unit shall be given one expressly marked price, and business operators of commodity housing shall clearly mark the price of each housing unit. Where a unit is priced according to its floor area or built-in floor area, the price per floor area or the price per built-in floor area shall also be given.

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》) (Guo Ban Fa [2013] No.17, hereinafter referred to as the “No.17 Notice”) promulgated and implemented by the General Office of the State Council on February 26, 2013 provides:

- Continuing to enforce purchase restrictions imposed on commodity housing

All administrative regions of a city subject to purchase restrictions shall be covered under such restrictions. Types of houses subject to purchase restrictions shall include all newly-constructed commodity housing and second-hand housing. The house purchase eligibility shall be examined before the conclusion of a house purchase contract (or a letter of purchase intent).

For the time being, houses within the administrative regions of a city shall not be sold to a family without local household register that already owns one or more houses, and a family without local household register that is unable to provide proofs for a certain number of consecutive years of local tax payment or social insurance contribution. For cities with soaring housing prices, the local branches of the PBOC may further raise the percentage of the minimum down payment and loan interest rates for second-home purchases according to policy requirements and the price control targets determined by local people's governments for newly-constructed commodity housing. Tax authorities shall closely cooperate with departments of housing and urban-rural development to levy individual income tax payable on the sales of owner-occupied houses at 20% of the transfer income in strict accordance with the law if the original value of the houses sold can be verified through historical information such as tax collection and house registration.

- Increasing supply of ordinary commodity housing and land for property construction

In principle, total supply of land for housing construction in 2013 shall not be less than the average actual supply over the past five years. Where more than 70% of the total units developed and built under an ordinary commodity housing construction project are small- and medium-sized units, banking financial institutions shall give priority to supporting its credit needs for project development as long as credit extension conditions are satisfied.

- Strengthening expectation management of property market

Starting from 2013, all regions shall raise the pre-sale threshold for commodity housing. All regions shall earnestly strengthen the management of the funds obtained from pre-sales, and improve regulatory systems in this regard. Regions that have not yet implemented regulation of the funds obtained from pre-sales shall accelerate the pace for formulating their respective regulatory measures for funds obtained from commodity housing pre-sales. The issuance of pre-sale permits may be temporarily suspended for commodity housing projects that command excessively high prices in their pre-sales programs and that refuse to be directed by the departments of housing and urban-rural development of the relevant cities, or commodity housing projects for which the funds obtained from pre-sales are not regulated.

- Strengthening the credit management of property developers

Relevant departments shall establish a joint action mechanism to mete out heavier punishments against property developers that possess idle land, engage in land speculation, hoard properties, drive up prices or commit other illegalities or irregularities. Departments of land and resources shall prohibit such property developers from bidding for new land plots, banking financial institutions shall not grant loans for their new development projects, securities regulatory authorities shall suspend the approval of their applications for listing, refinancing or major asset restructuring, and banking regulatory authorities shall prohibit them from raising funds through trust schemes. Tax authorities shall reinforce the collection and administration of the land appreciation tax, and conduct collection audit and inspection in strict accordance with relevant provisions.

The Notice about Forwarding Notice of the General Office of the State Council on Continuing Adjustment and Control of Property Markets issued and implemented by the General Office of the People's Government of Guangdong Province (《廣東省人民政府辦公廳轉發國務院辦公廳關於繼續做好房地產市場調控工作的通知》) (Yue Fu Ban [2013] No.11) on March 25, 2013 sets forth specific measures for carrying out and implementing the No.17 Notice, including the following:

- Effectively implementing the accountability system for stabilizing housing prices

Guangzhou and Shenzhen municipalities shall, in accordance with the principle of maintaining basic stability of housing prices, determine the annual price control targets for newly-constructed commodity housing in 2013, register such targets with the relevant government departments and announce such targets to the public before the end of March 2013.

- Firmly enforcing purchase restrictions imposed on commodity housing

Individual income tax payable on the sales of owner-occupied houses at 20% of the transfer income shall be strictly levied.

Guangdong, Shenzhen, Zhuhai and Foshan municipalities shall continue to strictly enforce purchase restrictions policies for residential housing, and the existing restrictions policies which are not inconsistent with the No.17 Notice shall be adjusted immediately.

- Increasing supply of small and medium-sized ordinary commodity housing and land for property construction

Relevant departments of cities above prefectural level shall announce to the public their annual housing supply plans for 2013, and register the plans with the provincial department of land resources.

A fast-track administrative examination and approval channel for construction projects of small and medium-sized ordinary commodity housing with units which are below 90 sq.m. shall be established. Land supply, construction and delivery for sales of the projects of small and medium-sized ordinary commodity housing shall be accelerated.

- Strengthening the supervision and management of the property market

Provisions regarding management of pre-sales of commodity housing indicated in Administrative Regulations of Guangdong Province on Pre-sales of Commodity Housing (《廣東省商品房預售管理條例》) shall be strictly implemented. Regions where necessary conditions are satisfied shall raise the pre-sale threshold for commodity housing.

On September 29, 2014, the PBOC and CBRC jointly issued the Notice of the People's Bank of China and the China Banking Regulatory Commission on Further Improving Housing Financial Services (中國人民銀行、中國銀行業監督管理委員會關於進一步做好住房金融服務工作的通知) which specified that for a family who buys its first ordinary residential property for self-use with a loan, the minimum percentage of down payment is 30%, and the lower limit of loan interest rate is 70% of the benchmark rate, to be decided by banking financial institutions in light of risk conditions; for a family who has paid up the loan of its first residential property and applies for a loan again to buy an ordinary residential property as an upgrade to living conditions, the loan policies for first residential property shall apply. The notice also specified that in cities where the measures of "restrictions on house buying" are lifted or not imposed, for a family who owns two or more residential properties and has paid up loans for them, and applies to buy another residential property with a loan, banking financial institutions shall decide on the percentage of down payment and interest rate by prudently considering the borrower's solvency and credit status. The banking financial institutions may, according to local plans on urbanization, grant housing loans to non-local residents who meet policy requirements.

On March 30, 2015, the MOF and the SAT jointly issued the "Notice on Adjusting the Business Tax Policies on Individual Housing Transfers", which provides that: (i) where any individual sells a residential property held for less than two years after the day of purchase, the business tax thereon shall be collected in full amount; (ii) where any individual sells a non-ordinary residential property held for two years or more after the date of purchase, the business tax thereon shall be collected on the basis of the balance between the sales income and the purchase price of the house; (iii) where any individual sells an ordinary residential property held for two years or more after the day of purchase, he shall be exempt from the business tax thereon.

On March 30, 2015, the PBOC, MOHURD, and the CBRC jointly issued the "Notice on Issues concerning Individual Housing Loan Policies", which provides that: (i) where the family of an employee who contributes to the housing provident fund uses an entrusted housing provident fund loan to purchase its first ordinary housing unit for its own use, the minimum down payment ratio shall be 20%. (ii) where the family of an employee who contributes to the housing provident fund owns the housing unit, and the loan for the purchase of the housing unit has been paid off, if the family applies again for an entrusted housing provident fund loan to purchase an ordinary housing unit for its own living to improve its current living conditions, the minimum down payment ratio shall be 30%.

On February 1, 2016, the PBOC and the CBRA jointly issued the “Notice on Issues concerning Adjusting the Individual Housing Loan Policies”, which provides that: (i) In cities where “housing purchase restriction” measures are not implemented, the minimum down payment ratio for commercial individual housing loans granted to households of residents for purchasing ordinary housing units for the first time shall generally be 25%, and may be lowered by 5% by local governments; and where a household which owns one housing unit but has not paid off the relevant housing loan applies again for a commercial individual housing loan to purchase an ordinary housing unit improve living conditions, the minimum down payment ratio shall not be less than 30%; (ii) In cities where “housing purchase restriction” measures are implemented, the individual housing loan policies shall remain unchanged.

Local Restrictive Measures

The following discussion relates to measures adopted by various cities in which we operate to restrict local property purchases. As of December 31, 2013, Shantou, Dongguan, Lingshui and Zhongshan had not issued laws or regulations restricting property purchases.

Shenzhen

Pursuant to the Supplemental Circular of the Office of Shenzhen People’s Government on Further Implementing the State Council’s Policy on Firmly Curb Excessive Price Increases (《深圳市人民政府辦公廳關於進一步貫徹落實國務院文件精神堅決遏制房價過快上漲的補充通知》) (Shen Fu Ban [2011] No. 82) promulgated and implemented by the Shenzhen People’s Government on September 30, 2011, the household with the local registered residence (including some family members having local registered residence) of Shenzhen is restricted to purchase two houses, while the household without a local registered residence of Shenzhen that could provide the tax payment proof or social insurance for more than 1 year in Shenzhen is restricted to purchase one house. The household with the local registered residence of Shenzhen that has more than (including) two houses, the household without a local registered residence of Shenzhen that has more than (including) one house, or the household without a local registered residence of Shenzhen that fails to provide the tax payment proof or social insurance for more than 1 year in Shenzhen are no longer eligible to purchase house in Shenzhen. The relevant policies are strictly applied to the overseas institutions and individuals for home-purchase.

The Notice of the General Office of People’s Government of Shenzhen City on Continuing Adjustment and Control of Property Markets (《深圳市人民政府辦公廳關於繼續做好房地產市場調控工作的通知》) (Shen Fu Ban [2013] No.12) issued and implemented on March 31, 2013 sets forth specific measures for carrying out the No.17 Notice and No.11 Notice, including the following:

- **Strengthening the levy of tax on property**

Individual income tax payable on the sales of owner-occupied houses shall be strictly enforced pursuant to the No.17 Notice. Property appraisal methods shall be improved to exert active effects on levying tax on property. Collection and administration of taxes on transactions involving existing housing inventory shall be continued to strengthen, and timely and appropriate adjustments to property appraisals shall be conducted in accordance with the housing price changes.

- **Strictly implementing differentiated credit extension policies based on housing types**

The Central Sub-branch of the PBOC may adjust the percentage of the minimum down payment and loan interest rates for second-home purchases according to policy requirements and the price control targets determined by Shenzhen City for newly-constructed commodity housing when necessary.

- **Strictly enforcing the purchase restrictions imposed on commodity housing**

Department of urban planning and land resources shall strengthen cooperation with departments for tax, civil administration, public security, social security and others to realize information sharing and to stop circumvention of purchase restrictions through remedial

payments of social security, multiple household registers or other methods. Relevant departments shall strengthen investigations and punishments on irregularities and violations, such as providing false information, using deceptive means to obtain the filing for pre-sale contracts or and property transfer registrations, in order to firmly curb property speculation.

- **Further strengthening the market regulation and expectation management of the property market**

The credit management system of property industry shall be further improved. Unlawful sales shall be recorded into the relevant property enterprise's credit files, and shall be resolved according to relevant regulations.

Guangzhou

Pursuant to the Implementation Opinion of the Office of Guangzhou People's Government on Relevant Matters about the Implementation of the Circular of the Office of State Council on the Further Improvement of Control over the Real Estate Market (《廣州市人民政府辦公廳關於貫徹國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知的實施意見》) (Sui Fu Ban [2011] No.3) promulgated by Guangzhou People's Government on February 23, 2011, it temporarily was stipulated for Guangzhou from the date of issuing this opinion that any household with a local registered residence which has already owned one residence and any household without a local registered residence which is able to produce a local tax payment certificate or a proof of social insurance contribution for more than one year in total within two years shall be restricted to purchasing one residence (including newly constructed commodity housing and second-hand housing) within a specified period. In respect of any household with a local registered residence which has already owned two or more residences, any household without local registered residence which has already owned one or more residence(s), and any household without a local registered residence which is unable to provide a local tax payment certificate or a proof of social insurance contribution for more than one year in total within two years, no houses within such household's own city can be sold to such households for the time being. For any foreign institution's and individual's purchase of commodity housing, it must be strictly subject to relevant policies of the country. No registration for real estate will be made for any home purchase in breach of relevant provisions. Any person without a local registered residence who fulfills the conditions of high-level talent specified in the Opinions of the Guangzhou People's Government of the Party Committee of Guangzhou, PRC on Faster Attracting and Cultivating High-level Talents (《中共廣州市委廣州市人民政府關於加快吸引培養高層次人才的意見》) (Sui Zi [2010] No.11) has no residence in Guangzhou may purchase one residence.

Opinions on Implementation of the Notice about Forwarding Notice of the General Office of the State Council on Continuing Adjustment and Control of Property Markets issued and implemented by General Office of the People's Government of Guangdong Province issued and implemented by General Office of the People's Government of Guangzhou Municipality (《廣州市人民政府辦公廳關於貫徹廣東省人民政府辦公廳轉發國務院辦公廳關於繼續做好房地產市場調控通知的實施意見》) (Sui Fu Ban [2013] No.14) on March 31, 2013 set forth more specific measures for adjustment and control of property market under the No.17 Notice and No.11 Notice, including the following:

- **Effectively implementing the accountability system for stabilizing housing prices**

Rises in prices of newly-constructed commodity housing (excluding affordable housing) should be lower than actual rises in capita disposable income of urban residents in Guangzhou.

- **Firmly enforcing purchase restrictions imposed on commodity housing**

A family without local household register that is able to provide proofs for one consecutive year of local tax payments or social insurance contributions within two years before the date of purchase is limited to purchasing one house (including newly-constructed commodity housing and second-hand housing). A family without local household register shall not purchase houses through certifications of remedial payments of local tax or social insurance.

The Guangzhou branch of the PBOC may further raise the percentage of the minimum down payment and loan interest rates for second-home purchases according to policy requirements and the price control targets for newly-constructed commodity housing in Guangzhou in 2013.

Individual income tax payable on the sales of owner-occupied houses shall be strictly enforced pursuant to the No.17 Notice. The collection and administration of the land appreciation tax shall be reinforced, and collection of the land appreciation tax of property projects shall be conducted with increased efforts.

- **Increasing supply of small and medium-sized ordinary commodity housing and land for property construction**

The land supply for affordable housing and middle to low-priced, small and medium-sized units housing should be not lower than 70% of the total land supply for housing. Land supply for low-density housing with volume ratios equal to or lower than one shall be prohibited.

A fast-track administrative examination and approval channel for construction projects of small and medium-sized ordinary commodity housing which are below 90 sq.m. shall be established. Where more than 70% of the total units developed and built under an ordinary commodity housing construction project are small and medium-sized units, banking financial institutions shall give priority to supporting the project's credit needs as long as credit extension conditions are satisfied.

- **Strengthening the market regulation and expectation management of the property market**

The issuance of pre-sale permits may be temporarily suspended for commodity housing projects that command excessively high prices in their pre-sale programs and that refuse to be directed by the land resources and housing administrative departments.

Guangzhou's Land Resources and Housing Administrative Bureau shall take the lead and cooperate with departments for industry and commerce, price control, construction and other departments to increase rectifications and regulations of the order of property market, to focus on investigating illegalities and irregularities such as violations of housing purchase restriction policies, unlawful sales, unlawful property brokerage, driving up prices and publishing false advertisements.

CIVIL AIR DEFENSE PROPERTY

There are several laws and regulations in the PRC regarding the civil air defense project construction, including Law of the People's Republic of China on National Defense (《中華人民共和國國防法》), Civil Air Defense Law of the People's Republic of China (《中華人民共和國人民防空法》), Property Law of the People's Republic of China (《中華人民共和國物權法》), Measures of the Development and Utilization of Civil Air Defense Construction during Peacetime (《人民防空工程平時開發利用管理辦法》) and several Opinions regarding Further Advancing the Development of Civil Air Defense by the State Council and the Central Military Commission (《國務院、中央軍委關於進一步推進人民防空事業發展的若干意見》). According to such laws and regulations, basements that will be used for air defense in time of war shall be constructed in new buildings of cities for civil defense use. If any construction project cannot have basements due to any geological reason, fees for substitute site construction shall be paid. Investors of air defense construction shall be entitled to any benefits generated from its usage and shall manage such construction in the peacetime. Civil use of air defense construction shall be registered with relevant air defense authority by the users. According to the Civil Air Defense Law of the PRC (《中華人民共和國人民防空法》) which was promulgated on October 29, 1996, the government encourages and supports enterprises, institutions, public organizations and individuals to invest in various ways in construction of civil air defense works. In time of peace, such works shall be used and managed by the investors and the income there from shall be owned by them. The government encourages peacetime use of civil air defense works for economic development and the daily lives of the people. However, such use may not impair their functions as air defense works.

ENVIRONMENTAL PROTECTION

The PRC Environmental Protection Law (《中華人民共和國環境保護法》), which was promulgated on December 26, 1989, revised on April 24, 2014 and became effective on January 1, 2015, sets out the legal framework for environmental protection in the PRC. Pursuant to the Environmental Protection Law, developers shall conduct environmental impact assessment for preparation of the relevant development and utilization plans and construction of environment-affected projects. Any development and utilization plan without the environmental impact assessment may not be organized for implementation, and any construction project without the environmental impact assessment may not commence construction work.

Under the Regulations for Administration of Environmental Protection in Construction Projects (建設項目環境保護管理條例), or Environmental Regulations, issued by the State Council on November 29, 1998 and effective as of the same date, each construction project is subject to an environmental impact assessment by the relevant authorities.

The Law of the People's Republic of China on Environmental Impact Assessments (中華人民共和國環境影響評價法), adopted by the National People's Congress on October 28, 2002 and amended on July 2, 2016, provides that if the environmental impact assessment documents of a construction project have not been examined by the relevant environmental protection administrations or are not approved after examination, and the construction work unit may not commence work.

Pursuant to these laws and regulations, depending on the impact analysis table or an environmental impact registration form must be submitted by the developer before the relevant authorities 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.

OVERSEAS LISTING

Pursuant to the Provisions on Mergers and Acquisitions of a Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) (Decree No. 6 [2009] of the MOFCOM) jointly issued by MOFCOM, the State Assets Supervision and Administration Commission, SAT, SAIC, CSRC and SAFE on August 8, 2006, and amended on June 22, 2009 by MOFCOM, a special-purpose company shall mean an overseas company directly or indirectly controlled by a domestic company or natural person in China to materialize overseas listing of the interests in a domestic company actually held by the domestic company or natural person. Where a special purpose company to be listed overseas, the listing shall be proved by the securities regulatory authority under the State Council.

FOREIGN EXCHANGE CONTROL

Pursuant to the Regulations of the PRC for the Control of Foreign Exchange (《中華人民共和國外匯管理條例》) promulgated by the State Council on January 29, 1996 and amended on January 14, 1997 and August 5, 2008, the State shall not restrict regular international payments and transfers. The enterprises may either repatriate their foreign exchange incomes back or deposit the same abroad, and the conditions and terms for repatriating their foreign exchange incomes back or depositing in overseas countries shall be regulated by the administration of foreign exchange under the State Council depending on the balance of international payments and the needs for foreign exchange control. Where the foreign exchange incomes under capital accounts are to be retained or sold to financial institutions which are engaged in settlement and sales of foreign exchange, approvals of foreign exchange control authorities are required, except as otherwise permitted by the state.

Pursuant to the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment and Financing and Inbound Investment 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), which is called SAFE Circular No.37, promulgated by the SAFE and became effective on July 4, 2014, a PRC citizen residing in the PRC (a "PRC Resident") must register with the local branch of SAFE if a PRC Resident directly establish or indirectly control an overseas special purpose vehicle for the purpose of overseas investment and financing with the assets of or equity interests in a domestic enterprise or the overseas assets or equity interests which are owned by a PRC Resident.

The Notice on Regulating Issues Relevant to Administration of Foreign Exchange in Property Market (《關於規範房地產市場外匯管理有關問題的通知》) (Huifa [2006] No.47) jointly issued by SAFE and the MOHURD on September 1, 2006, and partly amended by the Notice of the State Administration of Foreign Exchange on Repealing and Amending Relevant Regulatory Documents Involving the Reform of the Registration System for Registered Capital (《國家外匯管理局關於廢止和修改涉及註冊資本登記制度改革相關規範性文件的通知》) (Huifa [2015] No. 20) issued by SAFE on May 4, 2015, provides: (i) where a foreign-invested property enterprise fails to acquire a land use rights certificate or to make its capital fund for a development project reach 35% of the total investment to the project, the foreign exchange bureau will not handle its foreign debt registration or approve the conversion of foreign debt; (ii) where a foreign organization or individual acquires a domestic property enterprise, if it (he) fails to pay the transfer price in a lump sum by its (his) own fund, the foreign exchange bureau will not handle the registration of foreign exchange income from transfer of equities; (iii) Chinese and foreign investors of a foreign-invested property enterprise shall not reach an agreement including any clause which promises a fixed return or fixed revenue in any disguised form to any party, otherwise the foreign exchange bureau will not handle the foreign exchange registration or registration modification of foreign-invested enterprise; and (iv) funds in a foreign exchange account exclusive to foreign investors opened by a foreign organization or individual in a domestic bank shall not be used for property development or operation. The Notice also provides for a foreign exchange working process related to branches of overseas institutions established within China, overseas individuals, Hong Kong, Macau or Taiwan residents and overseas Chinese purchasing or selling commodity houses within China.

The Measures for Administration of Foreign Debt Registration (《外債登記管理辦法》), which were promulgated by the SAFE on April 28, 2013 and became effective on May 13, 2013, and partly amended by the Notice of the State Administration of Foreign Exchange on Repealing and Amending Relevant Regulatory Documents Involving the Reform of the Registration System for Registered Capital (《國家外匯管理局關於廢止和修改涉及註冊資本登記制度改革相關規範性文件的通知》) (Huifa [2015] No. 20) issued by SAFE on May 4, 2015, stipulate the general provisions on foreign debt registration, administrative provisions on foreign debt account management, use and settlement of foreign debt funds, foreign guarantees for domestic loans, foreign exchange management for outbound transfers of non-performing assets, and the relevant penal provisions.

The Operating Guidelines for Foreign Debt Registration Administration (《外債登記管理操作指引》), which became effective on May 13, 2013, provide specific operational rules in relation to foreign debts administration, and regulate the foreign debt registration of foreign invested real estate enterprises as follows:

- foreign invested real estate enterprises which increase their equity interest capital on and after June 1, 2007 may raise foreign debt financing, which limited to an amount which is the smaller of (i) the difference between the total investment and the registered capital after the capital increase, and (ii) the difference between the total investment and the registered capital before the capital increase, and
- the SAFE will no longer process foreign debt registration or foreign exchange settlement for foreign debt for foreign invested real estate enterprises that obtained approval certificates from MOFCOM, which were filed with MOFCOM on or after June 1, 2007.

In accordance with the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (Hui Fa [2015] No.19) (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知(匯發[2015]19號)), was promulgated on March 30, 2015 by the State Administration of Foreign Exchange, and became effective on June 1, 2015, the foreign exchange capital in the capital account of foreign-invested enterprises for which the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) has been handled can be settled at the banks based on the actual operation needs of the enterprises. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is temporarily determined as 100%. The SAFE can adjust the aforementioned proportion in due time based on the situation of international balance of payments.

According to the Notice on Promoting the Administrative Reform of the Recordation and Registration System for Enterprises' Issuance of Foreign Debts (關於推進企業發行外債備案登記制管理改革的通知) ("NDRC Circular"), issued by NDRC on September 14, 2015, the issuance of foreign debts (including notes, bonds or other debts) with a term of more than one year shall apply for record-filing and registration to the NDRC in advance.

The main provisions of the NDRC Circular are listed below:

- abolish the quota review and approval system for the issuance of foreign debts by enterprises, reform and innovate the ways that foreign debts are managed, and implement the administration of record-filing and the registration system. Achieve the supervision and administration of the size of foreign debts borrowed on a macro level through the record-filing, registration, and information reporting of the issuance of foreign debts by enterprises;
- before the issuance of foreign debts, enterprises shall first apply to the NDRC for the handling of the record-filing and registration procedures and shall report the information on the issuance to NDRC within ten working days of completion of each issuance;
- record-filing and registration materials to be submitted by an enterprise for the issuance of foreign debts shall include: application report for the issuance of foreign debts and issuance plan, including the currency, size, interest rate, and maturity of foreign debts, the purpose of the funds raised and back flow of funds. The applicant shall be responsible for the authenticity, legality, and completeness of the application materials and information;
- the NDRC shall decide whether to accept the application for record-filing and registration within 5 working days of receiving it and shall issue a Certificate for Record-filing and Registration of the Issuance of Foreign Debts by Enterprises (企業發行外債備案登記證明) within 7 working days of accepting the application and within the limit of the total size of foreign debts;
- the issuer of foreign debts shall handle the procedures related to the outflow and inflow of foreign debt funds with the Certificate for Record-filing and Registration according to the regulations. When the limit of the total size of foreign debts is exceeded, the NDRC shall make a public announcement and no longer accept applications for record-filing and registration; and
- if there is a major difference between the actual situation of the foreign debts issued by the enterprises and the situation indicated in the record-filing and registration, an explanation shall be given when reporting relevant information. The NDRC shall enter the poor credit record of an enterprise which maliciously and falsely reports the size of its foreign debts for record-filing and registration into the national credit information platform.

An overseas enterprise controlled by a PRC company or PRC residents shall undergo the prescribed record-filing and registration procedures to the NDRC before the issuance of such foreign debts.

EMPLOYEE SHARE OWNERSHIP PLANS OR SHARE OPTION PLANS

The Administrative Measures for Individual Foreign Exchange (個人外匯管理辦法) which was promulgated by the PBOC on December 25, 2006 and became effective on February 1, 2007, and its Implementation Rules, which was promulgated by the SAFE in January 5, 2007 and became effective on February 1, 2007, requires PRC individuals, who are granted shares or share options pursuant to an employee share option or share incentive plan by an overseas listed company, to register with the SAFE or a local SAFE department. On February 15, 2012, the SAFE promulgated the Notice on Relevant Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas Listed Companies (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) which replaced the Operational Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Share Ownership Plans and Share Option Plans of Overseas Listed Companies (境內個人參與境外上市公司員工持股計劃和認股期權計

劃等外匯管理操作規程) issued by the SAFE on March 28, 2007. Under the notice, PRC residents who participate in share incentive plan in an overseas listed company are required to register with the SAFE or its local branches and complete certain other procedures as required by the authorities. Participants of a share incentive plan who are PRC residents shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the share incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of share options, the purchase and sale of corresponding shares or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the share incentive plan if there is any material change to the share incentive plan, change in the PRC agent or the overseas entrusted institution, or any other material changes.

MANAGEMENT

Our board of directors 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 as of the date of this offering memorandum:

<u>Name</u>	<u>Age</u>	<u>Position & Responsibilities</u>
Kei Hoi Pang (紀海鵬), elder brother of Ji Jiande	50	Chairman, chief executive officer and Executive Director, primarily responsible for the overall strategic planning of our business
Ji Jiande (紀建德), younger brother of Kei Hoi Pang	43	Executive Director and vice president, primarily responsible for managing the business of Shantou region as well as our construction and material procurement
Xiao Xu (肖旭)	45	Executive Director and assistant to president, primarily responsible for implementing our strategic development, investment analysis and external affairs
Lai Zhuobin (賴卓斌)	45	Executive Director and finance director, primarily responsible for our financial management and capital markets functions
Kei Perenna Hoi Ting (紀凱婷), daughter of Kei Hoi Pang	27	Non-executive Director
Zhang Huaqiao (張化橋)	54	Independent Non-executive Director
Liu Ka Ying, Rebecca (廖家瑩)	47	Independent Non-executive Director
Cai Suisheng (蔡穗聲)	66	Independent Non-executive Director

DIRECTORS

Executive Directors

Mr. Kei Hoi Pang (紀海鵬), (formerly known as Mr. Ji Haipeng), aged 50, was appointed as our Executive Director on November 18, 2013. Mr. Kei is our founder, chairman and chief executive officer. Mr. Kei was appointed as our chief executive officer in April 2011. He is primarily responsible for the overall strategic planning of our business. He is the elder brother of Mr. Ji Jiande, an Executive Director. In March 1996, Mr. Kei was appointed as an executive director and chief executive officer of Guangdong Logan (Group), one of our predecessors. Since May 2003 and October 2009, Mr. Kei has also served as a director and chief executive officer of Logan Real Estate and Shenzhen Logan Holdings, respectively. Mr. Kei has 20 years of experience in the property development industry and possessed experience in corporate strategic planning and management as well as project management.

Apart from the above, Mr. Kei had also held positions in various organizations and associations, including as the vice president of the second council of Shantou Real Estate Association (汕頭市房地產業協會第二屆理事會) and Guangdong Provincial Real Estate Association (廣東省房地產業協會). In 2005, Mr. Kei was recognized as the “Excellent Business Contributor of Socialism with Chinese Characteristics of Guangdong Province (廣東省優秀中國特色社會主義事業建設者)” which was presented by the Guangdong Provincial United Front Work Department of the Communist Party of China (中共廣東省委統戰部), the Provincial Development and Reform Commission (省發展和改革委員會), the Provincial Office of Personnel (省人事廳), the Provincial Administration for Industry and Commerce (省工商局) and the Provincial Federation of Industry and Commerce (省工商聯).

Mr. Ji Jiande (紀建德), aged 43, was appointed as our Executive Director on November 18, 2013. Mr. Ji Jiande is also our vice president, primarily responsible for managing the business of Shantou region. He is also in charge of our construction and material procurement. He is the younger brother of Mr. Kei Hoi Pang, our chairman and an Executive Director. Mr. Ji joined Logan Real Estate in 2006 and served as our general manager of various companies. Since October 2008 and December 2008, Mr. Ji also served as a director of Logan Construction and Logan Real Estate, respectively. In December 2009, Mr. Ji Jiande was appointed as a director of Shenzhen Logan Holdings, primarily responsible for our operational management, construction and material management.

Mr. Xiao Xu (肖旭), aged 45, was appointed as our Executive Director on November 18, 2013. He is also the assistant to our president. Mr. Xiao is mainly responsible for implementing our strategic development, investment analysis and external affairs. Mr. Xiao was employed by Logan Real Estate in 2007 and held various senior management positions in Logan Real Estate during the period from August 2007 to April 2011, prior to his appointment as the assistant to the president of Shenzhen Logan Holdings in April 2011. He has substantial experience in investment analysis, corporate management secretarial work and external liaison. Mr. Xiao obtained a bachelor’s degree in business management from Jinan University (暨南大學) in June 1993 and obtained a postgraduate diploma in economics from the Party School of Chinese Communist Party of Guangdong Province (中共廣東省委黨校) in July 1998.

Mr. Lai Zhuobin (賴卓斌), aged 45, was appointed as our Executive Director on November 18, 2013. He is also our finance director. Mr. Lai is mainly responsible for our financial management and capital markets functions. Mr. Lai was employed by Logan Real Estate in 2007 and held various senior positions within the financial management division during the period from November 2007 to May 2011. In May 2011, Mr. Lai was appointed and has since served as the financial controller of Shenzhen Logan Holdings. He is a member of the Chinese Institute of Certificate Public Accountants. Mr. Lai obtained a bachelor’s degree in science from Sun Yat-sen University (中山大學) in July 1993 and obtained a master’s degree in engineering from Beijing Institute of Technology in July 2003.

Non-executive Director

Ms. Kei Perenna Hoi Ting (紀凱婷) (formerly known as Ms. Ji Peili (紀佩麗)), aged 27, was appointed as our Director on May 14, 2010 and was re-designated as a Non-executive Director on November 18, 2013. She is the daughter of Mr. Kei Hoi Pang, our chairman and an Executive Director. In August 2011, Ms. Kei obtained a bachelor’s degree in economics and finance from the University of London.

Independent Non-executive Directors

Mr. Zhang Huaqiao (張化橋), aged 54, was appointed as our Independent Non-executive Director on November 18, 2013. Mr. Zhang is the chairman of the board of China Smartpay Group Holdings Limited (formerly known as “Oriental City Group Holdings Limited”), a company listed on the Stock Exchange. Mr. Zhang is a director of various companies the shares of which are listed on the Stock Exchange, including as an independent non-executive director of Fosun International Limited (Stock Code: 656), an independent non-executive director of Zhong An Real Estate Limited (Stock Code: 672), a non-executive director of Bower Power Holdings Limited (Stock Code: 1685), Oriental City Group Holdings Limited (Stock Code: 8325), an independent non-executive director of China Huirong Financial Holdings Limited (Stock Code: 1290), an independent non-executive director of Luye Pharma Group Ltd., and an independent non-executive director of Ernest Borel Holdings Limited. Since February 2013,

Mr. Zhang has also been a director of Nanjing Central Emporium Group Stocks Co., Ltd. (600280.SS), a company the shares of which are listed on the Shanghai Stock Exchange and an independent non-executive director of Yancoal Australia Ltd., a company listed on the Australia Securities Exchange. From June 1999 to April 2006, Mr. Zhang had worked with UBS AG, Hong Kong Branch and held positions as a director, executive director, managing director and the co-head of its China research team. From September 2011 to April 2012, Mr. Zhang also served as an executive director and chief executive officer of Man Sang International Limited (Stock Code: 938), a company whose shares are listed on the Stock Exchange. Mr. Zhang obtained a master's degree in economics from the Graduate School of the People's Bank of China in July 1986 and obtained a master's degree in economics of development from the Australian National University in April 1991.

Ms. Liu Ka Ying, Rebecca (廖家莹), aged 47, was appointed as our Independent Non-executive Director on November 18, 2013. From June 1996 to March 2002, Ms. Liu served as the general manager for the Asia and China region of The PRG-Schultz International, Inc., a company listed on NASDAQ. In January 2007, Ms. Liu was appointed as the chief executive officer of AllPanther Asset Management Limited (竣富(資產)管理有限公司) and served at such position since then. She possesses experience in management, investment in real estate development and private investment funds, as well as accounting and financial management.

Ms. Liu is a member of the American Institute of Certified Public Accountants (AICPA), Illinois CPA Society (ICPAS) of the United States and Hong Kong Institute of Certified Public Accountants (HKICPA). Ms. Liu obtained a double bachelor's degree in Business Administrative Studies from York University, Canada with major in management and in accounting (with honours) in 1992 and 1994, respectively. She also obtained a doctoral's degree in business administration from Victoria University of Switzerland in November 2011. She is also a member of the Tenth Jilin Provincial Committee of the Chinese People's Political Consultative Conference, Hong Kong Institute of Bankers, Association of Women Accountants (Hong Kong) Limited and Hong Kong Professionals and Senior Executives Association and Hong Kong China Chamber of Commerce.

Mr. Cai Suisheng (蔡穗聲), aged 66, was appointed as our Independent Non-executive Director on November 18, 2013. Mr. Cai is currently the president of Guangdong Provincial Real Estate Association (廣東省房地產行業協會) and a member of the Housing Policy Expert Committee of the Ministry of Housing and Urban-Rural Development (住房和城鄉建設部住房政策專家委員會). Also, in 2004, Mr. Cai was a visiting scholar at the Institute of Housing and Urban Research of Uppsala University in Sweden (瑞典烏普薩拉大學住房與城市發展研究所). From 2006 to 2010, Mr. Cai served as a standing director of the China Real Estate Association (中國房地產協會). In June 2014, Mr. Cai was re-designated from independent non-executive director to external director of Guangzhou Pearl River Industrial Development Co., Ltd. (廣州珠實業開發股份有限公司), a company listed on the Shanghai Stock Exchange. In October 2013, Mr. Cai was appointed as emeritus professor of the department of urban planning and design of the University of Hong Kong and as visiting professor of College of Real Estate of Beijing Normal University (Zhu). Mr. Cai has in-depth knowledge and extensive experience in real estate policy, market and urban management and has published numerous articles and reviews regarding the real estate market, housing policy as well as urban development and management in various newspapers and publications.

SENIOR MANAGEMENT

The table below sets forth certain information concerning our other senior management members:

Name	Age	Position
Kei Hoi Pang (紀海鵬)	50	Chairman and chief executive officer
Ji Jiande (紀建德)	43	Vice president
Xiao Xu (肖旭)	45	Assistant to president
Lai Zhuobin (賴卓斌)	45	Finance director
Huang Xiangling (黃湘玲)	40	Vice president, primarily responsible for the management of our president's office and public affairs

Please refer to the section entitled “—Directors” above for the biographies of Mr. Kei Hoi Pang, Mr. Ji Jiande, Mr. Lai Zhuobin and Mr. Xiao Xu.

Ms. Huang Xiangling (黃湘玲), aged 40, is a vice president of our Company. She is mainly responsible for the management of our president’s office and public affairs. Ms. Huang joined Logan Real Estate in 2005. Since August 2005 and May 2011, Ms. Huang has served as the general manager of Shantou Logan Property and assistant to the president of Shenzhen Youkaisi, respectively. Ms. Huang has extensive experience in project management, internal management and external liaison. Ms. Huang obtained a diploma in public affairs management from Zhejiang University (浙江大學) in June 2007 through long-distance learning.

COMPANY SECRETARY

Ms. Li Yan Wing, Rita (李昕穎), aged 50, is a director of the corporate services division of Tricor Services Limited. Ms. Li is a chartered secretary and a fellow of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She has over 24 years’ experience in corporate advisory services. Prior to joining Tricor Services Limited, Ms. Li served as a senior manager of the company secretarial department of Tengis Limited. Ms. Li currently also serves as the company secretary of China Outfitters Holdings Limited (stock code: 1146) and Kee Holdings Company Limited (stock code: 2011), companies whose shares are listed on the Stock Exchange.

BOARD COMMITTEES

Audit Committee

We have established an audit committee on November 18, 2013 with written terms of reference in compliance with the Listing Rules. The audit committee consists of three Independent Non-executive Directors, Ms. Liu Ka Ying, Rebecca (being the chairman of the audit committee who has a professional qualification in accountancy), Mr. Cai Suisheng and Mr. Zhang Huaqiao. The primary duties of the audit committee are to assist the Board by providing an independent view of the effectiveness of our financial reporting process, internal control and risk management system, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established a remuneration committee on November 18, 2013 with written terms of reference in compliance with the Listing Rules. The remuneration committee consists of three members, two of whom are Independent Non-executive Directors, being Ms. Liu Ka Ying, Rebecca and Mr. Zhang Huaqiao, as well as our Executive Director, Mr. Kei Hoi Pang. The remuneration committee is chaired by Mr. Zhang Huaqiao. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to the Directors regarding our policy and structure for the remuneration of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of our Directors and senior management; (iii) reviewing and approving the management’s remuneration proposals with reference to the Board’s corporate goals and objectives; and (iv) considering and approving the grant of share options to eligible participants pursuant to a share option scheme.

In 2015 and 2016, our remuneration policy for our Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to our profit performance and the individual performance of our Directors and senior management members.

Nomination Committee

We have established a nomination committee on November 18, 2013 with written terms of reference. The nomination committee consists of three members, namely Mr. Kei Hoi Pang, Mr. Zhang Huaqiao and Ms. Liu Ka Ying, Rebecca. Two of the members are our Independent Non-executive Directors. The chairman of the nomination committee is Mr. Kei Hoi Pang. The primary function of the nomination committee is to make recommendations to our Board on the appointment of members of our Board.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary and cash bonus.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid to our Directors for the years ended December 31, 2015 and 2016, was RMB35.0 million and RMB57.5 million (US\$8.3 million), respectively.

The aggregate amount of remuneration, including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid by us to our five highest paid individuals for the years ended December 31, 2015 and 2016 was RMB37.3 million and RMB59.3 million (US\$8.5 million) respectively.

No remuneration was paid by us to the Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended December 31, 2015 and 2016. Further, none of our Directors waived any remuneration during the same periods.

SHARE OPTION SCHEME

Our shareholders adopted a share option scheme on November 18, 2013 in accordance with the Listing Rules. Our board may, at its discretion, offer to grant an option to subscribe for such number of new shares as it may determine at a price to any of our full-time or part-time employees, executives, officers, Directors (including Independent Non-executive Directors), advisors, consultants, suppliers, customers, distributors, agents and any such other persons who in the sole opinion of our board, will contribute or have contributed to us. The share option scheme shall be valid and effective for a period of ten years from the date of its adoption and no option may be exercised more than ten years after it has been granted.

The maximum number of shares in respect of which options may be granted under our share option scheme must not exceed 30% of the shares in issue from time to time. As of the date of this offering memorandum, we have granted 198,260,000 share options to certain Directors and employees of our Group to subscribe for shares under the share option scheme, and no options have been exercised.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding ownership of our outstanding shares as of the date of this offering memorandum 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 ⁽¹⁾	Approximate percentage of interest in us ⁽⁵⁾
Mr. Kei Hoi Pang	Beneficiary of a family trust, interest of a controlled corporation	4,250,000,000 (L)	77.32%
	Beneficial owner	13,120,000 (L) ⁽²⁾	0.24%
Ms. Kei Perenna Hoi Ting	Beneficiary of the Family Trust, interest of controlled corporations ⁽³⁾	4,250,000,000 (L)	77.32%
	Beneficial owner	2,050,000 (L)	0.04%
Junxi Investments Limited ⁽⁴⁾	Beneficial owner	3,400,000,000 (L)	61.86%
Kei Family United Limited ⁽⁴⁾	Interest of a controlled corporation	3,400,000,000 (L)	61.86%
Brock Nominees Limited ⁽⁴⁾	Nominee	3,400,000,000 (L)	61.86%
Tenby Nominees Limited ⁽⁴⁾	Nominee	3,400,000,000 (L)	61.86%
Credit Suisse Trust Limited ⁽⁴⁾	Trustee	3,400,000,000 (L)	61.86%
Dragon Jubilee Investments Limited	Beneficial owner	425,000,000 (L)	7.73%

Notes:

- (1) The letter “L” denotes the person’s long position in the shares.
- (2) Including the grant of 8,170,000 share options which has been approved by independent shareholders on July 31, 2014.
- (3) Ms. Kei is also indirectly interested in us through Dragon Jubilee Investments Limited, Gao Run Holdings Limited and Thrive Ally Limited, which owned collectively 15.46% interests in us.
- (4) Ms. Kei is the settler and a beneficiary of a family trust, which is a trust set up to hold the interest of Ms. Kei and her family (excluding Mr. Kei) in us. The family trust is interested in the entire interest of the Kei Family United Limited which in turn holds the entire interest in the Junxi Investments Limited. Further, Mr. Kei is considered to be interested in our shares through Junxi Investments Limited and Ms. Kei as (i) Junxi Investments Limited is a company which is entirely owned by the family trust to which Ms. Kei is the settler and a beneficiary and (ii) Ms. Kei being a person accustomed to act in accordance with Mr. Kei’s directions.
- (5) The percentage is calculated based on the total number of shares as at the date of this offering memorandum.

Except as disclosed above, as of the date of this offering memorandum, no other parties had registered an interest or short position in our shares or underlying shares that was required to be recorded pursuant to Section 336 of the SFO.

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 Hong Kong Stock Exchange, we are subject to the requirements of Chapter 14A of the Listing Rules which require certain “connected transactions” with “connected persons” be approved by 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.

Material related party transactions identified during the periods and balances with these related parties at those dates are summarized as follows:

- (a) (i) Remuneration of key management personnel, including amounts paid to the directors and senior management:

	For the year ended December 31,		
	2015	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Short-term employee benefits.....	40,856	80,500	11,594
Post-employment benefits.....	—	—	—
	40,856	80,500	11,594

- (ii) Construction income, design fee income, sales of construction raw materials and construction management service income:

	For the year ended December 31,		
	2015	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Construction contracts income			
from related companies ⁽¹⁾	116,280	211,607	30,478
Construction management service income from a			
related company	700	1,501	216
Rental income from related			
companies	—	2,070	298
Interest income from an associate			
and joint ventures	—	315,308	45,414
Disposal of subsidiaries to joint ventures	—	109,000	15,699
Acquisition of subsidiary from			
the relative of the Chairman of			
the Company	—	(494,000)	(71,151)
Acquisition of investment property			
from a related party.....	—	(22,775)	(3,280)
	116,980	122,711	17,674

Note:

- (1) We were engaged for the construction projects of related companies, including Logan Real Estate Holdings Co., Ltd. (龍光地產有限責任公司)*, Nanning Logan Century Property Co., Ltd. (南寧市龍光世紀房地產有限公司)*, Fangchenggangshi Tianjun Investment Co., Ltd. (防城港市天駿投資有限公司)*, Shantou Tianyue Investment Co., Ltd. (汕頭市天悅投資有限公司)*, Huizhou Daya Bay Investment Co., Ltd. (惠州大亞灣龍光投資有限公司)*, Huizhou Daya Bay Tianhui Investment Co., Ltd (惠州大亞灣天暉投資有限公司)*, Shantou Jinjun Investment Consulting Co., Ltd. (汕頭市順金駿投資諮詢有限公司)* and Foshan Shunde Logan Property Co., Ltd. (佛山市順德區龍光房產有限公司)* on normal commercial terms and in the ordinary course of business.

As of December 31, 2016, none of our bank loan was pledged by assets held by our related companies.

(c) As of the balance sheet dates, we had the following balances with related companies/parties:

	As of December 31,		
	2015	2016	
	RMB'000	RMB'000	US\$'000
(i) Amounts due from related companies			
Fangchenggangshi Tianjun Investment Co., Ltd. (防城港市天駿投資有限公司).....	16,779	16,779	2,417
Guangdong Logan Group Property Management Co., Ltd. (廣東龍光集團物業管理有限公司)*	916	2,627	378
Nanning Logan Century Property Co., Ltd. (南寧市龍光世紀房地產有限公司).....	9,729	8,517	1,227
Shantou Jinjun Investment Consulting Co., Ltd. (汕頭市金駿投資諮詢有限公司)*	12,692	11,973	1,724
Huizhou Daya Bay Logan Investment Ltd. (惠州大亞灣龍光投資有限公司)	78	79	11
Logan Real Estate Co., Ltd. (龍光地產有限責任公司)	91,328	95,647	13,776
Huizhou Daya Bay Logan City Davis Hotel Co., Ltd. (惠州大亞灣龍光城戴斯酒店有限公司)	6,943	5,322	767
Shantou Weida Real Estate Limited (汕頭市偉達房地產有限公司)	28,346	—	—
	<u>166,811</u>	<u>140,944</u>	<u>20,300</u>
(ii) Amounts due to related companies			
Logan Real Estate Co., Ltd. (龍光地產有限責任公司)	—	200	29
Huizhou Daya Bay Investment Co., Ltd. (惠州大亞灣龍光投資有限公司)	—	2,781	401
GuangDong Logan (Group) Property Management Co., Ltd (廣東龍光集團物業管理有限公司)	12	0	0
Hong Jun Long Holdings Co., Ltd (鴻駿隆控股有限公司)	—	494,000	71,151
Fangchenggangshi Tianjun Investment Co., Ltd. (防城港市天駿投資有限公司).....	—	500	72
Huizhou Daya Bay Logan City Davis Hotel Co., Ltd. (惠州大亞灣龍光城戴斯酒店有限公司)	—	7	1
	<u>12</u>	<u>497,488</u>	<u>71,654</u>

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 December 31, 2016, our total outstanding borrowings (excluding the Existing Notes and Corporate Bonds) amounted to RMB15,078.0 million (US\$2,171.7 million). Set forth below is a summary of the material terms and conditions of these loans and other indebtedness.

PRC BANK LOAN AGREEMENTS

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, including Industrial and Commercial Bank of China, China Construction Bank, China Mingsheng Bank, Hua Xia Bank, China CITIC Bank, Agricultural Development Bank of China, Chang'an Bank and China Bohai Bank. These PRC bank loans include project loans to finance the construction of our projects and loans to finance our working capital requirements. They have terms ranging from 11 months to 15 years, which generally correspond to the construction periods of the particular projects. As of December 31, 2016, the aggregate outstanding amount under these PRC bank loans totaled approximately RMB8,284.7 million (US\$1,193.2 million), of which RMB1,926.7 million (US\$277.5 million) was due within one year, RMB2,755.3 million (US\$396.8 million) was due between one and two years, RMB3,321.2 million (US\$478.4 million) was due between two and five years and RMB281.5 million (US\$40.5 million) was due over five years. Our PRC bank loans are typically secured by land use rights and properties as well as guaranteed by certain of our PRC subsidiaries.

Interest

The principal amounts outstanding under these PRC bank 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 December 31, 2016, the weighted average interest rate on the aggregate outstanding amount of these PRC bank loans was 5.6% per annum.

Covenants

Under these PRC bank 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

These PRC bank 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 these PRC bank loans pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these PRC bank loans. Further, as of December 31, 2016, RMB5,169.0 million (US\$744.5 million) of these PRC bank loans were secured by land use rights and/or other assets and properties of the subsidiary borrowers and/or our other PRC subsidiaries.

Dividend Restrictions

Pursuant to these PRC bank loans with certain PRC banks, some of our PRC subsidiaries, including Haikou Logan Property Development Co., Ltd., Foshan Logan Sunshine Coast Property Co., Ltd., Shenzhen Logan Century Business Management Co., Ltd., Nanning Logan Mingjun Property Development Co., Ltd. and Shenzhen Chenrong Construction Materials Co., Ltd. also agreed not to distribute any dividend without the written consent of such PRC banks:

- 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.

OTHER FINANCINGS

We have obtained, from time to time, secured and unsecured other financings from a number of trust companies in the PRC. The terms of our trust financings range from one to three years, and the interest rates range from 4.98% to 8.68% per annum. As of the date of this offering memorandum, the amount under our trust financings aggregate to RMB5,581.5 million (US\$803.9 million).

Overview of Trust Financings

Although we have not experienced any difficulty in obtaining bank loans necessary to fund our developments, we also utilize loans from trust companies with a view to diversifying our financing sources, given that loans from trust companies give us more flexibility. We believe this is in line with the industry practice.

In general, the interest rates of our other loans from trust companies are higher than those of our bank loans. In addition, while banks generally do not accept transferred equity interests to secure repayment obligations, trust companies are generally more flexible in accepting different types of security. For instance, in the past, we transferred equity interests in a project subsidiary to the lending trust company to secure our loan with it, which were transferred back to us when we repaid the loan. Our currently effective loans with trust companies do not have such equity transferring feature. Our other loans may include customary covenants, such as allowing lenders' ongoing supervision of our operational and financial conditions, prohibition against using the borrowings for investment purposes, and requirements to notify the lenders in the event of material adverse changes in our operations and financial conditions. In the event of default, we may be required to make immediate repayments of loans, pay a penalty or indemnify the lenders.

PUBLIC CORPORATE BONDS

RMB5.0 Billion Public Corporate Bonds

Shenzhen Logan issued a public corporate bond which was listed and traded on the Shanghai Stock Exchange in an aggregate principal amount of RMB5.0 billion (US\$0.7 billion) to qualified investors only in tranches. The first tranche was issued on August 19, 2015 in an amount of RMB4.0 billion (US\$0.6 billion) with a five-year term at a coupon rate of 5% per annum. At the end of the third year, Shenzhen Logan has a right to adjust the coupon rate, and the investor can exercise a retractable option. The second tranche was issued on August 27, 2015 in an amount of RMB1.0 billion (US\$0.1 billion) with a four-year term at a coupon rate of 4.77% per annum. At the end of the second year, Shenzhen Logan has a right to adjust the coupon rate, and the investors can exercise a retractable option.

RMB1.4 billion Public Corporate Bonds

Shenzhen Logan issued a public corporate bond on October 20, 2016 which was listed and traded on the Shenzhen Stock Exchange in an aggregate principal amount of RMB1.4 billion (US\$0.2 billion) to qualified investors only with a five-year term at a coupon rate of 3.4% per annum. At the end of the third year, Shenzhen Logan Holding Co., Ltd. has a right to adjust the coupon rate, and the investors can exercise a retractable option.

PRIVATE CORPORATE BONDS

RMB3.0 Billion Private Corporate Bonds

Shenzhen Logan issued a private corporate bonds which was listed and traded on the Shanghai Stock Exchange in an aggregate principal amount of RMB3.0 billion (US\$0.4 billion) to qualified investors only in tranches. The first tranche was issued on January 13, 2016 in an aggregate principle amount of RMB2.5 billion (US\$0.4 billion) with a three-year term at a coupon rate of 5.8% per annum. At the end of second year, Shenzhen Logan has a right to adjust the coupon rate, and the investor can exercise a retractable option. The second tranche was issued on May 16, 2016 in an aggregate principle amount of RMB500.0 million (US\$72.0 million) with a four-year term at a coupon rate of 5.2% per annum. At the end of the second year, Shenzhen Logan has a right to adjust the coupon rate, and the investor can exercise a retractable option.

RMB3.0 Billion Private Corporate Bonds

Shenzhen Logan issued a private corporate bond only July 25, 2016 which was listed and traded on the Shenzhen Stock Exchange in an aggregate principal amount of RMB3.0 billion (US\$0.4 billion) to qualified investors only in tranches with a five-year term at a coupon rate of 5.15% per annum. At the end of the third year the Company has a right to adjust the coupon rate, and the investor can exercise a retractable option.

JUNE 2014 NOTES

On June 4, 2014, we entered into an indenture (as amended or supplemented from time to time, the “June 2014 Indenture”). Pursuant to the June 2014 Indenture, we issued an aggregate principal amount of US\$300 million of the June 2014 Notes on June 4, 2014. The June 2014 Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the June 2014 Notes is outstanding.

Guarantee

The obligations pursuant to the June 2014 Notes are guaranteed by our existing subsidiaries (the “June 2014 Subsidiary Guarantors”) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the June 2014 Indenture. Each of the June 2014 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 June 2014 Notes.

Interest

The June 2014 Notes bear interests at 11.25% *per annum*, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the June 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 June 2014 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the June 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 June 2014 Indenture or the holders of at least 25% of the outstanding June 2014 Notes may declare the principal of the June 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 June 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 June 2014 Notes is June 4, 2019.

At any time and from time to time on or after June 4, 2017, we may redeem the June 2014 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount of the June 2014 Notes set forth in the table below plus any accrued and unpaid interest to (but not including) the redemption date, if redeemed during the twelve month period beginning on June 4 of each year set forth below:

Period	Redemption Price
2017	105.6250%
2018 and thereafter	102.8125%

At any time and from time to time prior to June 4, 2017, we may redeem the June 2014 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the June 2014 Notes, plus a premium and any accrued and unpaid interest to (but not including) the redemption date.

At any time and from time to time prior to June 4, 2017, we may redeem up to 35% of the aggregate principal amount of the June 2014 Notes at a redemption price equal to 111.25% of the principal amount of the June 2014 Notes redeemed, plus any accrued and unpaid interest with the proceeds from sales of certain kinds of our capital stock, subject to certain conditions.

Additionally, if we or a subsidiary guarantor under the June 2014 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the June 2014 Notes at a redemption price equal to 100% of the principal amount of the June 2014 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

DECEMBER 2014 NOTES

On December 8, 2014, we entered into an indenture (as amended or supplemented from time to time, the “December 2014 Indenture”). Pursuant to the December 2014 Indenture, we issued an aggregate principal amount of US\$250 million of the December 2014 Notes on December 8, 2014. The December 2014 Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the December 2014 Notes is outstanding.

Guarantee

The obligations pursuant to the December 2014 Notes are guaranteed by our existing subsidiaries (the “December 2014 Subsidiary Guarantors”) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the December 2014 Indenture. Each of the December 2014 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 December 2014 Notes.

Interest

The December 2014 Notes bear interests at 9.75% *per annum*, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the December 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 December 2014 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the December 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 December 2014 Indenture or the holders of at least 25% of the outstanding December 2014 Notes may declare the principal of the December 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 December 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 December 2014 Notes is December 8, 2017.

At any time and from time to time prior to December 8, 2017, we may redeem the December 2014 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the December 2014 Notes, plus a premium and any accrued and unpaid interest to (but not including) the redemption date.

At any time and from time to time prior to December 8, 2017, we may redeem up to 35% of the aggregate principal amount of the December 2014 Notes at a redemption price equal to 109.75% of the principal amount of the December 2014 Notes redeemed, plus any accrued and unpaid interest with the proceeds from sales of certain kinds of our capital stock, subject to certain conditions.

Additionally, if we or a subsidiary guarantor under the December 2014 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the December 2014 Notes at a redemption price equal to 100% of the principal amount of the December 2014 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

JANUARY 2016 NOTES

On January 19, 2016, we entered into an indenture (as amended or supplemented from time to time, the "January 2016 Indenture"). Pursuant to the January 2016 Indenture, we issued an aggregate principal amount of US\$260 million of the January 2016 Notes on January 19, 2016. The January 2016 Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the January 2016 Notes is outstanding.

Guarantee

The obligations pursuant to the January 2016 Notes are guaranteed by our existing subsidiaries (the “January 2016 Subsidiary Guarantors”) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the January 2016 Indenture. Each of the January 2016 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 January 2016 Notes.

Interest

The January 2016 Notes bear interests at 7.70% *per annum*, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the January 2016 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 January 2016 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the January 2016 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 January 2016 Indenture or the holders of at least 25% of the outstanding January 2016 Notes may declare the principal of the January 2016 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 January 2016 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 January 2016 Notes is January 19, 2020.

At any time and from time to time on or after January 19, 2020, we may redeem the January 2016 Notes, in whole or in part, at a redemption price equal to the 103% of principal amount of the January 2016 Notes set forth in the table below plus any accrued and unpaid interest to (but not including) the redemption date.

Additionally, if we or a subsidiary guarantor under the January 2016 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the January 2016 Notes at a redemption price equal to 100% of the principal amount of the January 2016 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

JANUARY 2017 NOTES

On January 3, 2017, we entered into an indenture (as amended or supplemented from time to time, the “January 2017 Indenture”). Pursuant to the January 2017 Indenture, we issued an aggregate principal amount of US\$200 million of the January 2017 Notes on January 3, 2017. The January 2017 Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the January 2017 Notes is outstanding.

Guarantee

The obligations pursuant to the January 2017 Notes are guaranteed by our existing subsidiaries (the “January 2017 Subsidiary Guarantors”) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the January 2017 Indenture. Each of the January 2017 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 January 2017 Notes.

Interest

The January 2017 Notes bear interests at 5.75% *per annum*, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the January 2017 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 January 2017 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the January 2017 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 January 2017 Indenture or the holders of at least 25% of the outstanding January 2017 Notes may declare the principal of the January 2017 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 January 2017 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 January 2017 Notes is January 3, 2022.

At any time and from time to time on or after January 3, 2020, we may redeem the January 2017 Notes, in whole or in part, at a redemption price equal to the percentage of the principal amount of the January 2017 Notes set forth in the table below plus any accrued and unpaid interest to (but not including) the redemption date.

Period	Redemption Price
2020.....	102.8750%
2021 and thereafter.....	101.4375%

At any time and from time to time prior to January 3, 2020, the Company may at its option redeem the January 2017 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the January 2017 Notes plus the applicable premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date.

Additionally, if we or a subsidiary guarantor under the January 2017 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the January 2017 Notes at a redemption price equal to 100% of the principal amount of the January 2017 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

HANG SENG BANK FACILITY

On August 18, 2015, we, through our wholly owned subsidiary, Golden Prosper (Hong Kong) Investments Holding Limited, entered into a facility letter with Hang Seng Bank pursuant to which we were granted a term loan for an aggregate principal amount of up to RMB50.0 million (US\$7.5 million) or its equivalent in HK dollar or US dollar subject to applicable monetary caps (the "Hang Seng Bank Facility"). As of the date of this offering memorandum, we used HK\$56.9 million from the Hang Seng Bank Facility.

The Hang Seng Bank Facility has a term of 24 months from September 2, 2015 or shortly before the expiry date of the standby letter of credit referred to in the Guarantee section below.

Guarantee

The Hang Seng Bank Facility is guaranteed by a standby letter of credit issued by Hang Seng Bank (China) Limited, Shengzhen Branch, for an amount of RMB50 million, which is secured by certain properties of our Company.

Interest

The Hang Seng Bank Facility bears interest at the rate of (i) 3% per annum over HIBOR for drawdown in HKD; (ii) 3% per annum over LIBOR for drawdown in USD; or (iii) 3% per annum over RMB prime rate announced by Hang Seng Bank from time to time as its base rate for Renminbi finance for drawdown in RMB subject to applicable terms and conditions.

Covenants

The Hang Seng Bank Facility requires our Company to maintain 100% beneficial shareholding in the borrowing subsidiary. It also restricts the relevant subsidiary from, among other things:

- Effecting a consolidation or merger;
- Changing the nature and scope of business in any material aspect;
- Selling assets without the bank's prior consent;
- Remitting drawdown proceeds to PRC for any purposes; and
- Using the loan proceeds for property acquisition or property investment.

HANG SENG BANK FACILITY

On December 8, 2016, we entered into a facility agreement with Hang Seng Bank Limited as lender, pursuant to which we were granted a term loan facility of HK\$426.0 million (US\$54.9 million) for our general corporate purposes. As of the date of this offering memorandum, the entire principal amount remains outstanding.

Interest and Maturity

This facility bears fixed rate interest at HIBOR plus 3.08% per annum, payable one month and is due on December 8, 2019.

If any amount payable is due and outstanding, default interest shall accrue from the due date up to the date of actual payment at a rate of 2% plus the original interest rate.

We may prepay the facility, in whole or in part, by giving not less than 30 days' (or such shorter period as the lender may agree) written notice in advance to the lender.

Financial Covenants

Under the facility agreement, we undertook to ensure the following at all times and for so long as any loan is outstanding:

- our consolidated tangible net worth shall not be less than RMB9.0 billion;
- the ratio of consolidated net borrowings to the consolidated tangible net worth shall not be more than 1.00:1;

- the ratio of consolidated PRC borrowings to the consolidated total assets, expressed as a percentage, shall not be more than 60%;
- the ratio of the consolidated EBITDA in respect of any relevant period to the consolidated fixed charges in respect of the relevant period shall not be less than 2.00:1; and
- the dividend payout ratio in any financial year shall not be more than 50%.

In connection with the offering of the Notes, we have obtained a waiver with respect to the ratio of consolidated net borrowings to the consolidated tangible net worth.

Events of Default

The facility agreement contains certain customary events of default, including default in payment, breaches of the terms of the facility agreement and cross default.

In addition, Ms. Kei Perenna Hoi Ting, her spouse and children collectively have to own at least 51% beneficial shareholding interest in our issued share capital and carry 51% of the voting rights, and Mr. Kei Hoi Pang has to have our management control and stay as our chairman.

The facility agent is entitled to demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default which is continuing.

Guarantee and Security

All our obligations under this facility are guaranteed by certain of our subsidiaries incorporated outside the PRC jointly and severally and no security agreement has been entered into.

INDUSTRIAL BANK FACILITY

On February 22, 2017, we entered into a facility agreement (“Industrial Bank Facility”) with Industrial Bank Co., Ltd., Hong Kong Branch as lender, pursuant to which we were granted a transferable term loan facility of up to HK\$500,000,000 to finance our general corporate funding requirements. As of the date of this offering memorandum, the entire principal amount remains outstanding.

Interest and Maturity

The loans granted to us under the Industrial Bank Facility will be in either U.S. dollars or Hong Kong dollars. This facility bears fixed rate interest at LIBOR plus 3.8% per annum with respect to the loans in U.S. dollars or HIBOR plus 3.8% per annum with respect to the loans in Hong Kong dollars. The interest is payable every month, every three months or every six months at our selection, or otherwise agreed between us and the lender.

If any amount payable is due and outstanding, default interest shall accrue from the due date up to the date of actual payment at a rate of 2% plus the original interest rate.

We may prepay the facility, in whole or in part, by giving not less than 30 business days’ (or such shorter period as the lender may agree) written notice in advance to the lender.

The Industrial Bank Facility matures on February 22, 2020.

Financial Covenants

Under the facility agreement, we undertook to ensure the following at all times and for so long as any loan is outstanding:

- our consolidated tangible net worth shall be more than RMB9.0 billion;
- the ratio of consolidated net borrowings to the consolidated tangible net worth shall not be more than 1:1;
- the ratio of the consolidated EBITDA in respect of any relevant period to the consolidated fixed charges in respect of the relevant period shall not be less than 1.5:1; and
- the dividend payout ratio in any financial year shall not be more than 50%.

Events of Default

The facility agreement contains certain customary events of default, including default in payment, breaches of the terms of the facility agreement and cross default. In addition, Mr. Kei Hoi Pang and his spouse, Ms. Kei Perenna Hoi Ting and her spouse and children of Mr. Kei Hoi Pang and Ms. Kei Perenna Hoi Ting collectively have to own at least 51% beneficial shareholding interest in our issued share capital and carry 51% of the voting rights. Mr. Kei Hoi Pang or Ms. Kei Perenna Hoi Ting has to have our management control. Mr. Kei Hoi Pang, Ms. Kei Perenna Hoi Ting or Mr. Ji Jiande has to stay as our chairman. The lender is entitled to demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default which is continuing.

Guarantee and Security

All our obligations under this facility are guaranteed by certain of our subsidiaries incorporated outside the PRC jointly and severally and no security agreement has been entered into.

CREDIT SUISSE LOAN FACILITY

On March 21, 2017, we entered into a loan agreement (“Credit Suisse Loan Facility”) with Credit Suisse AG, Singapore Branch, Industrial Bank Co., Ltd., Hong Kong Branch and Nanyang Commercial Bank, Limited, pursuant to which we were granted a term loan facility of US\$150,000,000 primarily to refinance our existing indebtedness. As of the date of this offering memorandum, the entire principal amount remains outstanding.

Interest and Maturity

The Credit Suisse Loan Facility bears fixed rate interest at LIBOR plus 3.75% per annum. The interest is payable every month, or otherwise agreed between us and the lenders.

If any amount payable is due and outstanding, default interest shall accrue from the due date up to the date of actual payment at a rate of 2% plus the original interest rate.

We may prepay the facility, in whole or in part, by giving not less than 10 business days’ prior notice to the facility agent.

The Credit Suisse Loan Facility matures on the date which falls 36 months from the date of our first utilization of the facility.

Financial Covenants

Under the facility agreement, we undertook to ensure the following at all times and for so long as any loan is outstanding:

- our consolidated tangible net worth shall not be less than RMB9.0 billion;
- the ratio of consolidated net borrowings to the consolidated tangible net worth shall not be more than 1.00:1;
- the ratio of the consolidated PRC borrowings to the consolidated total assets, expressed as a percentage, shall not be more than 60%;
- the ratio of the consolidated current assets to the consolidated current liabilities shall not be less than 1.20:1;
- the ratio of the consolidated EBITDA in respect of any relevant period to the consolidated fixed charges in respect of the relevant period shall not be less than 2.00:1; and
- the dividend payout ratio in any financial year shall not be more than 50%.

Events of Default

The facility agreement contains certain customary events of default, including default in payment, breaches of the terms of the facility agreement and cross default. In addition, Mr. Kei Hoi Pang and his spouse, Ms. Kei Perenna Hoi Ting and children of Mr. Kei Hoi Pang or his spouse collectively have to own at least 51% of our issued share capital. Mr. Kei Hoi Pang shall have control of us. Mr. Kei Hoi Pang, Ms. Kei Perenna Hoi Ting or Mr. Ji Jiande has to stay as our president or chairman of the board of directors. The lenders are entitled to demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default which is continuing.

Guarantee and Security

All our obligations under this facility are guaranteed by certain of our subsidiaries incorporated outside the PRC jointly and severally and no security agreement has been entered into.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to Logan Property Holdings Company 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 below) is referred to as a “JV Subsidiary Guarantor.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of May 23, 2017, among the Company, the Subsidiary Guarantors, and Citicorp International Limited, as trustee (the “Trustee”).

The following is a summary of the material provisions of the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. This summary does not purport to be complete, and is subject to, and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at 39/F, Champion Tower, 3 Garden Road, Central, Hong Kong.

BRIEF DESCRIPTION OF THE NOTES

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with the Existing Notes 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 the JV Subsidiary Guarantees” and in “Risk Factors—Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees”;
- effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below).

The Notes will mature on February 23, 2023, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Notes will bear interest at 5.25% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on May 23 and November 23 of each year (each an “Interest Payment Date”), commencing November 23, 2017. Interest on the Notes will be paid to Holders of record at the close of business on May 8 or November 8 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.

Except as described under “Optional Redemption,” “Redemption for Taxation Reasons” and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company).

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 or in the place of business of the Paying Agent, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. 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 Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “—Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be the specified office of the Paying Agent currently located at Citibank, N.A., London Branch, c/o Citibank, N.A., Dublin Branch, One North Wall Quay, Dublin 1, Ireland), and the Notes may be presented for registration of transfer or exchange at such office; *provided* that, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register maintained by the Note Registrar. 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 THE JV SUBSIDIARY GUARANTEES

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company’s Restricted Subsidiaries other than those Restricted Subsidiaries organized under the laws of the PRC (the “PRC Non-Guarantor Subsidiaries”) and Initial Other Non-Guarantor Subsidiaries.

The initial Subsidiary Guarantors are holding companies that do not have significant operations. The initial Subsidiary Guarantors will be Yuen Ming Investments Company Limited, Yuen Ming (Hong Kong) Investments Company Limited, Noble Rhythm International Limited, Kam Wang (Hong Kong) Investments Company Limited, Platinum Profit Investments Limited, Platinum Profit (Hong Kong) Investments Limited, Dragon Coronet Limited, Golden Prosper (Hong Kong) Investments Holding Limited, Golden Prosper Investments Limited, Grandview Architectural Design Services Limited, Jolly Gain (Hong Kong) Investments Limited, Jolly Gain Investments Limited, King Kerry (Hong Kong) Investments Company Limited, King Kerry Investments Company Limited, Pak San Bay Investments Company Limited, Pak San Bay (Hong Kong) Investments Company Limited, Tai Ying (Hong Kong) Investments Limited, Tai Ying Investments Limited, Talent Union (Hong Kong) Investments Limited and Talent Union Investments Limited. None of the existing or future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, such Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company.

In the case of a Restricted Subsidiary (i) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (ii) that is incorporated in any jurisdiction other than the PRC and (iii) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing Capital Stock or the issuance of new Capital Stock, no less than 20% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase the Capital Stock of an entity and designate such entity as a Restricted Subsidiary, the Company may, concurrently with or after the consummation of such sale or purchase, provide a JV

Subsidiary Guarantee (as defined below) 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, in the case of both (a) and (b), are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee (as defined below), 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 providing such JV Subsidiary Guarantee or (b) 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 (in the case of a sale or issuance) or no more than (in the case of a purchase) the Fair Market Value of such Capital Stock; and
- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed Guarantee of such JV Subsidiary Guarantor (the “JV Subsidiary Guarantee”) 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) 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
 - (iii) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantees are valid, binding and enforceable against the JV Subsidiary Guarantors providing such JV Subsidiary Guarantees (subject to customary qualifications and assumptions).

As of December 31, 2016, the Company and its consolidated subsidiaries had total debt of approximately RMB33,186.5 million (US\$4,779.9 million), of which the secured debt of the Company or a Subsidiary Guarantor was RMB50.9 million.

As of December 31, 2016, the Non-Guarantor Subsidiaries had total liabilities, capital commitments, and contingent liabilities of RMB55,361.5 million, RMB24,266.2 million and RMB9,806.2 million, respectively.

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to the 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;
- ranks at least *pari passu* with the subsidiary guarantee of such Subsidiary Guarantor for the Existing Notes and all other unsecured and unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured and unsubordinated Indebtedness pursuant to applicable law); and

- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

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

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC, Exempted Subsidiaries and Listed Subsidiaries), as soon as practicable (and in any event within 30 days) after such Person becomes a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor. Notwithstanding the foregoing sentence, the Company may elect to have (i) any future Restricted Subsidiary organized outside the PRC or (ii) any Restricted Subsidiary that has ceased to be an Exempted Subsidiary or a Listed Subsidiary, in each case not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee (such Restricted Subsidiaries other than those PRC Restricted Subsidiaries, Exempted Subsidiaries and Listed Subsidiaries, the “New Non-Guarantor Subsidiaries,” and together with the Initial Other Non-Guarantor Subsidiaries, the “Other Non-Guarantor Subsidiaries”) at the time such entity becomes a Restricted Subsidiary or has ceased to be an Exempted Subsidiary or a Listed Subsidiary, as the case may be; *provided* that, after giving effect to the consolidated assets of such New Non-Guarantor Subsidiaries, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor (other than Exempted Subsidiaries and Listed Subsidiaries) do not account for more than 30% of the Total Assets of the Company.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than a JV Subsidiary Guarantor is referred to as a “Future Subsidiary Guarantor” and upon execution of the applicable supplemental indenture to the Indenture will be a “Subsidiary Guarantor.” The Other Non-Guarantor Subsidiaries, together with the PRC Non-Guarantor Subsidiaries, are referred to herein as the “Non-Guarantor Subsidiaries.”

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 the Company.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors and the 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, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors 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 repaid or 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 payment as though such payment had not been made. All payments under the Subsidiary Guarantees and the 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, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, 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.

If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other Indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, and, depending on the amount of such Indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor's liability on its JV Subsidiary Guarantee, as the case may be, could in each case be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee 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 and the JV Subsidiary Guarantees—The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees."

Release of the Subsidiary Guarantees or JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under "—Defeasance—Defeasance and Discharge;"
- 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, merger or disposition of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under the captions “—Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “—Certain Covenants—Limitation on Asset Sales” and “—Consolidation, Merger and Sale of Assets”) resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, 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, merger or disposition 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 or has sold, whether through the sale of existing Capital Stock or the issuance of new Capital Stock, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may concurrently with or after the consummation of such sale or issuance of Capital Stock, 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); *provided* that, after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are neither Subsidiary Guarantors nor JV Subsidiary Guarantors (including the New Non-Guarantor Subsidiaries, but excluding Exempted Subsidiaries and Listed Subsidiaries) do not account for more than 30% 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.

The Trustee shall comply with a request referred to in (a) or (b) above if the conditions precedent to such release set forth in the Indenture have been complied with, as evidenced by an Officers’ Certificate from the Company and the Trustee shall take all actions necessary to effect and evidence such release in accordance with the terms of the Indenture.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale or issuance, whether through the sale of existing Capital Stock or the issuance of new Capital Stock, is for no less than 20% of the issued Capital Stock of the relevant Subsidiary Guarantor, *provided* that the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee, (b) prohibiting the Company or any of the Restricted Subsidiaries from providing a JV Subsidiary Guarantee,

or (c) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;

- such sale has been made to an Independent Third Party at a consideration that is not less than the Fair Market Value of such Capital Stock; and
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (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) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iii) 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, without limitation, the "Limitation on Asset Sales" and "Limitation on Restricted Payments" covenants.

Any Net Cash Proceeds from the sale or issuance of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the "Limitation on Asset Sales" covenant.

As of the date of the Indenture, all of the Company's Subsidiaries will be "Restricted Subsidiaries." 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.

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 and the JV Subsidiary Guarantees, if any) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a "Further Issue") so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the "Limitation on Indebtedness and Preferred Stock" covenant described below.

OPTIONAL REDEMPTION

At any time and from time to time on or after May 23, 2020, the Company may 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 May 23 of each of the years indicated below.

Period	Redemption Price
2020	102.6250%
2021 and thereafter	101.3125%

At any time prior to May 23, 2020, 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. The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption. Neither the Trustee nor the Paying Agent is responsible for calculating or verifying the Applicable Premium.

At any time and from time to time prior to May 23, 2020, 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 105.25% 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.

Selection and Notice

The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption to the Holders and the Trustee. If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

- (1) if the Notes are listed on any national securities exchange or are held through a clearing system, in compliance with the requirements of the principal national securities exchange on which the Notes are listed (if any) or the requirements of the clearing system; or
- (2) if the Notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such method as the Trustee in its sole and absolute discretion deems 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. 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 Guarantors' 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.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to a Change of Control Triggering Event has occurred and shall not be liable to any person for any failure to do so.

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 the 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 JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a "Relevant Jurisdiction"), or the jurisdiction through which payments are made or any political subdivision or taxing authority thereof or therein (each, together with a Relevant Jurisdiction, a "Taxing 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 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 Taxing 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 Taxing 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, any Subsidiary Guarantor or any 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 Taxing Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Taxing 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 tax, assessment, withholding or deduction required by sections 1471 through 1474 of the U.S. 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 an intergovernmental agreement with respect to FATCA or any agreement with the U.S. Internal Revenue Service under FATCA; or
 - (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Taxing Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

REDEMPTION FOR TAXATION REASONS

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and the Trustee (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective (or in the case of an official position, is announced) (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a 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, 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, a Subsidiary Guarantor or a 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 giving of any notice of redemption of the Notes pursuant to the foregoing, the Company or a Surviving Person, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change, amendment or statement of an official position referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company or such Surviving Person, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change, amendment or statement of an official position referred to in the prior paragraph.

The Trustee shall and is entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

CERTAIN COVENANTS

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided* that the Company, 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 2.5 to 1.0. Notwithstanding the foregoing, the Company will not permit any Non-Guarantor 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 each Subsidiary Guarantee and JV Subsidiary Guarantee;
 - (b) Any *Pari Passu* Subsidiary Guarantees by any Subsidiary Guarantor or any JV Subsidiary Guarantor;
 - (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d) (together with refinancings thereof); *provided* that such Indebtedness of Non-Guarantor Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness (other than any such Indebtedness excluded in the proviso contained in the definition of Permitted Subsidiary Indebtedness);
 - (d) Indebtedness of the Company or Indebtedness or Preferred Stock of any Restricted Subsidiary owed to or held by 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) and (ii) if the Company is the obligor on such Indebtedness and none of the Subsidiary Guarantors and the JV Subsidiary Guarantors are the obligee on such Indebtedness, such Indebtedness must be unsecured and expressly be subordinated in right of payment to the Notes, and if a Subsidiary Guarantor or a JV Subsidiary Guarantor is the obligor on such Indebtedness and none of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors are the obligee on such Indebtedness, such Indebtedness must be unsecured and expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be; *provided further* that, any Preferred Stock issued by a Subsidiary Guarantor or JV Subsidiary Guarantor and held by the Company or another Restricted Subsidiary must by the terms thereof or by operation of law be subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be;
 - (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness that is

no longer outstanding but that is refinanced substantially concurrently with the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h), (n), (p), (q), (r), (s), (t), (u) or (v) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance 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, as the case may be, 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, as the case may be, 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, as the case may be, 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, as the case may be, 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, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced, (iii) in no event may Indebtedness of the Company, or any Subsidiary Guarantor or any JV Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is neither a Subsidiary Guarantor nor a JV 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 any Indebtedness of any JV Subsidiary Guarantor (*provided* that this sub-clause (iv) shall not prohibit the replacement of a Subsidiary Guarantee by a JV Subsidiary Guarantee if otherwise permitted by the Indenture);

- (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 assets, 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 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 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 Incurred under this clause (h) (together with refinancings thereof and the aggregate principal amount outstanding of

Indebtedness and Preferred Stock Incurred under clauses (p), (s), (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (h) 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 35% of Total Assets;

- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit or trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit or 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* that such Indebtedness is extinguished within five Business Days of Incurrence;
- (m) Guarantees by the Company or any Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, subject to the "Limitation on Issuances of Guarantees by Restricted Subsidiaries" covenant;
- (n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (n) at any time outstanding (together with refinancings thereof) does not exceed US\$50.0 million (or the Dollar Equivalent thereof);
- (o) 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; *provided* that such Person is either a Restricted Subsidiary or would become a Restricted Subsidiary upon completion of the transactions under such Staged Acquisition Agreement;
- (p) Indebtedness Incurred or Preferred Stock or Disqualified Stock issued by any Restricted Subsidiary arising from any Investment made by a Financial Company Investor in a Restricted Subsidiary, and Indebtedness of the Company or a Restricted Subsidiary constituting a Guarantee by, or grant of a Lien on the assets of, the Company or a Restricted Subsidiary in favor of a Financial Company Investor with respect to the

obligation to pay a guaranteed or preferred return to such Financial Company Investor on Capital Stock of a Restricted Subsidiary held by such Financial Company Investor, *provided* that on the date of such Incurrence of all such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness and Preferred Stock Incurred under this clause (p) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clause (h) above and clauses (s), (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (p) 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 35% of Total Assets;

- (q) Bank Deposit Secured Indebtedness Incurred by the Company or any 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 Incurred under this clause (q) (together with refinancings thereof) does not exceed an amount equal to 20% of Total Assets;
- (r) 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);
- (s) 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, *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate of all Indebtedness Incurred under this clause (s) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness and Preferred Stock Incurred under clauses (h) and (p) above and clauses (t), (u) and (v) 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 35% of Total Assets;
- (t) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Restricted Subsidiary became 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 (t) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness and Preferred Stock Incurred under clauses (h), (p) and (s) above and clauses (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (t) 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 35% of Total Assets;
- (u) Indebtedness Incurred by the Company or 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 Incurred under this clause (u) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (p), (s), and (t) above and clause (v) 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 35% of Total Assets; and

- (v) 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 Incurred under this clause (v) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (p), (s), (t) and (u) above 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 35% 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, 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 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.

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 or paid in shares of the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary other than (i) the purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or (ii) the purchase of Capital Stock of a Restricted Subsidiary held by any Financial Company Investor;
- (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 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 the first day of the fiscal semi-annual period during which the Measurement Date occurred and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
 - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after 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 excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus
 - (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company’s consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to 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 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 was, after such date, or 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, (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person, or (E) any Person becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Person since the Measurement Date shall be deemed to have been made pursuant to clause (1) of the definition of “Permitted Investment”) but only to the extent such Investments by the Company or

any Restricted Subsidiary in such Person was a Restricted Payment made to the extent permitted under this paragraph (c); plus

(v) US\$30.0 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 of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor or any 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 the Capital Stock (other than Disqualified Stock) of the Company or 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, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (3);
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (4);
- (5) the declaration and payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary; *provided* that, with respect to a Restricted Subsidiary of which less than a majority of the Voting Stock is directly or indirectly owned by the Company, such dividend or distribution shall be declared, paid or made on a pro rata basis or on a basis more favorable to the Company, as determined by the ownership of the Voting Stock;
- (6) dividends paid to, or the purchase of Capital Stock of any PRC Restricted Subsidiary held by, any Financial Company Investor in respect of any Indebtedness or Preferred Stock outstanding on the Original Issue Date or permitted to be Incurred under paragraph (2)(p) of the “Limitation on Indebtedness and Preferred Stock” covenant;
- (7) the declaration and payment of dividends on the Common Stock of the Company by the Company in an aggregate amount not to exceed HK\$560 million for the fiscal year ended December 31, 2013;
- (8) the declaration and payment of any dividends on, and repurchase of, the Common Stock of the Company by the Company up to an aggregate amount in any fiscal year not to exceed 20% of the profit for the year of the Company in the immediately prior fiscal year; *provided* that the

conditions of clauses (4)(a) and (4)(c) of the first paragraph of this “Limitation on Restricted Payments” would not be violated as a consequence of such declaration and payment of dividends;

- (9) the redemption, repurchase or other acquisition of Capital Stock of any Restricted Subsidiary holding any real estate project; *provided* that not less than 70% of the aggregate gross planned floor area of the real estate projects held by such Restricted Subsidiary has been sold or pre-sold;
- (10) (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 the Company’s 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 pursuant to this clause (10) shall not exceed US\$15 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (11) 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);
- (12) 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 or 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 24 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; or
- (13) payments, including distributions, made under or in connection with any Perpetual Bond Obligation pursuant to the terms thereof or in connection with a repurchase or redemption thereof,

provided that, in the case of clause (2), (3), (4) or (8) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment made pursuant to clause (1) of the preceding paragraph made after the Measurement Date 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 in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payments set forth in clauses (5) through (13) above), 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.

For purposes of determining compliance with this "—Limitation on Restricted Payments" covenant, in the event that an item of Investment meets the criteria of both the first paragraph of this "—Limitation on Restricted Payments" covenant and paragraph (17) of the definition of "Permitted Investment" at any time, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Investment in either or both of such paragraphs.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.
- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
 - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, or under any *Pari Passu* Subsidiary Guarantee of any Subsidiary Guarantor or any JV Subsidiary Guarantor or any Indebtedness Guaranteed by any such *Pari Passu* Subsidiary 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 to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (b) existing under or by reason of applicable law, rule, regulation or order;
 - (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

- (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of the 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 or Disqualified Stock of the type described under clause (2)(h), (2)(o), (2)(p), (2)(q), (2)(s), (2)(t), (2)(u) or (2)(v) or permitted under clause (2)(n) or (2)(r) of the “—Limitation on Indebtedness and Preferred Stock” covenant if the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes and 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; *provided further* that, the Board of Directors is empowered to determine as to whether the conditions set forth in clauses (i) and (ii) are met, which determination shall be conclusive if evidenced by a Board Resolution;
- (g) existing in customary provisions in shareholders agreement, 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 (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; *provided further* that, the Board of Directors is empowered to determine as to whether the conditions set forth in clauses (i) and (ii) are met, which determination shall be conclusive if evidenced by a Board Resolution; 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 Unrestricted Subsidiary or its subsidiaries or the property or assets of such Unrestricted 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 Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, pro rata to its shareholders or incorporators;
- (2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) the sale or issuance of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such sale or issuance, 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 sale or issuance and *provided* that the Company complies with the "—Limitation on Asset Sales" covenant, *provided further* that, paragraph (v) of clause (17) of the definition of "Permitted Investment" shall not apply if such Investment would otherwise have been permitted under clause (17) of such definition; or
- (4) the sale or issuance of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such sale or issuance); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such sale or issuance 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 neither a Subsidiary Guarantor nor 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 is permitted by clauses (2)(c), (2)(d) or (2)(q) (in the case of clause (2)(q), with respect to the Guarantee provided by the Company or any Restricted Subsidiary through the pledge of one or more bank accounts or bank deposits to secure (or the use of any Guarantee or letter of credit or similar instruments 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.

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 arm’s length 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 for the service as board members 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) or (2) of the first paragraph of the covenant described above under the caption “—Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (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 Hong Kong Stock Exchange, which as of the Original Issue Date require a majority shareholder approval of any such scheme;
- (6) any purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or a Minority Staged Acquisition Agreement, and any purchase of Capital Stock of a Restricted Subsidiary held by a Financial Company Investor so long as each such purchase is in compliance with the listing rules of the Hong Kong Stock Exchange;
- (7) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (9) of the second paragraph of the covenant entitled “—Limitation on Restricted Payments”;
- (8) any transaction between or among (A) the Company or any Restricted Subsidiary and (B) Logan Construction Co., Ltd. or any of its Subsidiaries so long as such transaction is in compliance with the listing rules of the Hong Kong Stock Exchange;

- (9) the acquisition by the Company or any Restricted Subsidiary from Mr. Yao Yaojia and/or his affiliates of any interest in King Kerry Investments Company Limited so long as such acquisition is in compliance with the listing rules of the Hong Kong Stock Exchange;
- (10) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Qualified Spin-off Group entered into in connection with the Qualified Spin-off IPO, including, without limitation, transactions entered into for purposes of any reorganization in connection with the Qualified Spin-off IPO and the entry into, and the performance thereof, of any underwriting agreement or other transaction documents in connection with the Qualified Spin-off IPO; and
- (11) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Qualified Spin-off 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 Qualified Spin-off IPO, or any amendment, modification, 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 Qualified Spin-off IPO and in compliance with the rules of the relevant Qualified Exchange.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (including Permitted Investments that are permitted under paragraph (17) of the definition of “Permitted Investments” but otherwise excluding any other Permitted Investments) not prohibited by the “—Limitation on Restricted Payments” covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering 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 (iii) any transaction between or among any of 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 any Minority Joint Venture or Unrestricted Subsidiary on the other; *provided* that in the case of clause (iii) (a) such transaction is entered into in the ordinary course of business, (b) in the case of a transaction with a Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, none of the minority shareholders or minority partners of or in such 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 minority shareholder or minority partner being an officer or director of such Restricted Subsidiary or by reason of being a Subsidiary or Minority Joint Venture of the Company) and (c) in the case of a transaction with a Minority Joint Venture or an Unrestricted Subsidiary, none of the shareholders or partners (other than the Company or a Restricted Subsidiary) of such Minority Joint Venture or Unrestricted Subsidiary is a Person described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such shareholder or partner being a director or officer of such Minority Joint Venture or Unrestricted Subsidiary or by reason of being a Subsidiary or Minority Joint Venture of the Company).

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 any Capital Stock of a Subsidiary Guarantor or a JV Subsidiary Guarantor (other than a Permitted Lien specified in clause (1) of the definition of “Permitted Liens”), unless the Notes are equally and ratably secured by such Lien.

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, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided* that the Company 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 such 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; and
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$15.0 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) 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 properties and assets that replace the properties and assets that were the subject of such Asset Sale or in properties or assets (other than current assets that are not land use rights, properties under development or completed property held for sale) that will be used in a Permitted Business (“Replacement Assets”).

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute “Excess Proceeds.” Excess Proceeds of less than US\$20.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$20.0 million (or the Dollar Equivalent thereof), within 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 of the Notes 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 by lot or such other method the Trustee determines in its sole and absolute discretion. 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 changing market conditions 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 Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) neither the Company nor any Restricted Subsidiary provides credit support (other than any Guarantee in compliance with clause (6) below) 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 Qualified Spin-off Group upon the designation of the Subsidiaries in the Qualified Spin-off Group as Unrestricted Subsidiaries in connection with the Qualified Spin-off IPO, *provided* that (A) the Board of Directors has determined in good faith that the designation of such Subsidiaries as Unrestricted Subsidiaries is necessary to obtain approval from a Qualified Exchange for the Qualified Spin-off IPO, (B) at the time of such designation, such Subsidiaries remain Subsidiaries of the Company, and (C) at the time of such designation, such Subsidiaries remain primarily engaged in the Non-Core Business).

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); and (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 Subsidiary Guarantees and the JV Subsidiary Guarantees.”

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor (if any) 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 both of the Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from either of the Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (2) “—Certain Covenants—Limitation on Restricted Payments”;
- (3) “—Certain Covenants—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “—Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “—Certain Covenants—Limitation on Issuances of Guarantees by Restricted Subsidiaries”;
- (6) “—Certain Covenants—Limitation on the Company’s Business Activities”;
- (7) “—Certain Covenants—Limitation on Sale and Leaseback Transactions”; and
- (8) “—Certain Covenants—Limitation on Asset Sales”.

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under “—Certain Covenants—Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish 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 Hong Kong Stock Exchange or any other recognized exchange on which the Company’s ordinary 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 and in English language) 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 and in English language) 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 quarter of the Company, copies of its unaudited financial statements (on a consolidated basis and in English language), 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 most recent fiscal year 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 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:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenants described under "—Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "—Repurchase of Notes upon a Change of Control Triggering Event" or "—Limitation on Asset Sales;"
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$15.0 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\$15.0 million (or the Dollar Equivalent thereof) (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 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 Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any 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 Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors (other than, in each case under (b), any of the foregoing that arises from any solvent liquidation or restructuring of a Restricted Subsidiary in the ordinary course of business that shall result in the net assets of such Restricted Subsidiary being transferred to or otherwise vested in the Company or any Restricted Subsidiary on a pro rata basis or on a basis more favorable to the Company); or
- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written request of such Holders shall, subject to receiving indemnity and/or security to its satisfaction, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of 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 pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

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 is unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action that is not inconsistent with any such direction received from Holders. The Trustee shall not be required to expend its funds in following such direction if it does not reasonably believe that reimbursement or indemnity and/or security is assured to it.

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 and/or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such written request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the written request and the offer of indemnity and/or security; 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 written request.

However, such limitations do not apply to the right of any Holder 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.

If the Trustee collects any money pursuant to the Indenture, it shall pay out the money in the following order:

First, to the Trustee and the Agents to the extent necessary to reimburse the Trustee for any expenses incurred in connection with the collection or distribution of such amounts held or realized and fees and expenses of the Trustee and the Agents properly incurred in connection with carrying out its functions under the Indenture (including reasonable legal fees and expenses and indemnity payments);

Second, to the Trustee for the benefit of Holders; and

Third, any surplus remaining after such payments will be paid to the Company or to whomever may be lawfully entitled thereto.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year 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 the Subsidiary Guarantors' 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 in writing 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 with or into which the Company consolidated or merged, 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 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 and the Notes, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture and the Notes, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption "—Limitation on Indebtedness and Preferred Stock;"
- (5) the Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption "—Consolidation, Merger and Sale of Assets," shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, 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 with or into which such Subsidiary Guarantor consolidated or merged, or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor); and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of such Subsidiary Guarantor or JV Subsidiary Guarantor under the Indenture and the Notes, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture and the Notes, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock;”
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “—Limitation on Asset Sales” covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “—The Subsidiary Guarantees—Release of the Subsidiary Guarantees and the 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 or any Subsidiary Guarantor or JV Subsidiary Guarantor that may adversely affect Holders.

NO PAYMENTS FOR CONSENTS

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as

an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

DEFEASANCE

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture 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, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee (or its agent), in trust, money and/or U.S. Government Obligations or any 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 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 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-Government Approvals and Licenses; Compliance with Law” and “—Certain Covenants-Anti-Layering,” and (ii) clause (3) under “Events of Default” 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 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 (or its agent), 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 will remain liable for such payments.

AMENDMENTS AND WAIVER

Amendments Without Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;
- (2) comply with the provisions described under “—Consolidation, Merger and Sale of Assets;”
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Subsidiary Guarantor or JV Subsidiary Guarantor, or any Subsidiary Guarantee or any JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (7) 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;
- (8) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream or any applicable securities depository or clearing systems;
- (9) make any other change that does not materially and adversely affect the rights of any Holder;
or
- (10) conform the text of the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision in the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees.

Amendments With Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) may be amended 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 aggregate principal amount of the outstanding

Notes or the Trustee may amend or waive future compliance by the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) with any provision thereof; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the currency or time 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, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) 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;
- (9) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (10) 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, unless such amendment, waiver or modification shall be in effect prior to the occurrence of a Change of Control Triggering Event or the event giving rise to the repurchase of the Notes under “—Limitation on Asset Sales”;
- (11) change the redemption date or the redemption price of the Notes from that stated under the caption “—Optional Redemption” or “—Redemption for Taxation Reasons;”
- (12) amend, change or modify the obligation of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; or
- (13) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes, 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 AND THE AGENTS

Citicorp International Limited has been appointed as Trustee under the Indenture. Citibank, N.A., London Branch has been appointed as note registrar (the “Note Registrar”), transfer agent (the “Transfer Agent”) and paying agent (the “Paying Agent” and together with the Note Registrar and Transfer Agent, the “Agents”) with regard to the Notes. Except during the continuance of a Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenant or obligation shall be read into the Indenture against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors or JV 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, including normal banking and trustee relationships, with the Company and its Affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

The Trustee will not be under any obligation to exercise any rights or powers conferred under the Indenture for the benefit of the Holders, unless such Holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense.

Furthermore, each Holder, by accepting the Notes agrees, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the offering of the Notes and has not relied on and will not at any time rely on the Trustee 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 “Initial 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. Any additional Notes will be represented by additional global notes in registered form without interest coupons attached (the “Additional Global Notes” and, together with the Initial Global Note, the “Global Notes”).

GLOBAL NOTES

Ownership of beneficial interests in the Global Notes (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 the Global Notes 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 the 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 NOTES

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and Additional Amounts) will be made to the Paying Agent in U.S. dollars. The 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. Each of the Company and the Subsidiary Guarantors 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, any Subsidiary Guarantor, any JV Subsidiary Guarantor and the Trustee will treat the registered holder of the Global Notes (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, the Trustee or any of the 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 NOTES

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 a 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 Notes 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 applicable settlement procedures. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream participants 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

The Company understands 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, the Trustee or any of the 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 depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “—Events of Default” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depository, Euroclear, Clearstream or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Notes 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 Trustee for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Note Registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Note 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 first-class mail (if intended for the Company or any Subsidiary Guarantor) addressed to the Company or such Subsidiary Guarantor, (if intended for the Trustee) 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 COGENCY GLOBAL INC. (formerly known as “National Corporate Research, Ltd.”) for receipt of service of process in any such suit, action or proceeding.

GOVERNING LAW

Each of the Notes 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.

“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 the 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 May 23, 2020, 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 any 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 (x) 100% of the principal amount of such Note on May 23, 2020, plus (y) all required remaining scheduled interest payments due on such Note through May 23, 2020 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries; or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock by a Restricted 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 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”;
- (7) any sale, transfer or other disposition by the Company or any of its Restricted Subsidiaries, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any Restricted Subsidiary; and
- (8) sales, transfers or other dispositions by the Qualified Spin-off Group of up to 30% of the Capital Stock of the Qualified Spin-off Group if (i) such Capital Stock is issued following the designation of the Qualified Spin-off Group as an Unrestricted Subsidiary and (ii) such sale, transfer or disposition is made in connection with a Qualified IPO of the Qualified Spin-off Group.

“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 a pledge of one or more bank accounts or deposits of the Company or a Restricted Subsidiary or (ii) guaranteed by a guarantee or a 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 exchanges of U.S. dollars, Hong Kong dollars or other foreign currencies into Renminbi or vice versa or to remit Renminbi or any foreign currency into or outside the PRC.

“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, London or 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 merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company, or the sale of all or substantially all the assets of the Company to another Person (other than one or more Permitted Holders);
- (2) the Permitted Holders are the beneficial owners of less than 50.1% of the total voting power of the Voting Stock of the Company;
- (3) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the U.S. Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the U.S. 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;
- (4) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (5) 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 any Rating Agency, a Rating Decline.

“Clearstream” means Clearstream Banking S.A.

“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 May 23, 2020 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity comparable to May 23, 2020.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Company, 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 for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its 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, including for the avoidance of doubt, capitalized interest included in cost of sale,
- (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), including, without limitation, land appreciation tax and enterprise income tax, 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, (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 (other than the Company and any Restricted Subsidiary) that is Guaranteed by, or secured by a Lien on any asset of, the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees and Liens on any Capital Stock of a Person that is not a Restricted Subsidiary), only to the extent that such interest has become payable 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, and for the avoidance of doubt, distributions incurred, accrued or payments on any Perpetual Bond Obligation shall not be included in the calculation of Consolidated Interest Expense.

“Consolidated Net Income” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
 - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
 - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains and losses due solely to fluctuations in currency values and related tax effects;
- (7) any gains and losses arising from changes in the fair value of trust loans related derivatives, as determined in conformity with GAAP; and
- (8) any net after-tax extraordinary or non-recurring gains.

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 this 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 quarterly, semi-annual or annual consolidated balance sheet (which may be an internal 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 assets, 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.

“Core Businesses” means the acquisition, construction and development of residential properties in the PRC.

“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.

“December 2014 Notes” means the 9.75% Senior Notes due 2017 issued by the Company on December 8, 2014.

“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 underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (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; *provided* that any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank SA/NV

“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.

“Existing Notes” means the June 2014 Notes, the December 2014 Notes, the January 2016 Notes and the January 2017 Notes.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution, except in the case of a determination of Fair Market Value of total assets for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal or investment banking firm of recognized international standing appointed by the Company.

“Financial Company Investor” means a bank, financial institution, trust company, fund management company, asset management company, financial management company or insurance company, or an Affiliate thereof, that Invests in any Capital Stock of a PRC Restricted Subsidiary.

“Fitch” means Fitch Ratings Ltd., a subsidiary of the Fitch Group, a jointly owned subsidiary of Fimalae, S.A. and Hearst Corporation, and its successors.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarter periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “Four Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (a) *pro forma* effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness, Disqualified Stock or Preferred Stock;

- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) *pro forma* effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) *pro forma* effect shall be given to Asset Dispositions and Asset Acquisitions (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) *pro forma* effect shall be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the 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.

“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, the accrual of interest, the accrual of dividends, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock

or Disqualified Stock shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, Indebtedness shall not include any (i) capital commitments, deferred payment obligations, 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; (ii) any Entrusted Loan or (iii) any Perpetual Bond Obligation; *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 as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; provided

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest; and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to paragraph (2)(f) under the “Limitation on Indebtedness and Preferred Stock” covenant, and (ii) equal to the net amount payable by such Person if such Hedging Obligation terminated at that time if not Incurred pursuant to such paragraph.

“Independent Third Party” means any Person that is not an Affiliate of the Company.

“Initial Other Non-Guarantor Subsidiaries” means Soaring Pioneer Limited (翔鋒有限公司), Global Soar Limited (世翔有限公司), Unicorn Bay Limited (麒麟灣有限公司), Logan Property International Investment Holdings Limited (龍光地產國際投資控股有限公司), Century State Investments Limited (世邦投資有限公司), Unicorn Bay (Hong Kong) Investments Limited (麒麟灣(香港)投資有限公司), Logan Property International Investment Limited (龍光地產國際投資有限公司), Logan Property (Singapore) Company PTE Limited, Cosmic Edge Investments Limited (銳宇投資有限公司), Sino Triumph Global Limited (華勝環球有限公司), Spring Estate Holdings Limited (泉置控股有限公司), Virtue High Limited (德崇有限公司), Logan Property (Hong Kong) Company Limited (龍光地產(香港)有限公司), Union Brothers Ltd., Sino Triumph Global (Hong Kong) Limited (華勝環球(香港)有限公司), Virtue High (Hong Kong) Limited (德崇(香港)有限公司) and Spring Estate Holdings (Hong Kong) Limited (泉置控股(香港)有限公司), unless any of such Restricted Subsidiaries has after the Original Issue Date executed a Subsidiary Guarantee or a JV Subsidiary Guarantee in accordance with the terms of the Indenture.

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportional interest in the Fair Market Value of the assets (net of the Company’s proportionate 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 Fitch or any of its successors or assigns, a rating of “Aaa,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for Moody’s or Fitch or both 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 primarily for 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.

“January 2016 Notes” means the 7.70% Senior Notes due 2020 issued by the Company on January 19, 2016.

“January 2017 Notes” means the 5.75% Senior Notes due 2022 issued by the Company on January 3, 2017.

“June 2014 Notes” means the 11.25% Senior Notes due 2019 issued by the Company on June 4, 2014.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor which is not a Subsidiary of another JV Subsidiary Guarantor, together with 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 the 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).

“Listed Subsidiaries” means any Restricted Subsidiary any class of Voting Stock of which is listed on a Qualified Exchange and any Restricted Subsidiary of a Listed Subsidiary; *provided* that such Restricted Subsidiary shall cease to be a Listed Subsidiary immediately upon, as applicable, (x) the Voting Stock of such Restricted Subsidiary ceasing to be listed on a Qualified Exchange, or (y) such Restricted Subsidiary ceasing to be a Restricted Subsidiary of a Listed Subsidiary.

“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.

“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.

“Measurement Date” means June 4, 2014.

“Moody’s” means Moody’s Investors Service, Inc. and its successors. “Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;

- (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
 - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock, 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-Core Businesses” means any business other than the Core Businesses, including, without limitation, the construction business.

“Non-Core Entity” means any Restricted Subsidiary which is primarily engaged, directly or indirectly, in a Non-Core Business.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying Agent and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof accepted for payment. 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; and (b) 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 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“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 Subsidiary Guarantee” means a guarantee by any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes) or another Subsidiary Guarantor or JV Subsidiary Guarantor; *provided* that (1) the Company, or such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, was 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.

“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.

“Permitted Holders” means any or all of the following:

- (1) (x) Mr. Kei Hoi Pang (previously known as Mr. Ji Haipeng), Ms. Kei Perenna Hoi Ting (previously known as Ms. Ji Peili) and the parents, children and spouse of Mr. Kei Hoi Pang, (y) Kei Family United Limited and (z) any family trust set up by any Person listed in sub-clause (x) of this clause (1);
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of any 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 one or more Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;
- (2) any Investment in cash or Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation not entered into for speculation and designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments made by the Company or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale made in compliance with the covenant under the caption “—Limitation on Asset Sales”;
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “—Limitation on Liens”;
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;
- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company’s consolidated balance sheet;

- (13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims, welfare and social benefits, property maintenance and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (15) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the direct or indirect 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 each case in the ordinary course of business;
- (16) Guarantees permitted under clause (2)(p) or (2)(s) of the covenant under “—Limitation on Indebtedness and Preferred Stock”;
- (17) any Investment (including without limitation any deemed Investment upon the redesignation of a Restricted Subsidiary as an Unrestricted Subsidiary or upon the issuance or sale of Capital Stock of a Restricted Subsidiary) by the Company or any Restricted Subsidiary in any Person; *provided* that:
 - (i) (x) the aggregate of all Investments made under this clause (17) since the Measurement Date shall not exceed in aggregate an amount equal to 35% of Total Assets, *provided, however,* that with respect to any Investment made in any Person (other than the Company or a Restricted Subsidiary) which is intended to become a Restricted Subsidiary within 18 months after the initial Investment in such Person (as evidenced by a board resolution of the Company), the aggregate amount of all Investments in such Persons made under this clause (17) shall be increased by an additional 15% 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 (17) since the Measurement Date resulting from:

- (A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause (17), 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,
- (C) to the extent that an Investment made after the Measurement Date under this clause (17) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, 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 (17),
- (D) redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries not to exceed, in each case, the amount of Investments made pursuant to this clause (17) by the Company or any Restricted Subsidiary after the Measurement Date in any such Person, or
- (E) any such Person becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Person since the Measurement Date shall be deemed to have been made pursuant to clause (1) of the definition of “Permitted Investment”),

- (ii) the Person into which such Investment is made is primarily engaged in a Permitted Business;
- (iii) none of the other shareholders or partners in such Person in which such Investment was made pursuant to this clause (17) 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 Subsidiary, Minority Joint Venture or Unrestricted Subsidiary of the Company);
- (iv) no Default has occurred and is continuing or would occur as a result of such Investment; and
- (v) in the case of any Investments 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 any of 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 shall be valued at the time such Investment is made;

- (18) advances or prepayments to government authorities or government-affiliated entities, collective economic organizations, existing land or building owners, holders, occupants or lessees, or related agents in the PRC in connection with the financing of primary land development or urban redevelopment plans in the ordinary course of business that are recorded as assets in the Company’s balance sheet; and
- (19) any Investment deemed to have been made by the Company or any Restricted Subsidiary in any Non-Core Entity of a Qualified Spin-off Group upon the designation of such Non-Core Entity as an Unrestricted Subsidiary.

“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) any interest or title of a lessor in the property subject to any operating lease;
- (14) 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”;
- (15) 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;
- (16) 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 of the type described under clause (2)(h) of the covenant under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated financial statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets (other than, in each case, deposits of loan proceeds securing performance of obligations in relation to the use of such loan proceeds under a loan or similar agreement to

which such loan proceeds relate to, entered into by the Company or any Restricted Subsidiary, if the Indebtedness Incurred under such agreement is otherwise permitted under the terms of the Indenture) subject to Liens incurred pursuant to this clause (16) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;

- (17) 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;
- (18) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims, welfare and social benefits, property maintenance and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (19) 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 in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens securing Indebtedness permitted under clause (2)(n) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (21) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement or Minority Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(o) or (2)(v), respectively, of the covenant described under “—Certain Covenants —Limitation on Indebtedness and Preferred Stock”;
- (22) Liens granted by the Company or a Restricted Subsidiary in favor of a Financial Company Investor in respect of, and to secure, the Indebtedness permitted under clause (2)(p) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (23) Liens incurred on one or more bank accounts or deposits made to secure Bank Deposit Secured Indebtedness of the type described under clause (2)(q) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (24) Liens securing Indebtedness permitted to be Incurred under clause (2)(r) of the covenant described under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (25) Liens securing Indebtedness permitted under clause (2)(s) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (26) Liens on Investment Properties securing Indebtedness of the Company or Restricted Subsidiary permitted to be Incurred under clause (2)(u) of the covenant described under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (27) Liens Incurred on deposits made to secure Entrusted Loans; and
- (28) Liens on deposits made in order to secure the performance of payment obligations under a loan or similar agreement entered into by the Company or any Restricted Subsidiary, if such deposits are made no earlier than six months before the relevant amount becomes due under such agreement and the amount of any such deposits does not exceed the corresponding payment obligations under such agreement.

“Permitted Subsidiary Indebtedness” means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole (excluding any Indebtedness of the Subsidiary Guarantors); *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding, without duplication, Public Indebtedness or any Indebtedness of any Subsidiary Guarantor and any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (b), (d), (f), (g), (m) and (o) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 35% of the Total Assets.

“Perpetual Bond Obligation” means perpetual securities that are accounted for as equity in accordance with the relevant generally accepted accounting principles, the aggregate outstanding principal amount of which, if issued by the Company or any Restricted Subsidiary, does not exceed 20% of Total Assets at any time.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“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 September 3, 2016) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“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 Nasdaq Stock market, the London Stock Exchange, The Stock Exchange of Hong Kong Limited, Singapore Exchange Securities Trading Limited, the Shanghai Stock Exchange or the Shenzhen Stock Exchange 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 a listing (or a deemed new listing pursuant to the rules of the relevant stock exchange or governing body) of the Voting Stock 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 no less than the percentage required by the applicable listing rules.

“Qualified Spin-off Group” means, collectively, (i) any Non-Core Entity the Voting Stock of which is, or is expected to be pursuant to a definitive plan, listed on a Qualified Exchange in a Qualified Spin-off IPO, and (ii) the Subsidiaries of such Non-Core Entity.

“Qualified Spin-off IPO” means any Qualified IPO of a Non-Core Entity; *provided* that the Board of Directors of the Company has determined in good faith that the designation of such Non-Core Entity and its Subsidiaries as Unrestricted Subsidiaries is necessary to obtain approval from a Qualified Exchange for such Qualified IPO.

“Rating Agencies” means (1) Moody’s and (2) Fitch, *provided* that if Moody’s or Fitch or both shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for Moody’s or Fitch, or both as the case may be.

“Rating Category” means (1) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); (2) with respect to Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (3) the equivalent of any such category of 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 (“1,” “2” and “3” for Moody’s; “+” and “-” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to Fitch, 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 both Fitch and Moody’s on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;
- (b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any such Rating Agency shall be below Investment Grade; or
- (c) in the event the Notes are rated below Investment Grade by both Rating Agencies on the Rating Date, the rating of the Notes by either 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 of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m. (New York time) on the third Business Day preceding such redemption date.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings 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.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“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.

“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 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.

“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.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity (i) 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; *provided, however*, that with respect to clause (ii), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” by such Person under the GAAP and to constitute a Subsidiary of such Person shall be deemed to be an Investment by such Person in such entity.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“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 of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing, 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) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area 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 Section 3(a)(62) of the Exchange Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and
- (7) (i) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with any banks or financial institutions organized under the laws of the PRC or Hong Kong or (ii) structured deposit products with a term not exceeding six months that are principal protected with any banks organized under the laws of the PRC or Hong Kong.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided that*:

- (1) 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;

- (2) only with respect to clause (2)(t) of “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant, with respect to the Incurrence of any Acquired Indebtedness as a result of any Person becoming a Restricted Subsidiary, Total Assets shall be calculated after giving *pro forma* effect to include the consolidated assets of such Restricted Subsidiary and any other change to the consolidated assets of the Company as a result of such Person becoming a Restricted Subsidiary; and
- (3) only with respect to any Person becoming a New Non-Guarantor Subsidiary, *pro forma* effect shall at such time be given to the consolidated assets of such New Non-Guarantor Subsidiary (including giving *pro forma* effect to any other change to the consolidated assets of the Company, in each case as a result of such Person becoming a New Non-Guarantor Subsidiary).

“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.

“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.

“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 is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain Cayman Islands, BVI, Hong Kong and PRC tax consequences relating to the Notes is based upon applicable laws, regulations, rulings and decisions 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 advisors 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

Pursuant to section 6 of the Tax Concessions Law (1999 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 or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (a) on or in respect of the shares, debentures or other obligations of the Company; or
 - (b) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the Company is for a period of twenty years from June 1, 2010. 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. There are no other taxes likely to be material to the Company or investors holding the Notes only by reason of holding such Notes levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

BVI

There is no income or other tax of BVI imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors incorporated in BVI pursuant to the Subsidiary Guarantees.

HONG KONG

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “Inland Revenue Ordinance”), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposition or redemption is or forms part of a trade, profession or business carried on in Hong Kong. Interest payments on the Notes will be subject to Hong Kong profits tax where such payments have a Hong Kong source, and are received by or accrue to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arise through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest payment is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposition of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside Hong Kong).

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 advisors 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

The CIT Law issued on March 16, which was amended on February 24, 2017 and became effective on February 24, 2017, and its implementation rules, effective January 1, 2008, imposes a withholding tax at the rate of 10% on interest from PRC sources paid to a holder of notes that is a “non-resident enterprise” if such “non-resident enterprise” holder does not have an establishment or place of business in China or if, despite the existence of establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China unless a preferential rate is provided by tax treaties or arrangements between the country or region where the non-resident is domiciled and the PRC. We may be considered a PRC tax resident enterprise. “Risk Factors — Risks relating to Our Business — We may be treated as a PRC resident enterprise for PRC tax purposes, which may subject us to PRC income taxes on our worldwide income and result in PRC withholding taxes on interest we pay on the Notes and PRC tax on the transfer of the Notes.” Although the issue is not entirely clear, if we are considered a PRC resident enterprise, interest paid to non-resident holders on the Notes may be treated as income derived from sources within China and be subject to PRC withholding tax at the rate of 10% in the case of non-resident enterprise holders of the Notes pursuant to the CIT Law (which tax rate may be reduced to 7% in the case of non-resident enterprise holders located in Hong Kong who qualify for the benefits of the double taxation treaty between Hong Kong and the PRC), or PRC individual

withholding tax at the rate of 20% in the case of non-resident individual holders of the Notes pursuant to PRC individual income tax laws and their implementation rules. However, the tax obligations under PRC tax laws and their implementation rules may be decreased or exempted by applicable tax treaties. We currently do not intend to withhold taxes from interest payments, but there can be no assurance that the PRC income tax authorities will accept our position on this issue. To the extent that China has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of tax, such lower rate may apply to qualified investors in the Notes.

Taxation on Capital Gains

The CIT Law and its implementation rules imposes a tax at the rate of 10% on capital gains from PRC sources realized by holders of notes that are “non-resident enterprises” if any such “non-resident enterprise” holder does not have an establishment or place of business in China or if, despite the existence of an establishment or place of business in China, the relevant gain is not effectively connected with such establishment or place of business in China. We may be considered a PRC tax resident enterprise. Although the issue is not entirely clear, if we are considered a PRC resident enterprise, the capital gains realized by non-resident holders of the Notes may be treated as income derived from sources within China and be subject to PRC withholding tax at the rate of 10% in the case of non-resident enterprise holders of the Notes pursuant to the CIT Law unless reduced or exempted by an applicable tax treaty, or PRC individual income tax at the rate of 20% in the case of non-resident individual holders of the Notes pursuant to PRC individual income tax laws and their implementation rules, which may be reduced or exempted by an applicable tax treaty. To the extent that China has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified investors in the Notes.

VAT

On March 23, 2016 the MOF and the SAT issued Circular 36 which stipulates that the business tax will be completely replaced with VAT from May 1, 2016 onwards. Therefore, income derived from the provision of financial services, which previously incurred business tax, will now be subject to VAT.

According to Circular 36, entities and individuals providing services within the PRC are subject to VAT. The services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. The services potentially subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that “loans” refers to the activity of lending capital for another’s use and receiving the interest income thereon. Based on the definition of “loans” under Circular 36, the issuance of Notes may be treated as the holders of the Notes providing financial services in the form of loans to the Company for VAT purposes. In the event the Company is deemed to be a PRC resident enterprise by the PRC tax authorities, the holders of the Notes may be regarded as providing financial services within the PRC and consequently, the amount of interest payable by the Company to any non-resident holders of the Notes may subject to withholding VAT at the rate of 6% plus related surcharges.

Circular 36 has recently been issued and much uncertainty remains as to its application. The above statements regarding Circular 36 may be subject to further changes following clarification from the competent tax authority.

Stamp duty

No PRC stamp tax will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside China and the sale of the Notes is made outside the PRC).

PLAN OF DISTRIBUTION

Haitong International Securities Company Limited, Guotai Junan Securities (Hong Kong) Limited, AMTD Asset Management Limited, VTB Capital plc and China CITIC Bank International Limited are acting as joint bookrunners and joint lead managers of the offering and as the Initial Purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, each Initial Purchaser named below has severally but not jointly agreed to purchase, and we have agreed to sell to such Initial Purchaser, the principal amount of the Notes set forth opposite such Initial Purchaser's name.

Initial Purchaser	Principal Amount of Notes
Haitong International Securities Company Limited	US\$160,000,000
Guotai Junan Securities (Hong Kong) Limited	US\$200,000,000
AMTD Asset Management Limited	US\$30,000,000
VTB Capital plc	US\$40,000,000
China CITIC Bank International Limited	US\$20,000,000
Total	US\$450,000,000

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Initial Purchasers must purchase all the Notes if they purchase any of the Notes.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum only to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S. See the section entitled "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice. Private banks may receive a commission based on the principal amount of the Notes purchased by their own clients.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantee (if any) have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See the section entitled "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act.

The Notes will constitute a new class of securities with no established trading market. Application will be made to the Hong Kong Stock Exchange for the listing of the Notes by way of debt issues to Professional Investors only as described in this offering memorandum. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, the Initial Purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

Investors who purchase Notes from the Initial Purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page of this offering memorandum.

The Initial Purchasers may engage in stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. Neither the Company nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither the Company nor the Initial Purchasers makes any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in three business days; 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 alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

The Initial Purchasers or their affiliates have performed commercial banking, investment banking or advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchasers or their affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business for which they may receive customary fees and reimbursement of expenses. We may enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

In connection with this offering of the Notes, each Initial Purchaser and/or its affiliate(s) may act as an investor for its own account and may take up Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering of the Notes. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Initial Purchasers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

SELLING RESTRICTION

General

No action has been taken or will be taken in any jurisdiction by the Company or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

United States

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See the section entitled “Transfer Restrictions.”

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in compliance with an available exemption from registration under the Securities Act.

United Kingdom

No invitation or inducement to engage in investment activity (within the meanings 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 Initial Purchasers. 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

This offering memorandum has not been and will not be registered with the Registrar of Companies in Hong Kong. Accordingly, except as mentioned below, this offering memorandum may not be issued, circulated or distributed in Hong Kong. A copy of this offering memorandum may, however, be issued, to a limited number of prospective applicants for the Notes in Hong Kong in a manner which does not constitute an offer of the Notes to the public in Hong Kong or an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). No advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person 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” within the meaning as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the “FIEL”), and disclosure under the FIEL has not been made with respect to the Notes. Accordingly, the Notes may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident of Japan, or to others for re-offering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, “resident of Japan” means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

Singapore

The Initial Purchasers have acknowledged that this offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “MAS”) under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, the Initial Purchasers have represented, warranted and agreed that they have not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and have not circulated or distributed, nor will they circulate or distribute, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional

investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This offering memorandum has not been and will not be registered as a prospectus with the MAS under the SFA. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are initially subscribed or purchased by (i) an institutional investor under Section 274 of the SFA, or (ii) 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, the Notes may only be sold or transferred: (a) at any time, to an institutional investor under Section 274 of the SFA; (b) at any time, to a relevant person defined in Section 275(2) of the SFA or to any person pursuant to an offer referred to in Section 275(1A) of the SFA; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

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

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

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

PRC

The Initial Purchasers have acknowledged that this offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. Each of the Initial Purchasers has severally represented and agreed that, except to the extent consistent with applicable laws and regulations in the PRC, the Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements in the PRC, with the exception to the extent consistent with applicable laws and regulations in the PRC, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

Cayman Islands

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Notes unless the Company is listed on the Cayman Islands Stock Exchange.

British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the BVI to subscribe for any of the Notes.

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 the Notes.

The Notes are subject to restrictions on transfer as summarized below. By purchasing the Notes, 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 have not been registered under the Securities Act or any other applicable securities laws;
 - the Notes are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws;
 - the Notes are being offered and sold only to non-U.S. persons outside the United States in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act; and
 - unless so registered, the Notes may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that you are purchasing the Notes 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, 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 the Notes including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing the Notes 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 in violation of the Securities Act.
5. You acknowledge and agree that if you decide to resell, pledge or otherwise transfer any Notes or any beneficial interests in any Notes during the period from the closing date until the date that is 40 days after the later of the closing date and the last date that the Company or any of their respective affiliates was the owner of the Notes or any predecessor of the Notes, such Notes may be resold, pledged, or transferred only, (a) to the Company or any subsidiary thereof, (b) in an offshore transaction outside of the United States meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act, (c) pursuant to an effective registration statement under the Securities Act or (d) pursuant to any available exemption from the registration requirements under the Securities Act (provided that as a condition to the registration of transfer of any Notes under this clause (d) the Company, the Trustee, the Paying Agent, Transfer Agent or the Registrar may, in circumstances that any of them deems appropriate, require evidence as to compliance with any such exemption), and in each of such cases, in accordance with any applicable securities laws of any state of the United States and any other jurisdiction.

6. You agree to, and each subsequent holder is required to, notify any purchaser of the Notes from it of the resale restrictions referred to in clause 5 above, if then applicable.
7. You acknowledge that each Note will contain a legend substantially to the following effect:

THIS NOTE 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 NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

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, FOR A PERIOD OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OR THE ORIGINAL ISSUE DATE HEREOF (THE "RESALE RESTRICTION PERIOD"), ONLY (A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) OUTSIDE THE UNITED STATES IN A TRANSACTION COMPLYING WITH THE PROVISIONS OF RULE 904 UNDER THE SECURITIES ACT, (C) PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (C) 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 FOR A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

8. You acknowledge that we, the Initial Purchasers, the Trustee, the Transfer Agent and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of the Notes is no longer accurate, you will promptly notify us, the Initial Purchasers, the Trustee and the Transfer Agent. If you are purchasing any Notes 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.
9. You also acknowledge that this offering memorandum has not been and will not be registered as a prospectus with the MAS under the SFA. Accordingly, you have represented, warranted and agreed that you have not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and have not circulated or distributed, nor will you circulate or distribute, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

RATINGS

The Notes are expected to be rated “B1” by Moody’s Investors Service and “BB-” by Fitch Ratings. 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 corporate family rating of “Ba3” 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, Conyers Dill & Pearman as to matters of Cayman Islands law and Conyers Dill & Pearman as to matters of BVI law and Commerce & Finance Law Offices as to matters of PRC 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 Haiwen & Partners as to matters of PRC law.

INDEPENDENT AUDITOR

Our consolidated financial statements as of and for the year ended December 31, 2016 included in this offering memorandum have been audited by KPMG, Certified Public Accountants, as stated in their report appearing herein.

See “Risk Factors—Risks Related to the Financial Information Included in this Offering Memorandum—The audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016, contains two qualifications” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Factor Affecting the Comparability of our Results of Operations—Qualifications in the audit opinion of our independent auditors in respect of our consolidated financial statements for the year ended, and as of, December 31, 2016.”

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 May 15, 2017.

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 December 31, 2016 that is material in the context of the issue of the Notes.

DOCUMENTS AVAILABLE

For so long as any of the Notes are outstanding, copies of the Indenture may be inspected by holders of the Notes upon satisfactory proof of holding free of charge during normal business hours on any Business Day (except public holidays) at the corporate trust office of the Trustee.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the last two financial years, if any, may be obtained during normal business hours on any Business Day (except public holidays) at the corporate trust office of the Trustee.

CLEARING SYSTEMS

The Notes have been accepted for clearance through Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below:

	<u>ISIN</u>	<u>Common Code</u>
Regulation S Notes	XS1618597535	161859753

LISTING OF THE NOTES

Approval-in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the offering, the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any of their respective associated companies (if any), the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any). For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies).

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Note is exchanged for individual definitive Notes, we will appoint and maintain a paying agent in Singapore, where the individual definitive Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for individual 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 individual definitive Notes, including details of the paying agent in Singapore.

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Note:

- (1) Our consolidated annual financial statements as of and for the years ended December 31, 2015 and 2016 set forth herein have been produced from our annual report for the twelve months ended December 31, 2016 and page references are references to pages set forth in such annual report.

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report to the shareholders of Logan Property Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Logan Property Holdings Company Limited and its subsidiaries ("the Group") set out on pages 80 to 199, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Basis for qualified opinion* section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

- (a) As disclosed in note 14, certain joint ventures (50:50) incurred payments to third parties to fund the costs for the acquisition of certain urbanization projects. These payments of approximately RMB900 million have been included in receivables as at 31 December 2016. However, we have been unable to obtain sufficient audit evidence to ascertain the nature of these payments, and thus we cannot satisfy ourselves as to the appropriateness of accounting for these payments as receivables as at 31 December 2016.
- (b) The Group has disclosed in note 12 to the consolidated financial statements that it has entered into capital contribution agreements with Shenzhen Pingan Dahua Huitong Wealth Management Co., Ltd. ("Pingan Dahua") in 2015 and 2016, pursuant to which Pingan Dahua has made capital contributions to two subsidiaries of the Group (Shenzhen Logan Junjing Real Estate Development Co., Ltd. (深圳市龍光駿景房地產開發有限公司) ("Shenzhen Logan Junjing") and Huizhou Daya Bay Dongzhen Property Co., Ltd. (惠州大亞灣東圳房地產有限公司) ("Huizhou Dongzhen"). As at 31 December 2016, Pingan Dahua contributed a total of RMB4,800,000,000 and RMB3,960,000,000 to Shenzhen Logan Junjing and Huizhou Dongzhen respectively (2015: RMB2,800,000,000 and Nil, respectively). As also disclosed in note 12 and note 32, in 2016 Pingan Dahua received RMB2,086,288,000 from the Group on the repurchase of Pingan Dahua's 49% interest in the Group's subsidiary, Shenzhen Jinjun Property Co. Ltd. (深圳市金駿房地產有限公司) ("Shenzhen Jinjun").

INDEPENDENT AUDITOR'S REPORT

These transactions have been accounted for as equity transactions whereby adjustments have been made to the amount of other reserves within controlling shareholders' interests and non-controlling interests in the Group's consolidated financial statements as at 31 December 2016 and 2015.

During our audit of the consolidated financial statements of the Group as at 31 December 2016 it came to our attention that certain agreements, namely Supplementary Agreement of Cooperation Framework and the Equity Forward Repurchase Agreement, specified certain payments obligations by Shenzhen Logan Junjing and Huizhou Dongzhen to Pingan Dahua in connection with the above capital contributions.

As disclosed in note 12, management of the Group believes that notwithstanding these terms, the transactions can be accounted for as equity transactions. In our opinion, as the agreements contain obligations for the Group to re-purchase its own equity instruments in certain circumstances, accounting for these transactions entirely as equity transactions is not in accordance with the requirements of Hong Kong Accounting Standard 32 *Financial Instruments: Presentation*. As of the date of this report we have been unable to quantify the financial effect of this departure as we have been unable to satisfy ourselves that we have a full understanding of the rights and obligations of both sides to the agreements and any other similar transactions accounted for as equity transactions in the Group's consolidated financial statements as at 31 December 2016 and 2015. Any adjustments to these amounts would affect the amount of liabilities and net assets reported by the Group as at those dates and may affect the profit recognised for the years then ended.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for qualified opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT

REVENUE RECOGNITION ON THE SALE OF PROPERTIES

Refer to note 4 to the consolidated financial statements and the accounting policies on page 104.

The Key Audit Matter	How the matter was addressed in our audit
<p>The Group is an integrated property developer in Mainland China focusing on residential property development.</p>	<p>Our audit procedures to assess the recognition of revenue on the sale of properties included the following:</p>
<p>Recorded revenue from the sale of properties for the year ended 31 December 2016 totalled RMB20,245 million.</p>	<ul style="list-style-type: none"> • assessing the design, implementation and operating effectiveness of relevant key internal controls which govern the recognition of revenue on the sale of properties;
<p>Revenue from the sale of properties is recognised when the properties are completed and the buyers have accepted the properties and obtained physical possession of the properties. Deposits and instalments received in respect of pre-sales of properties prior to the date of revenue recognition are included in the statement of financial position as receipts in advance.</p>	<ul style="list-style-type: none"> • comparing the average selling prices and relevant gross floor area data of all properties sold during the current year with comparable transactions completed in the prior year and current market available data;
<p>We identified revenue recognition on the sale of properties as a key audit matter because revenue is one of the key performance indicators of the Group and because of its significance to the consolidated financial statements, both of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation to meet targets or expectations.</p>	<ul style="list-style-type: none"> • selecting a sample of property sale transactions from the total property sales recorded for the year (with a particular emphasis on property sales close to the financial reporting date) and inspecting the underlying documentation in respect of the related revenue, which included sales contracts, documentation confirming legal completion and evidence of physical handover of the properties to the buyers, to assess whether revenue had been properly recognised in the appropriate accounting period; • scrutinising all manual journal entries raised during the year relating to revenue and inspecting relevant underlying documentation for journal entries which were considered to be material or met other specific risk-based criteria; • performing site visits to verify the completion status of development projects, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

VALUATION OF INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

Refer to note 11 to the consolidated financial statements and the accounting policies on page 92.

The Key Audit Matter	How the matter was addressed in our audit
<p>The Group holds a portfolio of investment properties and investment properties under development, comprising office buildings and shopping malls, located principally in the cities of Shenzhen, Guangzhou and Huizhou in Southern China. As at 31 December 2016, investment properties and investment properties under development, with a fair value of RMB11,891 million, in aggregate, accounted for 13.75% of the Group's total assets at that date.</p>	<p>Our audit procedures to assess the valuation of investment properties and investment properties under development included the following:</p>
<p>The changes in fair value of investment properties and investment properties under development recorded in the consolidated statement of profit or loss represented 33.81% of the Group's profit before taxation for the year ended 31 December 2016.</p>	<ul style="list-style-type: none"> • obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the directors' assessment of the fair values of investment properties and investment properties under development was based; • assessing the external property valuers' qualifications, experience and expertise in the properties being valued and considering their objectivity and independence;
<p>The fair values of the investment properties and investment properties under development as at 31 December 2016 were assessed by the directors based on independent valuations prepared by qualified external property valuers.</p>	<ul style="list-style-type: none"> • with the assistance of our internal property valuation specialists, discussing with both management and the external property valuers the valuation methodology applied and the key estimates and assumptions adopted in the valuations;

INDEPENDENT AUDITOR'S REPORT

VALUATION OF INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT (CONTINUED)

Refer to note 11 to the consolidated financial statements and the accounting policies on page 92. (Continued)

The Key Audit Matter	How the matter was addressed in our audit
<p>In determining the fair values, the valuers applied a method of valuation which necessitates making certain estimates, which include determining capitalisation rates, prevailing market rents and comparable market transactions.</p> <p>We identified the valuation of investment properties and investment properties under development as a key audit matter because their valuation involves significant judgement and estimation and because a small change in the key estimates and assumptions applied by the valuers could have a significant impact on the valuations and the consolidated financial statements.</p>	<ul style="list-style-type: none"> • challenging the key estimates and assumptions adopted in the valuations, including the capitalisation rates, prevailing market rents and comparable market transactions by comparing the key estimates and assumptions with those made in prior years and current market available data and/or government produced market statistics, on a sample basis; • comparing tenancy information, including committed rents and occupancy rates, provided by the Group to the external property valuers with underlying contracts and related documentation, on a sample basis; • conducting site visits to investment properties under development, on a sample basis, to observe the development progress and comparing the observed development progress with the Group's records; • challenging management's development budgets reflected in the latest forecasts with reference to market data and statistics for estimated construction costs, signed construction contracts and/or unit construction costs for recently completed projects developed by the Group.

INDEPENDENT AUDITOR'S REPORT

ASSESSING THE CLASSIFICATION OF INTERESTS IN JOINT VENTURES AND AN ASSOCIATE AND RECOVERABILITY OF RECEIVABLES FROM THESE INVESTEEES

Refer to notes 13 and 14 to the consolidated financial statements and the accounting policies on page 91–92.

The Key Audit Matter	How the matter was addressed in our audit
<p>The Group entered into certain arrangements with third parties to set up an associate and ten joint ventures to develop properties in 2016.</p>	<p>Our audit procedures to assess the classification of interests in joint ventures and an associate and the recoverability of receivables from these investees included the following:</p>
<p>The carrying amount of the Group's investments in the joint ventures and the associate as at 31 December 2016 totalled RMB64 million in aggregate and gross receivables due from these joint ventures and the associate as at 31 December 2016 totalled RMB15,340 million in aggregate. Included in these amounts is approximately RMB900 million in respect of which our opinion is qualified as described in the Basis for qualified opinion section of this report.</p>	<ul style="list-style-type: none"> • discussing with management all new investments to gain an understanding of the purpose and background of each investment; • inspecting investment contracts, articles of association and relevant legal documents and assessing the business substance of each investment to determine the key terms which may affect the accounting therefor and assessing whether the accounting treatment adopted by the Group for these new investments was consistent with the requirements of the prevailing accounting standards;
<p>We identified assessing the classification of interests in joint ventures and an associate and the recoverability of receivables from these investees as a key audit matter because:</p>	<ul style="list-style-type: none"> • obtaining confirmations from banks and third parties of certain cash at bank balances, loans and receivables and payables of the investees;
<ul style="list-style-type: none"> • significant management judgement is involved in interpreting the complex contractual terms and determining the appropriate accounting treatment for each investment; 	

INDEPENDENT AUDITOR'S REPORT

ASSESSING THE CLASSIFICATION OF INTERESTS IN JOINT VENTURES AND AN ASSOCIATE AND RECOVERABILITY OF RECEIVABLES FROM THESE INVESTEEES (CONTINUED)

Refer to notes 13 and 14 to the consolidated financial statements and the accounting policies on page 91–92. (Continued)

The Key Audit Matter	How the matter was addressed in our audit
<ul style="list-style-type: none"> • the risk of inappropriate classification of interests in joint ventures and an associate, either on acquisition or in subsequent reporting periods, could have a material effect on the consolidated financial statements; • the amount of receivables from these investees as at 31 December 2016 is significant to the consolidated financial statements; and • significant management judgement is required to assess the recoverability of the receivables because the profitability of the proposed property development projects of these investees, which may take a number of years to complete, is inherently uncertain and can be influenced by broader political and economic factors. 	<ul style="list-style-type: none"> • inspecting relevant underlying documentation in respect of significant payments made by the investees to third parties during the current year; • inspecting the certificates of land use rights obtained by the investees in respect of their proposed property development projects; • challenging management's assessment of the profitability of the proposed property developments for the investees, in particular the key estimates and assumptions adopted in the valuation of land use rights obtained and estimated future sales prices, by comparison with current market available data and/or government produced market statistics; • challenging the development budgets reflected in the latest forecasts for the proposed property development projects with reference to market data and statistics for estimated construction costs, signed construction contracts and/or unit construction costs for recently completed projects developed by the Group.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. We obtained the Management Discussion and Analysis prior to the date of this auditor's report and expect the remaining other information to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chiu Mun Wai.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Revenue	4	20,538,838	14,574,010
Cost of sales		(13,979,010)	(10,143,907)
Gross profit		6,559,828	4,430,103
Other revenue	5(a)	423,523	134,635
Other expenses	5(b)	(196,327)	(144,029)
Selling and marketing expenses		(714,249)	(573,138)
Administrative expenses		(556,700)	(587,839)
Net increase in fair value of investment properties	11	2,681,903	943,057
Net increase in fair value of derivative financial instruments	22	81,720	6,936
Share of profit of an associate	13	31,723	–
Share of losses of joint ventures	14	(6,137)	–
Profit from operations		8,305,284	4,209,725
Finance costs	6(a)	(371,850)	(36,215)
Profit before taxation	6	7,933,434	4,173,510
Income tax	7	(2,733,551)	(1,485,692)
Profit for the year		5,199,883	2,687,818
Attributable to:			
Equity shareholders of the Company		4,487,736	2,649,279
Non-controlling interests		712,147	38,539
Profit for the year		5,199,883	2,687,818
Earnings per share (RMB cents)	10		
– Basic		81.06	52.41
– Diluted		80.82	52.32

The notes on pages 88 to 199 form part of these consolidated financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 24(b)(i).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

(Expressed in Renminbi)

	2016 RMB'000	2015 RMB'000
Profit for the year	5,199,883	2,687,818
Other comprehensive income for the year (after tax and reclassification adjustments)		
<i>Item that may be classified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of overseas entities	(75,234)	(94,268)
Total comprehensive income for the year	5,124,649	2,593,550
Attributable to:		
Equity shareholders of the Company	4,412,502	2,555,011
Non-controlling interests	712,147	38,539
Total comprehensive income for the year	5,124,649	2,593,550

There is no tax effect relating to the above component of other comprehensive income.

The notes on pages 88 to 199 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Investment properties	11	11,890,879	6,117,500
Other property, plant and equipment	11	184,317	165,622
		12,075,196	6,283,122
Deferred tax assets	7(c)	273,500	385,210
Interest in an associate	13	3,019,480	–
Interests in joint ventures	14	12,384,833	–
Restricted and pledged deposits	18	227,304	343,065
		27,980,313	7,011,397
Current assets			
Inventories	15	40,197,099	28,198,344
Trade and other receivables and prepayments	16	2,943,357	10,025,722
Tax recoverable	7(c)	810,941	402,045
Assets under cross-border guarantee arrangements	17	–	286,600
Restricted and pledged deposits	18	1,010,172	2,212,300
Cash and cash equivalents	19	13,559,827	8,635,258
		58,521,396	49,760,269
Current liabilities			
Trade and other payables	20	23,919,327	16,969,129
Liabilities under cross-border guarantee arrangements	17	–	286,600
Bank and other loans	21	3,370,501	4,044,885
Senior Notes	22	1,747,637	–
Tax payable	7(c)	2,017,405	1,320,647
		31,054,870	22,621,261
Net current assets		27,466,526	27,139,008
Total assets less current liabilities		55,446,839	34,150,405

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Bank and other loans	21	11,707,510	7,117,037
Corporate bonds	21	12,400,000	5,000,000
Senior notes	22	3,960,889	3,588,720
Deferred tax liabilities	7(c)	1,627,094	983,731
		29,695,493	16,689,488
NET ASSETS		25,751,346	17,460,917
CAPITAL AND RESERVES			
Share capital	24(c)	434,591	439,821
Reserves		18,992,258	13,108,958
Total equity attributable to equity shareholders of the Company		19,426,849	13,548,779
Non-controlling interests		6,324,497	3,912,138
TOTAL EQUITY		25,751,346	17,460,917

Approved and authorised for issue by the board of directors on 30 March 2017.

Lai Zhuobin
Director

Xiao Xu
Director

The notes on pages 88 to 199 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									Total equity
	Share capital (note 24(c)) RMB'000	Share premium (note 24(d)(i)) RMB'000	Share-based		PRC		Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	
			compensation reserve (note 24(d)(v)) RMB'000	Exchange reserve (note 24(d)(ii)) RMB'000	statutory reserves (note 24(d)(iii)) RMB'000	Other reserve (note 24(d)(iv)) RMB'000				
At 1 January 2015	393,115	825,019	46,890	46,325	582,959	1,714,139	7,601,439	11,209,886	2,107,132	13,317,018
Changes in equity for 2015:										
Profit for the year	-	-	-	-	-	-	2,649,279	2,649,279	38,539	2,687,818
Other comprehensive income	-	-	-	(94,268)	-	-	-	(94,268)	-	(94,268)
Total comprehensive income for the year	-	-	-	(94,268)	-	-	2,649,279	2,555,011	38,539	2,593,550
Transfer to PRC statutory reserves	-	-	-	-	65,397	-	(65,397)	-	-	-
Dividend declared (note 24(b)(ii))	-	-	-	-	-	-	(433,736)	(433,736)	-	(433,736)
Equity-settled share-based transactions										
(note 6(b))	-	-	49,842	-	-	-	-	49,842	-	49,842
Effect of forfeited and cancelled share options	-	-	(21,475)	-	-	-	21,475	-	-	-
Issuance of shares (note 24(c))	46,706	1,242,434	-	-	-	-	-	1,289,140	-	1,289,140
Dividend declared to non-controlling interests	-	-	-	-	-	-	-	-	(72,000)	(72,000)
Acquisition of additional interests in subsidiaries										
(note 32)	-	-	-	-	-	(1,121,364)	-	(1,121,364)	(961,533)	(2,082,897)
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	2,800,000	2,800,000
At 31 December 2015	439,821	2,067,453	75,257	(47,943)	648,356	592,775	9,773,060	13,548,779	3,912,138	17,460,917

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share-based				PRC		Retained profits	Total	Non-controlling interests	Total equity
	Share capital	Share premium	compensation reserve	Exchange reserve	statutory reserves	Other reserve				
	(note 24(c))	(note 24(d)(i))	(note 24(d)(v))	(note 24(d)(ii))	(note 24(d)(iii))	(note 24(d)(iv))				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2016	439,821	2,067,453	75,257	(47,943)	648,356	592,775	9,773,060	13,548,779	3,912,138	17,460,917
Changes in equity for 2016:										
Profit for the year	-	-	-	-	-	-	4,487,736	4,487,736	712,147	5,199,883
Other comprehensive income	-	-	-	(75,234)	-	-	-	(75,234)	-	(75,234)
Total comprehensive income for the year	-	-	-	(75,234)	-	-	4,487,736	4,412,502	712,147	5,124,649
Transfer to PRC statutory reserves	-	-	-	-	184,095	-	(184,095)	-	-	-
Repurchase and cancellation of own share (note 24(c)(ii))	(5,230)	(168,009)	-	-	-	-	-	(173,239)	-	(173,239)
Dividend declared (note 24(b)(iii))	-	-	-	-	-	-	(694,998)	(694,998)	-	(694,998)
Equity-settled share-based transactions (note 23)	-	-	23,731	-	-	-	-	23,731	-	23,731
Effect of forfeited and cancelled share options (note 23)	-	-	(3,926)	-	-	-	3,926	-	-	-
Dividend declared to non-controlling interests	-	-	-	-	-	-	-	-	(45,146)	(45,146)
Acquisition of subsidiaries (note 31)	-	-	-	-	-	-	-	-	164,734	164,734
Acquisition of additional interests in subsidiaries (note 32)	-	-	-	-	-	(1,093,544)	-	(1,093,544)	(997,889)	(2,091,433)
Capital contribution from non-controlling interests	-	-	-	-	-	3,403,618	-	3,403,618	2,578,513	5,982,131
At 31 December 2016	434,591	1,899,444	95,062	(123,177)	832,451	2,902,849	13,385,629	19,426,849	6,324,497	25,751,346

The notes on pages 88 to 199 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations	19(b)	6,702,762	2,006,061
Tax paid			
– PRC tax paid	7(c)	(1,874,626)	(1,242,432)
Net cash generated from operating activities		4,828,136	763,629
Investing activities			
Addition to investment properties	11(a)	(621,372)	(296,754)
Addition to other property, plant and equipment	11(a)	(67,726)	(74,339)
Disposal of subsidiaries	33	(233,434)	–
Capital contribution to an associate	13	(7,500)	–
Capital contribution to joint ventures	14	(100,200)	–
Advances to an associate and joint ventures		(14,982,198)	–
Advances from joint ventures	20	1,343,560	–
Proceeds from disposal of other property, plant and equipment		566	1,389
Interest received		168,569	75,533
Acquisition of subsidiaries	31	55,418	–
Decrease/(increase) in restricted and pledged deposits		1,604,489	(617,259)
Net cash used in investing activities		(12,839,828)	(911,430)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Financing activities			
Proceeds from bank and other loans		14,822,616	8,437,045
Repayment of bank and other loans		(10,970,655)	(10,156,639)
Proceeds from corporate bonds		7,355,070	4,950,000
Proceeds from non-interest bearing payable to a financial institution		–	1,293,801
Repayment of non-interest bearing payable to a financial institution	20	(1,293,801)	(1,293,801)
Proceeds from senior notes	22	1,682,260	–
Repayment of liabilities under cross-border guarantee arrangement		(286,600)	–
Proceeds from issuance of shares		–	1,289,140
Repurchase of own shares	24(c)(ii)	(173,239)	–
Interest and other borrowing costs paid		(1,591,291)	(1,529,839)
Increase in amount due from a non-controlling interest		(14)	(86,288)
Capital contribution from non-controlling interests		5,982,131	2,800,000
Payments for acquisition of additional interests in subsidiaries	32	(2,000,000)	(2,082,897)
Dividend paid to non-controlling interests		(45,146)	(72,000)
Dividend paid to equity shareholders of the Company		(694,998)	(433,736)
Net cash generated from financing activities		12,786,333	3,114,786
Net increase in cash and cash equivalents		4,774,641	2,966,985
Cash and cash equivalents at 1 January		8,635,258	5,576,357
Effect of foreign exchange rate changes		149,928	91,916
Cash and cash equivalents at 31 December	19(a)	13,559,827	8,635,258

The notes on pages 88 to 199 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 GENERAL INFORMATION AND BASIS OF PRESENTATION

Logan Property Holdings Company Limited (the “Company”) was incorporated in the Cayman Islands on 14 May 2010 as an exempted company with limited liability under the Companies Law (2011 Revision) (as combined and revised) of the Cayman Islands (the “Cayman Companies Law”).

Pursuant to a reorganisation (the “Reorganisation”) of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) which was completed on 1 April 2013 to rationalise the group structure in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the Company’s prospectus dated 10 December 2013 (the “Prospectus”). The Company’s shares were listed on the Stock Exchange on 20 December 2013.

The principle activity of the Company is investment holding and its subsidiaries are principally engaged in property development, property investment and construction in the People’s Republic of China (the “PRC”).

The Group is regarded as a continuing entity resulting from the Reorganisation under common control and has been accounted for on the basis of merger accounting. The consolidated financial statements of the Group have been prepared as if the current group structure had been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in an associate and joint ventures.

The financial statements are presented in Renminbi (“RMB”) rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (see note 2(g));
- derivative financial instruments (see note 2(f)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(p) or (q) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associate and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associate and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associate and joint ventures (continued)

In the company's statement of financial position, investments in an associate and joint ventures are stated at cost less impairment losses (see note 2(k)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(v)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(j).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Other property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation (see note 2(l)) and impairment losses (see note 2(k)):

- other land and buildings; and
- other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of borrowing costs (see note 2(x)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(i) Depreciation of investment properties and other property, plant and equipment

(i) Investment properties and investment properties under development

No depreciation is provided on investment properties and investment properties under development.

(ii) Properties under development for own use

No depreciation is provided until such time as the relevant assets are complete and put into use.

(iii) Other land and buildings

Depreciation is provided on the cost of the leasehold land of properties over the unexpired terms of the leases. Costs of buildings thereon are depreciated on a straight-line basis over the unexpired terms of the respective leases.

(iv) Furniture, fixtures and other plant and equipment

Depreciation is calculated to write-off the cost of furniture, fixtures and other plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives of 3 to 10 years.

Where parts of an item of furniture, fixtures and other plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if it were held under a finance lease (see note 2(g)).

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(g)) or is held for development for sale (see note 2(l)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets

(i) Impairment of other receivables

Other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associate and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

(i) Impairment of other receivables (continued)

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease; and
- investments in subsidiaries, an associate and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

- *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(k)(i) and (ii)).

(l) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost and net realisable value are determined as follows:

(i) Properties held for development for sale

The cost of leasehold land, which is held for development for sale, represents the cost of acquisition. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(ii) Properties under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 2(x)). Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

(iii) Completed properties for sale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2(v)(iii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the consolidated statement of financial position as the “Gross amount due from customers for contract work” (as an asset) or the “Gross amount due to customers for contract work” (as a liability), as applicable. Progress billings not yet paid by the customer are included under “Trade and other receivables”. Amounts received before the related work is performed are presented as “Receipts in advance” under “Trade and other payables”.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(o) Senior notes

Senior notes of the Company are issued with early redemption clause at the option of the Company.

At initial recognition the redemption option is measured at fair value and presented as derivative financial instruments (see note 2(f)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the senior notes are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The fair value of the derivative component is subsequently remeasured in accordance with note 2(f). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(u)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(s) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The employees of the Group participate in retirement plans (defined contribution retirement plans) managed by respective local governments of the municipalities in which the Group operates in the PRC. The contribution to the retirement plan is calculated based on fixed rates of the employees' salaries cost and charged to profit or loss as and when incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense. The Group has no other obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits (continued)

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Income tax (continued)

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

The limited exceptions to recognition of deferred tax assets and liabilities are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(g), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when liability to pay the related dividend is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(u)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of properties

Revenue from the sale of properties is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyers. The Group considers that the significant risks and rewards of ownership are transferred when the properties are completed and the buyers have accepted the properties and obtained the physical possession of the properties. Revenue from the sale of properties excludes value added tax, business tax and other sales related taxes and is after deduction of any trade discounts. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position as receipts in advance.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Construction income

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Revenue recognition (continued)

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government subsidies

Government subsidies are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Subsidies that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(vi) Design fee and construction management service income

Design fee and construction management service income are recognised at the time when the services are provided.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING ESTIMATES AND JUDGEMENTS

The key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

(a) Investment in joint ventures and associates

The Group has co-operated with certain third parties to engage in certain property development projects through the investment in and advances to certain investees. The Group has exercised judgement in determining whether it has joint control or significant influence over these entities based on its representation on the board of directors or equivalent governing body of the investees. These investees are classified as joint ventures or associates in the consolidated statement of financial position and accounted for in accordance with accounting policy set out in note 2(e).

Significant judgement is required to assess the recoverability of the receivables because the profitability of the future development of properties by these investees over a number of years can be difficult to predict and can be influenced by broader political and economic factors.

(b) Valuation of investment properties

As described in note 11, investment properties and investment properties under development are stated at fair value based on the valuation performed by an independent firm of professional surveyors, the valuers have valued the investment properties by reference to sales evidences as available on the market. The investment properties under development had been valued on the basis that the properties will be developed and completed in accordance with the relevant development plans. They were determined using the direct comparison approach by making references to comparable sale evidence as available in the relevant market, with adjustments for development costs to be expended to complete the properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

3 ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Valuation of investment properties (continued)

In determining the fair value, the valuers have based on a method of valuation which involves, inter-alia, certain estimates including comparable market transactions. In relying on the valuation report, management has exercised its judgement and is satisfied that the method of valuation is reflective of the current market condition.

(c) Impairment of non-current assets

If circumstances indicate that the carrying amounts of property, plant and equipment (other than investment properties) may not be recoverable, the assets may be considered impaired and are tested for impairment. An impairment loss is recognised when the asset's recoverable amount has declined below its carrying amount. The recoverable amount is the greater of the fair value less costs to sell and value in use. In determining the recoverable amount which requires significant judgements, the Group estimates the future cash flows to be derived from continuing use and ultimate disposal of the asset and applies an appropriate discount rate to these future cash flows.

(d) Write-down of inventories for property development

Management performs a regular review on the carrying amounts of inventories for property development. Based on management's review, write-down of inventories for property development will be made when the estimated net realisable value has declined below the carrying amount.

In determining the net realisable value of completed properties for sale, management refers to prevailing market data such as recent sales transactions, market survey reports available from independent property valuers and internally available information, as bases for evaluation.

In respect of properties under development for sale, the estimate of net realisable value requires the application of a risk-adjusted discount rate to estimate future discounted cash flows to be derived from these properties. These estimates require judgement as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

(e) Construction contracts

As explained in policy notes 2(m) and 2(v)(iii) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

3 ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(f) Land Appreciation Tax (“LAT”)

As explained in note 7(a)(iv), the Group has estimated, made and included in tax provision for LAT according to the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects and the tax authorities might disagree with the basis on which the provision for LAT is calculated. Significant judgement is required in determining the level of provision, as the calculation of which depends on the ultimate tax determination. Given the uncertainties of the calculation basis of LAT as interpreted by the local tax bureau, the actual outcomes may be higher or lower than those estimated at the end of each reporting period. Any increase or decrease in actual outcomes/estimates would affect income statement in the period in which such determination is made.

(g) Recognition of deferred tax assets

The realisability of deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which deferred tax assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such reversal takes place.

(h) Estimation of fair value of derivative financial instruments

Redemption call options embedded in senior notes of the Group are classified as derivative financial instruments and stated at fair value at the end of each reporting period. The fair value of these options is measured based on the assumptions set out in note 25(e). Any change in assumptions of the valuation would affect the value of these options significantly, and profit or loss in future years.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue represents income from sale of properties, rental income and construction income earned during the year, before deduction of business tax and discounts allowed, and is analysed as follows:

	2016 RMB'000	2015 RMB'000
Sale of properties	21,104,999	15,247,388
Rental income	83,932	71,748
Construction income	212,105	120,644
	21,401,036	15,439,780
Less: Business tax and other sales related taxes	(862,198)	(865,770)
	20,538,838	14,574,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Property development: this segment develops and sells residential properties and retail shops.
- Property leasing: this segment leases office units and retail shops to generate rental income and to gain from the appreciation in the properties' values in the long term. Currently the Group's investment property portfolio is located entirely in the PRC.
- Construction contracts: this segment constructs office premises and residential buildings for external customers and for group companies. Currently, the Group's activities in this regards are carried out in the PRC.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

The measure used for reporting segment profit is the adjusted profit before finance costs, income tax, depreciation and amortisation, and are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

In addition, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances, borrowings and derivative from senior notes managed directly by the segments and depreciation to non-current segment assets used by the segments in their operations. Segment assets and liabilities are not reported to the Group's senior executive management regularly.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

For the year ended 31 December 2016

	Property development RMB'000	Property leasing RMB'000	Construction contracts RMB'000	Total RMB'000
Gross revenue from external customers	21,104,999	83,932	212,105	21,401,036
Less: Business tax and other sales related taxes	(859,737)	(1,962)	(499)	(862,198)
Net revenue from external customers	20,245,262	81,970	211,606	20,538,838
Inter-segment revenue	–	11,023	4,197,558	4,208,581
Reportable segment revenue	20,245,262	92,993	4,409,164	24,747,419
Reportable segment profit	5,533,957	64,064	614,488	6,212,509
Interest income				
– Cash at bank	37,345	493	18,528	56,366
– Amounts due from an associate and joint ventures	–	–	13,501	13,501
Finance costs	(19,725)	–	(20,422)	(40,147)
Depreciation	(5,595)	(3,433)	(4)	(9,032)
Net increase in fair value of investment properties	–	2,681,903	–	2,681,903

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

For the year ended 31 December 2015

	Property development RMB'000	Property leasing RMB'000	Construction contracts RMB'000	Total RMB'000
Gross revenue from external customers	15,247,388	71,748	120,644	15,439,780
Less: Business tax and other sales related taxes	(857,536)	(3,870)	(4,364)	(865,770)
Net revenue from external customers	14,389,852	67,878	116,280	14,574,010
Inter-segment revenue	–	–	3,432,122	3,432,122
Reportable segment revenue	14,389,852	67,878	3,548,402	18,006,132
Reportable segment profit	3,613,418	62,112	362,563	4,038,093
Bank interest income	19,316	–	18,091	37,407
Finance costs	(9,368)	–	(10,963)	(20,331)
Depreciation	(9,490)	–	(14)	(9,504)
Net increase in fair value of investment properties	–	943,057	–	943,057

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Reconciliation of reportable segment revenue and profit or loss

	2016 RMB'000	2015 RMB'000
Revenue		
Reportable segment revenue	24,747,419	18,006,132
Elimination of inter-segment revenue	(4,208,581)	(3,432,122)
Consolidated revenue	20,538,838	14,574,010
Profit		
Reportable segment profit	6,212,509	4,038,093
Elimination of inter-segment profits	(631,645)	(381,739)
Reportable segment profit derived from Group's external customers	5,580,864	3,656,354
Other revenue	423,523	134,635
Other expenses	(196,327)	(144,029)
Depreciation	(37,265)	(22,844)
Finance costs	(371,850)	(36,215)
Share of profit of an associate	31,723	–
Share of losses of joint ventures	(6,137)	–
Net increase in fair value of investment properties	2,681,903	943,057
Net increase in fair value of derivative financial instruments	81,720	6,936
Unallocated head office and corporate expenses	(254,720)	(364,384)
Consolidated profit before taxation	7,933,434	4,173,510

(iii) Geographic information

No geographic information has been presented as the Group's operating activities are largely carried out in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

5 OTHER REVENUE AND OTHER EXPENSES

(a) Other revenue

	2016 RMB'000	2015 RMB'000
Interest income on:		
– Cash at bank	133,881	93,070
– Amounts due from an associate and joint ventures	256,787	–
Government subsidies	5,927	18,589
Forfeited deposits	18,374	19,271
Others	8,554	3,705
	423,523	134,635

(b) Other expenses

	2016 RMB'000	2015 RMB'000
Donations (note)	(125,533)	–
Net foreign exchange loss	(70,928)	(141,756)
Net gain on disposal of property, plant and equipment	181	175
Net gain on disposal of subsidiaries (note 33)	878	–
Others	(925)	(2,448)
	(196,327)	(144,029)

Note: The Group made charitable donations amounted to RMB125,533,000 during the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2016 RMB'000	2015 RMB'000
Interests on bank and other loans and other borrowing costs	903,430	1,132,760
Interests on senior notes	532,329	368,715
Interests on corporate bonds	482,294	90,570
	1,918,053	1,592,045
Less: Amount capitalised (note)	(1,546,203)	(1,555,830)
	371,850	36,215

Note: The borrowing costs have been capitalised at rates ranging from 3.3% to 12.0% (2015: 2.8% to 13.0%) per annum for the year.

(b) Staff costs

	2016 RMB'000	2015 RMB'000
Salaries, wages and other benefits	615,645	477,028
Contributions to defined contribution retirement plans	38,682	25,591
Equity-settled share-based transactions	23,731	49,842
	678,058	552,461
Less: Amount capitalised	(260,183)	(94,758)
	417,875	457,703

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

6 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items

	2016 RMB'000	2015 RMB'000
Depreciation	50,087	33,969
Less: Amount capitalised	(12,822)	(11,125)
	37,265	22,844
Rentals receivable from investment properties	(81,970)	(67,878)
	(81,970)	(67,878)
Cost of properties sold	13,812,693	10,013,952
Cost of construction	165,814	117,317
Auditors' remuneration		
– Audit services	4,180	1,882
– Non-audit services	2,118	522
Operating lease charges: minimum lease payments for land and buildings	10,805	11,605

7 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2016 RMB'000	2015 RMB'000
Current tax		
Provision for PRC Corporate Income Tax ("CIT") for the year	1,212,341	771,588
CIT over-provision in prior years	(21,459)	–
Provision for LAT for the year	971,606	563,020
	2,162,488	1,334,608
Deferred tax		
Origination of temporary differences	571,063	151,084
	2,733,551	1,485,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

7 INCOME TAX (CONTINUED)

(a) Income tax in the consolidated statement of profit or loss represents: (continued)

- (i) Pursuant to the rules and regulations of the British Virgin Islands ("BVI") and Cayman Islands, the Group is not subject to any income tax in the BVI and Cayman Islands.
- (ii) No provision for Hong Kong Profits Tax was made as the Group has no assessable profits arising in or derived from Hong Kong for the year.
- (iii) Effective from 1 January 2008, under the PRC CIT Law, the PRC's statutory income tax rate is 25%. The Group's PRC subsidiaries are subject to PRC income tax at 25% unless otherwise specified.
- (iv) LAT is levied on properties developed by the Group in the PRC for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including lease charges of land use right, borrowing costs and all qualified property development expenditures.

(b) Reconciliation between income tax expense and accounting profit before taxation at applicable tax rates:

	2016 RMB'000	2015 RMB'000
Profit before taxation	7,933,434	4,173,510
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	1,988,091	1,052,060
Tax effect of non-taxable income	(12,403)	(15,820)
CIT over-provision in prior years	(21,459)	-
Tax effect of non-deductible expenses	50,824	19,674
Utilisation of previously unrecognised tax losses	(506)	(543)
Effect of tax losses not recognised	300	36
LAT	971,606	563,020
Tax effect of deductible LAT	(242,902)	(132,735)
Actual tax expense	2,733,551	1,485,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

7 INCOME TAX (CONTINUED)

(c) Income tax in the consolidated statement of financial position represents:

(i) Current taxation

	2016 RMB'000	2015 RMB'000
CIT		
At 1 January	174,774	333,425
Provision for the year	1,190,882	771,588
CIT paid	(994,880)	(930,239)
At 31 December	370,776	174,774
LAT		
At 1 January	739,328	488,501
Provision for the year	971,606	563,020
LAT paid	(879,746)	(312,193)
At 31 December	831,188	739,328
Withholding tax		
At 1 January and 31 December	4,500	4,500
	1,206,464	918,602
Representing:		
Tax recoverable	(810,941)	(402,045)
Tax payable	2,017,405	1,320,647
	1,206,464	918,602

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

7 INCOME TAX (CONTINUED)

(c) Income tax in the consolidated statement of financial position represents:
(continued)

(ii) **Deferred tax assets and liabilities recognised**

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Group					Total RMB'000
	Revaluation of investment properties RMB'000	Unrealised gain on intra-group transactions RMB'000	Temporary differences arising from LAT provisions RMB'000	Unused tax losses (note) RMB'000	Fair value adjustments arising from business combinations RMB'000	
Deferred tax arising from:						
At 1 January 2015	896,228	(207,039)	(167,923)	(73,829)	-	447,437
Charged/(credited) to the consolidated profit or loss	235,764	15,964	(72,396)	(28,248)	-	151,084
At 31 December 2015 and 1 January 2016	1,131,992	(191,075)	(240,319)	(102,077)	-	598,521
Charged/(credited) to the consolidated profit or loss	670,476	(57,933)	(22,965)	(18,515)	-	571,063
Addition upon acquisition of subsidiaries	-	-	-	-	184,010	184,010
At 31 December 2016	1,802,468	(249,008)	(263,284)	(120,592)	184,010	1,353,594

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

7 INCOME TAX (CONTINUED)

(c) Income tax in the consolidated statement of financial position represents:
(continued)(ii) **Deferred tax assets and liabilities recognised (continued)**

	Group	
	2016 RMB'000	2015 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	(273,500)	(385,210)
Net deferred tax liabilities recognised in the consolidated statement of financial position	1,627,094	983,731
	1,353,594	598,521

Note: In assessing the realisability of deferred tax assets in respect of the Group's subsidiaries which suffered losses in current or preceding periods, management have considered the projected future taxable income of these subsidiaries. Accordingly, the Group has recognised deferred tax assets of RMB120,592,000 as at 31 December 2016 (2015: RMB102,077,000) as the Group estimates that these subsidiaries have property development projects which are probable to generate sufficient future taxable profits to support their utilisation.

(d) **Deferred tax assets not recognised:**

Deferred tax assets have not been recognised in respect of the following item:

	Group	
	2016 RMB'000	2015 RMB'000
Unused tax losses – PRC (note)	4,822	5,646

Note: The Group has not recognised deferred tax assets in respect of unused tax losses of certain subsidiaries as it is not probable that sufficient future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

The unused tax losses can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose. As at 31 December 2016, tax losses of RMB2,116,000, RMB822,000, RMB541,000, RMB144,000 and RMB1,199,000 will expire, if unused, by the end of 2017, 2018, 2019, 2020 and 2021, respectively.

(e) **Deferred tax liabilities not recognized**

As at 31 December 2016, taxable temporary differences relating to undistributed profits of the Group's PRC subsidiaries amounted to RMB15,311,411,000 (2015: RMB10,727,709,000). No deferred tax liability was recognised in respect of these taxable temporary differences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	2016					
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based payment expenses (note 23) RMB'000	Total RMB'000
Executive Directors						
Kei Hoipang ("Mr. Kei", also act as the Chairman of the Group)	–	6,383	7,434	30	2,827	16,674
Ji Jiande	–	3,113	16,279	30	2,120	21,542
Xiao Xu	–	1,612	4,701	28	964	7,305
Lai Zhuobin	–	1,615	3,951	32	900	6,498
Non-executive Director						
Kei Perenna Hoi Ting ("Ms. Kei")	1,342	–	2,577	11	442	4,372
Independent non-executive Directors						
Zhang Huaqiao	358	–	–	–	–	358
Liu Ka Ying, Rebecca	358	–	–	–	–	358
Cai Suisheng	358	–	–	–	–	358
Total	2,416	12,723	34,942	131	7,253	57,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

8 DIRECTORS' EMOLUMENTS (CONTINUED)

	2015					
	Directors' fees	Salaries, allowances and benefits in kind	Bonuses	Retirement scheme contributions	Share-based payment expenses (note 23)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors						
Kei Hoipang ("Mr. Kei", also act as the Chairman of the Group)	–	5,890	2,949	26	4,596	13,461
Ji Jiande	–	2,668	3,291	26	3,447	9,432
Xiao Xu	–	1,394	1,530	24	1,567	4,515
Lai Zhuobin	–	1,395	1,418	27	1,462	4,302
Non-executive Director						
Kei Perenna Hoi Ting ("Ms. Kei")	1,529	–	–	15	718	2,262
Independent non-executive Directors						
Zhang Huaqiao	335	–	–	–	–	335
Liu Ka Ying, Rebecca	335	–	–	–	–	335
Cai Suisheng	335	–	–	–	–	335
Total	2,534	11,347	9,188	118	11,790	34,977

Note: No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No director waived or agreed to waive any emoluments during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2015: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other one (2015: three) individual is as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	1,815	3,570
Discretionary bonuses	4,189	6,462
Share-based payments	1,285	4,282
Retirement scheme contributions	30	67
	7,319	14,381

The emoluments of the one (2015: three) individuals with the highest emoluments are within the following bands:

	2016 Number of individuals	2015 Number of individuals
HK\$4,000,001 to HK\$4,500,000	–	2
HK\$5,500,001 to HK\$6,000,000	–	1
HK\$7,000,001 to HK\$7,500,000	1	–
	1	3

No individual received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No individual waived or agreed to waive any emoluments during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2016 is based on the profit attributable to equity shareholders of the Company of RMB4,487,736,000 (2015: RMB2,649,279,000) and the weighted average of 5,536,242,000 shares (2015: 5,054,992,000 shares) in issue during the year ended 31 December 2016, calculated as follows:

	2016 '000	2015 '000
Weighted average number of shares		
Issued shares at 1 January	5,557,554	5,000,000
Effect of issuance of shares (note 24(c))	–	54,992
Effect of repurchase and cancellation (note 24(c))	(21,312)	–
Weighted average number of shares at 31 December	5,536,242	5,054,992

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB4,487,736,000 (2015: RMB2,649,279,000) and weighted average number of shares of 5,553,076,000 shares (2015: 5,063,879,000 shares) as follows.

	2016 '000	2015 '000
Weighted average number of shares		
Weighted average number of shares at 31 December	5,536,242	5,054,992
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	16,834	8,887
Weighted average number of shares (diluted) at 31 December	5,553,076	5,063,879

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

11 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT
(a)

	Investment properties	Investment properties under development	Sub-total	Other land and buildings	Leasehold improvements	Furniture, fixtures and other plant and equipment	Sub-total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation:								
At 1 January 2016	5,146,500	971,000	6,117,500	42,598	125,548	168,575	336,721	6,454,221
Additions	522,643	98,729	621,372	-	55,256	12,470	67,726	689,098
Transfer to investment properties	180,158	2,305,951	2,486,109	-	-	-	-	2,486,109
Disposals	(16,005)	-	(16,005)	-	-	(3,884)	(3,884)	(19,889)
Surplus on revaluation	531,282	2,150,621	2,681,903	-	-	-	-	2,681,903
Exchange difference	-	-	-	-	257	1,322	1,579	1,579
At 31 December 2016	6,364,578	5,526,301	11,890,879	42,598	181,061	178,483	402,142	12,293,021
Representing:								
Cost	-	-	-	42,598	181,061	178,483	402,142	402,142
Valuation	6,364,578	5,526,301	11,890,879	-	-	-	-	11,890,879
	6,364,578	5,526,301	11,890,879	42,598	181,061	178,483	402,142	12,293,021
Accumulated depreciation:								
At 1 January 2016	-	-	-	10,473	55,006	105,620	171,099	171,099
Charge for the year	-	-	-	2,125	33,313	14,649	50,087	50,087
Written back on disposals	-	-	-	-	-	(3,499)	(3,499)	(3,499)
Exchange difference	-	-	-	-	27	111	138	138
At 31 December 2016	-	-	-	12,598	88,346	116,881	217,825	217,825
Net book value:								
At 31 December 2016	6,364,578	5,526,301	11,890,879	30,000	92,715	61,602	184,317	12,075,196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

11 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) (continued)

	Investment properties	Investment properties under development	Sub-total	Other land and buildings	Leasehold improvements	Furniture, fixtures and other plant and equipment	Sub-total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation:								
At 1 January 2015	4,684,500	-	4,684,500	42,598	63,259	157,757	263,614	4,948,114
Additions	3,604	293,150	296,754	-	63,598	10,741	74,339	371,093
Transfer to investment properties	97,177	119,006	216,183	-	-	-	-	216,183
Transfer to inventories	(22,994)	-	(22,994)	-	-	-	-	(22,994)
Disposals	-	-	-	-	-	(5,557)	(5,557)	(5,557)
Surplus on revaluation	384,213	558,844	943,057	-	-	-	-	943,057
Exchange difference	-	-	-	-	(1,309)	5,634	4,325	4,325
At 31 December 2015	5,146,500	971,000	6,117,500	42,598	125,548	168,575	336,721	6,454,221
Representing:								
Cost	-	-	-	42,598	125,548	168,575	336,721	336,721
Valuation	5,146,500	971,000	6,117,500	-	-	-	-	6,117,500
	5,146,500	971,000	6,117,500	42,598	125,548	168,575	336,721	6,454,221
Accumulated depreciation:								
At 1 January 2015	-	-	-	8,055	37,800	95,718	141,573	141,573
Charge for the year	-	-	-	2,418	17,206	14,345	33,969	33,969
Written back on disposals	-	-	-	-	-	(4,443)	(4,443)	(4,443)
Exchange difference	-	-	-	-	-	-	-	-
At 31 December 2015	-	-	-	10,473	55,006	105,620	171,099	171,099
Net book value:								
At 31 December 2015	5,146,500	971,000	6,117,500	32,125	70,542	62,955	165,622	6,283,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at each end of the reporting period RMB'000	Fair value measurements as at the end of each reporting period categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
<i>At 31 December 2016</i>				
Investment properties				
– Leasehold land-HK	500,926	–	–	500,926
– Commercial-Mainland China	5,863,652	–	–	5,863,652
Investment properties under development	5,526,301	–	–	5,526,301
<i>At 31 December 2015</i>				
Investment properties				
– Commercial-Mainland China	5,146,500	–	–	5,146,500
Investment properties under development	971,000	–	–	971,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

11 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Fair value measurement of properties (continued)

(i) Fair value hierarchy (continued)

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties and investment properties under development were revalued as at 31 December 2015 and 2016. The valuations were carried out by the independent firms of surveyors, APAC Asset Valuation and Consulting Limited, who has among their staff Fellows of the Hong Kong Institute of Surveyors and Vocation (Beijing) International Assets Appraisal Co., Ltd Shenzhen Branch, with recent experience in the locations and categories of properties being valued. The Group's management have discussed with the surveyors on the valuation assumptions and valuation results when the valuations are performed at each interim and annual reporting date.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Range (weighted average)
<i>At 31 December 2016</i>			
Investment properties			
– Leasehold land-HK	Direct comparison approach	Market unit sale rate (RMB/sq.m.)	205,860 (205,860)
– Commercial-Mainland China	Direct comparison approach	Market unit sale rate (RMB/sq.m.)	7,500-155,700 (45,331)
– Commercial-Mainland China	Income approach	Risk-adjusted discount rate	2% to 5.5%
		Expected market rental growth	1.08% to 10%
		Expected occupancy rate	92%-100%
Investment properties under development	Direct comparison approach	Market unit sale rate (RMB/sq.m.)	7,500-125,630 (16,811)
<i>At 31 December 2015</i>			
Investment properties			
– Commercial-Mainland China	Direct comparison approach	Market unit sale rate (RMB/sq.m.)	4,400–83,000 (25,843)
Investment properties under developments	Direct comparison approach	Market unit sale rate (RMB/sq.m.)	10,000–50,000 (19,312)

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11 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Fair value measurement of properties (continued)

(ii) Information about Level 3 fair value measurements (continued)

At 31 December 2016, the fair values of investment properties is determined using the direct comparison approach and income capitalisation approach. Direct comparison approach is valued by making reference to comparable sale evidence as available in the relevant market of which is positively correlated to the market unit sale rate. Income capitalisation is valued by capitalising the rental income derived from the existing tenancies with due provisions for the reversionary income potential of the properties which is positively correlated to the market monthly rental rate, and negatively correlated to capitalisation rate.

The investment properties under development have been valued on the basis that the properties will be developed and completed in accordance with the relevant development plans. They are determined using the direct comparison approach by making references to comparable sale evidence as available in the relevant market, with adjustments for development costs to be expended to complete the properties. The fair value measurement is positively correlated to the market unit sale rate.

The movements during the year in the balance of Level 3 fair value measurements are set out in note 11(a) to these financial statements.

The changes in fair values of investment properties and investment properties under developments are presented in "Net increase in fair value of investment properties" in the consolidated statement of profit or loss.

(c) The analysis of net book value of properties is as follows:

	2016 RMB'000	2015 RMB'000
In Hong Kong		
– under long leases	500,926	–
In the PRC		
– under long leases	1,149,356	635,600
– under medium-term leases	10,270,597	5,514,025
	11,920,879	6,149,625

The Group's certain investment properties, investment properties under development and properties under development for own use were pledged against the Group's bank and other loans, details of which are set out in note 21.

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12 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. All of them are established in the PRC unless otherwise stated.

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Yuen Ming Investments Company Limited (incorporated in the BVI) (潤銘投資有限公司)	US\$1	100%	100%	–	Investment holding
Noble Rhythm International Limited (incorporated in the BVI) (樂韻國際有限公司)	US\$50,000	100%	100%	–	Investment holding
Golden Prosper Investments Limited (incorporated in the BVI) (金裕投資有限公司)	US\$1	100%	100%	–	Investment holding
Jolly Gain Investments Limited (incorporated in the BVI) (樂盈投資有限公司)	US\$1	100%	100%	–	Investment holding
Platinum Profit Investments Limited (incorporated in the BVI) (鉑盈投資有限公司)	US\$1	100%	100%	–	Investment holding
Tai Ying Investments Limited (incorporated in the BVI) (太盈投資有限公司)	US\$1	100%	100%	–	Investment holding
Talent Union Investments Limited (incorporated in the BVI) (匯駿投資有限公司)	US\$1	100%	100%	–	Investment holding
Dragon Coronet Limited (incorporated in the BVI) (龍冠有限公司)	US\$1	100%	100%	–	Investment holding
Unicorn Bay Limited (incorporated in the BVI) (麟灣有限公司)	US\$1	100%	100%	–	Inactive
Global Soar Limited (incorporated in the BVI) (世翔有限公司)	US\$1	100%	100%	–	Inactive

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12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Soaring Pioneer Limited (incorporated in the BVI) (翔鋒有限公司)	US\$1	100%	100%	–	Inactive
Logan Property International Investment Holdings Limited (incorporated in the BVI) (龍光地產國際投資控股有限公司)	US\$1	100%	100%	–	Inactive
Yuen Ming (Hong Kong) Investments Company Limited (incorporated in Hong Kong) (潤銘(香港)投資有限公司)	HK\$1	100%	–	100%	Investment holding
Kam Wang (Hong Kong) Investments Company Limited (incorporated in Hong Kong) (金泓(香港)投資有限公司)	HK\$1	100%	–	100%	Investment holding
Grandview Architectural Design Services Limited (incorporated in Hong Kong)	HK\$1	100%	–	100%	Investment holding
Golden Prosper (Hong Kong) Investments Holdings Limited (incorporated in Hong Kong) (金裕(香港)投資控股有限公司)	HK\$1	100%	–	100%	Inactive
Jolly Gain (Hong Kong) Investments Limited (incorporated in Hong Kong) (樂盈(香港)投資有限公司)	HK\$1	100%	–	100%	Inactive
Platinum Profit (Hong Kong) Investments Limited (incorporated in Hong Kong) (鉑盈(香港)投資有限公司)	HK\$1	100%	–	100%	Inactive
Tai Ying (Hong Kong) Investments Limited (incorporated in Hong Kong) (太盈(香港)投資有限公司)	HK\$1	100%	–	100%	Inactive

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12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Talent Union (Hong Kong) Investments Limited (incorporated in Hong Kong) (匯駿(香港)投資有限公司)	HK\$1	100%	–	100%	Inactive
King Kerry Investments Company Limited (incorporated in the BVI) (金凱利投資有限公司)	US\$1	100%	–	100%	Investment holding
King Kerry (Hong Kong) Investments Company Limited (incorporated in Hong Kong) (金凱利(香港)投資有限公司)	HK\$1	100%	–	100%	Investment holding
Cosmic Edge Investments Limited (incorporated in the BVI) (銳宇投資有限公司)	US\$1	100%	100%	–	Investment holding
Century State Investments Limited (incorporated in the BVI) (世邦投資有限公司)	US\$1	100%	100%	–	Inactive
Logan Property International Investment Limited (incorporated in Hong Kong) (龍光地產國際投資有限公司)	HK\$1	100%	–	100%	Inactive
Unicorn Bay (Hong Kong) Investments Limited (incorporated in Hong Kong) (麒麟灣(香港)投資有限公司)	HK\$1	100%	–	100%	Inactive
Sino Triumph Global Limited (incorporated in the BVI) (華勝環球有限公司)	US\$1	100%	–	100%	Inactive
Spring Estate Holdings Limited (incorporated in the BVI) (泉置控股有限公司)	US\$1	100%	–	100%	Inactive
Virtue High Limited (incorporated in the BVI) (德崇有限公司)	US\$1	100%	–	100%	Inactive

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12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Logan Property (Hong Kong) Company Limited (incorporated in Hong Kong) (龍光地產(香港)有限公司)	HK\$1	100%	–	100%	Inactive
Logan Property (Singapore) Company Pte. Limited (incorporated in Singapore) (龍光地產(新加坡)有限公司)	SGD\$1	100%	–	100%	Inactive
Union Brothers Limited (incorporated in the BVI)	US\$1	100%	–	100%	Inactive
Pak San Bay Investments Company Limited (incorporated in the BVI) (北山灣投資有限公司)	US\$1	100%	–	100%	Investment holding
Pak San Bay (Hong Kong) Investments Company Limited (incorporated in Hong Kong) (北山灣(香港)投資有限公司)	HK\$1	100%	–	100%	Investment holding
Logan Construction Co., Ltd. (note) (龍光工程建設有限公司)	RMB80,000,000	91%	–	91%	Property construction
Shenzhen Logan Holdings Co., Ltd. (note) (深圳市龍光控股有限公司)	RMB443,000,000	100%	–	100%	Investment holding and provision of consultancy services to group companies
Zhongshan Logan Property Co., Ltd. (note) (中山市龍光房地產有限公司)	RMB30,000,000	100%	–	100%	Property development
Nanning Logan Property Development Co., Ltd. (note) (南寧市龍光房地產開發有限公司)	RMB100,000,000	100%	–	100%	Property development and investment
Guangzhou Logan Property Co., Ltd. (note) (廣州市龍光房地產有限公司)	RMB40,000,000	100%	–	100%	Property development and investment
Guangzhou Logan Realty Co., Ltd. (note) (廣州市龍光置業有限公司)	RMB30,000,000	100%	–	100%	Property development

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12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Huizhou Daya Bay Logan Property Co., Ltd. (note) (惠州大亞灣龍光房地產有限公司)	RMB10,000,000	100%	–	100%	Property development
Shantou Logan Property Co., Ltd. (note) (汕頭市龍光房地產有限公司)	RMB10,000,000	100%	–	100%	Property development
Zhuhai Logan Property Development Co., Ltd. (note) (珠海市龍光房地產開發有限公司)	RMB30,000,000	100%	–	100%	Property development and investment
Foshan Shunde Logan Realty Co., Ltd. (note) (佛山市順德區龍光置業房產有限公司)	RMB35,295,000	100%	–	100%	Property development
Huizhou Logan Property Co., Ltd. (note) (惠州市龍光房地產有限公司)	RMB30,000,000	100%	–	100%	Property development
Dongguan Logan Property Co., Ltd. (note) (東莞市龍光房地產有限公司)	RMB50,000,000	100%	–	100%	Property development
Shantou Jinfengyuan Realty Co., Ltd. (note) (汕頭市金鋒園置業有限公司)	RMB66,000,000	100%	–	100%	Property development
Nanning Logan Jinjun Property Development Co., Ltd. (note) (南寧市龍光金駿房地產開發有限公司)	RMB50,000,000	100%	–	100%	Property development and investment
Hainan Logan Property Development Co., Ltd. (note) (海南龍光房地產開發有限公司)	RMB20,000,000	100%	–	100%	Property development
Chengdu Logan Property Co., Ltd. (note) (成都市龍光房地產有限公司)	RMB10,000,000	100%	–	100%	Property development
Shantou Logan Realty Co., Ltd. (note) (汕頭市龍光置業有限公司)	RMB33,000,000	100%	–	100%	Property development and investment
Shantou Jiarun Property Co., Ltd. (note) (汕頭市佳潤房地產有限公司)	RMB50,000,000	100%	–	100%	Property development

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12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Hainan Jinjun Realty Co., Ltd. (note) (海南金駿置業有限公司)	RMB351,800,000	100%	–	100%	Property development
Foshan Shancheng Logan Property Co., Ltd. (note) (佛山市禪城區龍光房地產有限公司)	RMB10,500,000	100%	–	100%	Property development
Nanning Logan Bojun Property Development Co., Ltd. (note) (南寧市龍光鉞駿房地產開發有限公司)	RMB700,000,000	100%	–	100%	Property development
Chengdu Logan Jinjun Realty Co., Ltd. (note) (成都市龍光金駿置業有限公司)	RMB10,000,000	100%	–	100%	Property development
Chengdu Logan Donghua Property Development Co., Ltd. (note) (成都市龍光東華房地產開發有限公司)	RMB558,059,600	100%	–	100%	Property development
Shantou Weida Property Co., Ltd. (note) (汕頭市偉達房地產有限公司)	RMB54,200,441	75%	–	75%	Property development
Shenzhen Logan Dongzhen Realty Co., Ltd. (note) (深圳市龍光東圳置業有限公司)	RMB30,000,000	100%	–	100%	Investment holding
Huizhou Daya Bay Dongzhen Property Co., Ltd. (note) (惠州大亞灣東圳房地產有限公司)	RMB55,600,000	90%	–	90%	Property development and investment
Shenzhen Logan Property Co., Ltd. (note) (深圳市龍光房地產有限公司)	RMB80,000,000	100%	–	100%	Property development and investment
Shenzhen Yongjing Decorating Construction Co., Ltd. (note) (深圳市潤景裝飾工程有限公司)	RMB200,000,000	91%	–	100%	Provision of decoration construction to group companies
Shenzhen Logan Media Planning Co., Ltd. (note) (深圳市龍光傳媒策劃有限公司)	RMB2,200,000	100%	–	100%	Provision of advertising services to group companies

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12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Shenzhen Chenrong Construction Materials Co., Ltd. (note) (深圳市宸榮建築材料有限公司)	RMB5,000,000	91%	–	100%	Sales of construction materials to group companies
Shenzhen Logan Century Business Management Co., Ltd. (note) (深圳市龍光世紀商業管理有限公司)	RMB100,000,000	100%	–	100%	Provision of management services to group companies
Nanning Logan Junchi Property Development Co., Ltd. (note) (南寧市龍光駿馳房地產開發有限公司)	RMB35,000,000	100%	–	100%	Property development
Zhongshan Jinjun Property Co., Ltd. (note) (中山市金駿房地產有限公司)	RMB10,000,000	100%	–	100%	Property development
Foshan Nanhai Logan Realty Co., Ltd. (note) (佛山市南海區龍光置業房產有限公司)	RMB58,820,000	100%	–	100%	Property development
Shenzhen Logan Investment Consultancy Co., Ltd. (note) (深圳市龍光投資顧問有限公司)	RMB10,000,000	100%	–	100%	Investment holding
Dongguan Logan Realty Co., Ltd. (note) (東莞市龍光置業有限公司)	RMB10,500,000	100%	–	100%	Property development
Shantou Logan Jinjun Property Co., Ltd. (note) (汕頭市龍光金駿房地產有限公司)	RMB50,000,000	100%	–	100%	Property development
Zhongshan Junchi Property Co., Ltd. (note) (中山市駿馳房地產有限公司)	RMB10,500,000	100%	–	100%	Property development
Foshan Runjing Property Co., Ltd. (note) (佛山市順德區龍光潤景房地產有限公司)	RMB50,000,000	100%	–	100%	Property development
Foshan Logan Realty Co., Ltd. (note) (佛山市龍光置業房產有限公司)	RMB10,500,000	100%	–	100%	Property development

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12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Shantou Logan Junjing Property Co., Ltd. (note) (汕頭市龍光駿景房地產有限公司)	RMB49,908,125	100%	–	100%	Property development
Shenzhen Jinjun Property Co., Ltd. (note) (深圳市金駿房地產有限公司)	RMB198,000,000	100%	–	100%	Property development
Guilin Logan Bojun Property Development Co., Ltd. (note) (桂林市龍光鉞駿房地產開發有限公司)	RMB50,000,000	100%	–	100%	Property development
Haikou Logan Property Development Co., Ltd. (note) (海口市龍光房地產開發有限公司)	RMB102,500,000	100%	–	100%	Property development
Shenzhen Logan Junchi Property Development Co., Ltd. (note) (深圳市龍光駿馳房地產開發有限公司)	RMB5,000,000	51%	–	51%	Property development
Nanning Dezhi Construction Materials Co., Ltd. (note) (南寧市德之吉建材有限公司)	RMB5,000,000	91%	–	100%	Sales of construction materials to group companies
Guangdong Modern Construction Design and Consultation Co., Ltd. (note) (廣東現代建築設計與顧問有限公司)	RMB6,000,000	100%	–	100%	Provision of construction design and consultation services
Foshan Logan Sunshine Seaward Property Co., Ltd. (note) (佛山市龍光陽光海岸房地產有限公司)	RMB50,000,000	66%	–	66%	Property development
Guangxi King Kerry Realty Co., Ltd. (note) (廣西金凱利置業有限公司)	USD18,000,000	95%	–	95%	Property development
Shenzhen Runjing Logistic Co., Ltd. (note) (深圳市潤景物流有限公司)	RMB Nil	100%	–	100%	Logistics
Zhuhai Bojun Property Development Co., Ltd. (note) (珠海市鉞駿房地產開發有限公司)	RMB Nil	51%	–	51%	Property development

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12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Zuhai Junjing Property Development Co., Ltd. (note) (珠海市駿景房地產開發有限公司)	RMB10,000,000	100%	–	100%	Property development
Shenzhen Dezhiji Construction Materials Co., Ltd. (note) (深圳市德之吉建築材料有限公司)	RMB10,000,000	91%	–	100%	Sales of construction materials to group companies
Shenzhen Kaichengda Construction Materials Co., Ltd. (note) (深圳市凱誠達建築材料有限公司)	RMB10,000,000	91%	–	100%	Sales of construction materials to group companies
Shantou Logan Runjing Property Co., Ltd. (note) (汕頭市龍光潤璟房地產有限公司)	RMB50,000,000	100%	–	100%	Property development
Nanning Logan Mingjun Property Development Co., Ltd. (note) (南寧市龍光銘駿房地產開發有限公司)	RMB50,000,000	100%	–	100%	Property development
Shenzhen Logan Junjing Property Development Co., Ltd. (note) (深圳市龍光駿景房地產開發有限公司)	RMB20,400,000	51%	–	51%	Property development
Shenzhen Junteng Realty Co., Ltd. (note) (深圳市駿騰置業有限公司)	RMB10,500,000	100%	–	100%	Property development and import and export business
Zuhai Junchi Property Development Co., Ltd. (note) (珠海市駿馳房地產開發有限公司)	RMB10,000,000	100%	–	100%	Property development
Shenzhen Logan Junfei Realty Co., Ltd. (note) (深圳市龍光駿飛置業有限公司)	RMB10,000,000	100%	–	100%	Property development
Shenzhen Logan Junyu Property Development Co., Ltd. (note) (深圳市龍光駿譽房地產開發有限公司)	RMB10,000,000	100%	–	100%	Property development
Huizhou Logan Junjing Property Co., Ltd. (note) (惠州市龍光駿景房地產有限公司)	RMB10,000,000	100%	–	100%	Property development and investment

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12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Huizhou Logan Jinjun Property Co., Ltd. (note) (惠州市龍光金駿房地產有限公司)	RMB10,000,000	100%	–	100%	Property development
Beijing Runjing Property Development Co., Ltd. (note) (北京潤璟房地產開發有限公司)	RMB5,000,000	100%	–	100%	Property development
Nanning Yaohui Property Development Co., Ltd. (note) (南寧市耀輝房地產開發有限公司)	RMB50,000,000	100%	–	100%	Property development
Shenzhen Logan Bojun Property Co., Ltd. (note) (深圳市龍光鉞駿房地產有限公司)	RMB10,000,000	100%	–	100%	Property development
Shanghai Logan Property Co., Ltd. (note) (上海市龍光房地產有限公司)	RMB10,000,000	100%	–	100%	Property development
Sichuan Logan Construction Co., Ltd. (note) (四川龍光建設工程有限公司)	RMB Nil	91%	–	100%	Property construction
Nanning Logan Jiarun Property Development Co., Ltd. (note) (南寧市龍光佳潤房地產開發有限公司)	RMB50,000,000	100%	–	100%	Property development
Shenzhen Logan Qianhai Equity Investment Co., Ltd. (note) (深圳市龍光前海股權投資有限公司)	RMB10,000,000	100%	–	100%	Equity investment
Shenzhen Logan Chuncheng Investment Development Co., Ltd. (note) (深圳市龍光春城投資發展有限公司)	RMB10,000,000	62%	–	62%	Investment holding and provision of consultancy services
Shantou Logan Hongjing Property Co., Ltd. (note) (汕頭市龍光宏璟房地產有限公司)	RMB Nil	100%	–	100%	Property development
Huizhou Logan Business Management Co., Ltd. (note) (惠州市龍光商業管理有限公司)	RMB Nil	100%	–	100%	Provision of management services

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12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Zhuhai Longtai Property Development Co., Ltd. (note) (珠海市龍泰房地產開發有限公司)	RMB10,000,000	51%	-	51%	Property development and investment
Zhuhai Bonded Area Taihongshang Technology Co., Ltd. (note) (珠海保稅區台宏商科技有限公司)	RMB35,242,000	100%	-	100%	Property leasing, storage and trading
Zhuhai Bonded Area Tianmu International Trade Co., Ltd. (note) (珠海保稅區天牧國際貿易有限公司)	RMB5,000,000	100%	-	100%	Property leasing, storage and trading
Huizhou Manha Property Development Co., Ltd. (note) (惠州市曼哈房地產開發有限公司)	RMB30,000,000	100%	-	100%	Property development
Huizhou Lvgem Property Development Co., Ltd. (note) (惠州市綠景房地產開發有限公司)	RMB20,750,000	100%	-	100%	Property development

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

The following table lists out the information relating to Shenzhen Jinjun Property Co., Ltd. ("Shenzhen Jinjun"), Shenzhen Logan Junjing Property Development Co., Ltd. ("Shenzhen Logan Junjing"), and Huizhou Daya Bay Dongzhen Property Co., Ltd. ("Huizhou Dongzhen"), the subsidiaries of the Group which have material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

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(Expressed in Renminbi)

12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

	Shenzhen Jinjun (Note (i))		Shenzhen Logan Junjing (Note (ii))		Huizhou Dongzhen (Note (ii))	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
NCI percentage	0%	49%	49%	49%	10%	0%
Current assets	6,911,267	8,074,701	11,033,637	8,046,019	12,913,515	3,991,223
Non-current assets	358,373	5	3,996,543	–	1,635,161	530,395
Current liabilities	(1,867,299)	(3,421,169)	(1,183,581)	(2,438,249)	(7,382,401)	(2,878,712)
Non-current liabilities	(1,664,246)	(2,600,000)	(2,822,648)	–	(972,336)	(350,000)
Net assets	3,738,095	2,053,537	11,023,951	5,607,770	6,193,939	1,292,906
Carrying amount of NCI	–	1,007,213	5,401,741	2,798,908	604,780	–
Revenue	7,554,363	–	–	–	1,616,800	4,902,722
Profit/(loss) for the year	1,684,558	(43,573)	1,230,271	(2,230)	765,071	1,035,028
Total comprehensive income	1,684,558	(43,573)	1,230,271	(2,230)	765,071	1,035,028
(Loss)/profit allocated to NCI	(9,324)	(21,351)	602,833	(1,093)	55,269	–
Cash inflow/(outflow) from operating activities	2,538,801	(3,731,921)	(9,831,725)	(922)	(3,053,339)	2,276,988
Cash (outflow)/inflow from investing activities	(1,303)	1	–	–	(52)	(5)
Cash (outflow)/inflow from financing activities	(1,175,717)	2,371,474	7,984,272	2,782	3,567,557	(1,920,157)

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12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Notes:

- (i) During the year ended 31 December 2016, the Group acquired additional 49% equity interests in Shenzhen Jinjun from Shenzhen Pingan Dahua Huitong Wealth Management Co., Ltd.* (深圳平安大華滙通財富管理有限公司) ("Pingan Dahua"), the non-controlling interest of Shenzhen Jinjun at a consideration of RMB2,086,288,000 (see note 32(i)).

* The English translation of the name is for reference only. The official name of the entity is in Chinese.

- (ii) Based on the corporative intention of the Group, the two subsidiaries of the Group, Shenzhen Logan Junjing and Huizhou Dongzhen, entered into the agreements and supplementary agreements of cooperation framework, capital contribution agreements, the equity forward repurchase agreements (the "Project Cooperation Agreements") with Pingan Dahua, pursuant to which Pingan Dahua has made capital contributions to Shenzhen Logan Junjing and Huizhou Dongzhen and has revised the business registration information. As at 31 December 2016, Pingan Dahua contributed a total of RMB4,800,000,000 and RMB3,960,000,000 to Shenzhen Logan Junjing and Huizhou Dongzhen respectively (2015: RMB2,800,000,000 and RMB Nil, respectively) and the Group has accounted the contribution made by Pingan Dahua as the amount of other reserves within controlling shareholders' interests and non-controlling interests.

The Project Cooperation Agreements have specified that Shenzhen Logan Junjing and Huizhou Dongzhen have the option to repurchase with preemption the part or all of the equity held by Pingan Dahua. If Shenzhen Logan Junjing and Huizhou Dongzhen do not exercise the options, Pingan Dahua can transfer the equity to third party. Besides that, the Project Cooperation Agreements also have specified that Shenzhen Logan Junjing and Huizhou Dongzhen should repurchase the equity from Pingan Dahua in no later than 2 or 3 years respectively. If Shenzhen Logan Junjing and Huizhou Dongzhen exercise the preemption rights, then the obligation of repurchase will not be triggered. The Group believe that the arrangement was an arm's length commercial decision as well as common market practice. Also the Group is probable and able to exercise its preemption rights.

As there are unclear terms existed in the agreements, the Group has reaffirmed the commercial substance with Pingan Dahua. And the Group has engaged two reputable PRC law firms to express their opinion reaffirming the arrangement was an equity investments.

The Group believe that, based on the Project Cooperation Agreements signed off between the Group and Pingan Dahua and the rights and obligations of both sides stipulated in the agreements, the capital contributions made by Pingan Dahua to Shenzhen Logan Junjing and Huizhou Dongzhen can be accounted for as equity investments on both accounting and legal treatments, thus the Group has disclosed the capital contributions made by Pingan Dahua as non-controlling interest and other reserves and the accounting for these transactions as equity transactions has been consistent with the requirement of the Group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13 INTEREST IN AN ASSOCIATE

	2016 RMB'000	2015 RMB'000
Investment cost	7,500	–
Share of profit of an associate	31,723	–
Elimination of downstream transactions	(39,223)	–
	–	–
Amount due from an associate (note)	3,019,480	–
	3,019,480	–

Note: The amount due from an associate is unsecured and has no fixed term of repayment but is not expected to be settled within one year. As at 31 December 2016 it includes an amount of RMB2,500,000,000 (2015: RMB Nil) which is bearing fixed interest rate of 5.8%, unsecured and repayable on demand.

The amount due from an associate is for the acquisition of land where the Group is responsible for providing all funding.

The following list contains the particulars of a material associate, which is an unlisted corporate entity whose quoted market price is not available:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the company	Held by a subsidiary	
Shenzhen Kaifeng Industrial Co., Ltd. ("Shenzhen Kaifeng") (note) (深圳市凱豐 實業有限公司)	Incorporated	People's Republic of China	Registered capital RMB15,000,000	50%	–	50%	Property development

Note: The English translation of the name is for reference only. The official name of the entity is in Chinese.

The directors consider that the Group can only exercise significant influence over Shenzhen Kaifeng based on its board composition, and accordingly it is classified as an associate of the Group. The associate is accounted for using the equity method in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

13 INTEREST IN AN ASSOCIATE (CONTINUED)

Summarised financial information of the material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, is disclosed below:

	2016 RMB'000
Gross amounts of the associate	
Current assets	12,823,418
Non-current assets	2,301,833
Current liabilities	(3,048,305)
Non-current liabilities (note)	(11,998,500)
Equity	78,446
Revenue	–
Profit for the year	63,446
Other comprehensive income	–
Total comprehensive income	63,446
Reconciled to the Group's interests in the associate	
Gross amounts of net assets of the associate	78,446
Group's effective interest	50%
Group's share of net assets of the associate	39,223
Elimination of interest income	(35,931)
Elimination of other downstream transaction	(3,292)
Carrying amount in the consolidated financial statements	–

Note: This represented an entrusted loan of RMB11,998,500,000 from a wealth management company, in which Shenzhen Tengyao Industrial Co., Ltd., a joint venture of the Group, had invested RMB6,000,000,000 to a wealth management plan managed by that company. The entrusted loan is secured by a piece of land owned by the above associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 INTERESTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Investment cost	100,200	–
Share of losses of joint ventures	(6,137)	–
Elimination of downstream transactions	(29,818)	–
	64,245	–
Amounts due from joint ventures (note)	12,320,588	–
	12,384,833	–

Note: The amounts due from joint ventures are unsecured and have no fixed term of repayment but are not expected to be settled within one year. As at 31 December 2016 it includes amounts of RMB6,440,170,000 (2015: RMB Nil) which are bearing floating or fixed interest rate ranged from 3.4% to 7.3%.

The amounts due from joint ventures are for the acquisition of land where the Group is responsible for providing all funding.

To address increasing land premium in public bidding, the Group started in 2016 to secure land by teaming up with resourceful joint venture partners. These joint ventures are engaged in urban development projects in Shenzhen and the nearby cities. Included in the amounts due from joint ventures of approximately RMB900 million was applied by the joint ventures to fund the costs for the acquisition of certain urbanization projects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

14 INTERESTS IN JOINT VENTURES (CONTINUED)

Details of the Group's interest in the joint ventures, which are accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the company	Held by a subsidiary	
Shenzhen Runjing Industrial Co., Ltd. ("Shenzhen Runjing") (note) (深圳市潤璟實業有限公司)	Incorporated	People's Republic of China	Registered capital RMB100,000,000	50%	–	50%	Property development
Shenzhen Tengyao Industrial Co., Ltd. ("Shenzhen Tengyao") (note) (深圳市騰耀實業有限公司)	Incorporated	People's Republic of China	Registered capital RMB20,000,000	50%	–	50%	Property development
Shenzhen Logan Mingjun Property Co., Ltd. ("Shenzhen Logan Mingjun") (note) (深圳市龍光銘駿房地產有限公司)	Incorporated	People's Republic of China	Registered capital RMB20,000,000	50%	–	50%	Property development
Foshan Logan Junjing Property Co., Ltd. ("Foshan Logan Junjing") (note)* (佛山市龍光駿景房地產有限公司)	Incorporated	People's Republic of China	Registered capital RMB21,000,000	50%	–	50%	Property development
Shenzhen Yingshenglong Investment Co., Ltd. ("Shenzhen Yingshenglong") (note) (深圳市盈升隆投資有限公司)	Incorporated	People's Republic of China	Registered capital RMB10,000,000	49%	–	49%	Property development
Shenzhen Yingrui Industrial Co., Ltd. ("Shenzhen Yingrui") (note) (深圳市盈睿實業有限公司)	Incorporated	People's Republic of China	Registered capital RMB10,000,000	50%	–	50%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 INTERESTS IN JOINTS VENTURES (CONTINUED)

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the company	Held by a subsidiary	
Shenzhen Huiyi Investment Co., Ltd. ("Shenzhen Huiyi") (note) (深圳市惠益投資有限公司)	Incorporated	People's Republic of China	Registered capital RMB10,000,000	50%	-	50%	Property development
Shenzhen Yurongshun Industrial Co., Ltd. ("Shenzhen Yurongshun") (note) (深圳市裕榮順實業有限公司)	Incorporated	People's Republic of China	Registered capital RMB10,000,000	50%	-	50%	Property development
Shenzhen Juncheng Property Co., Ltd. ("Shenzhen Juncheng") (note) (深圳市駿誠房地產有限公司)	Incorporated	People's Republic of China	Registered capital RMB20,000,000	49%	-	49%	Property development
Shenzhen Baoxing Property Co., Ltd. ("Shenzhen Baoxing")(note) (深圳市寶興房地產有限公司)	Incorporated	People's Republic of China	Registered capital RMB20,000,000	50%	-	50%	Property development

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

* In 2016, the Group entered into a cooperation agreement with an independent third party to jointly develop the Foshan Dafu Village Project ("the Project"). The Group and the third party are developing the Project independently in operation and management based on the division of the land according to the cooperation agreement.

The Group shares control in the above entities with other shareholders, accordingly they are classified as joint ventures of the Group. All the joint ventures in which the Group held interest are unlisted corporate entities whose quoted market prices are not available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

14 INTERESTS IN JOINT VENTURES (CONTINUED)

Summarised financial information of material joint ventures, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below.

	2016 RMB'000
Gross amounts of Shenzhen Runjing	
Current assets	1,012,243
Non-current assets	1,863,748
Current liabilities	(1,699,454)
Non-current liabilities	(1,080,000)
Equity	96,537
Included in the above assets and liabilities:	
Cash and cash equivalents	1,327
Current financial liabilities (excluding trade and other payables and provisions)	–
Non-current financial liabilities (excluding trade and other payables and provisions)	1,080,000
Revenue	–
Loss for the year	(3,463)
Other comprehensive income	–
Total comprehensive income	(3,463)
Included in the above profit:	
Depreciation and amortisation	–
Interest income	108
Interest expense	83
Income tax expense	–
Reconciled to the Group's interest in Shenzhen Runjing	
Gross amounts of Shenzhen Runjing's net assets	96,537
Group's effective interest	50%
Group's share of Shenzhen Runjing's net assets	48,269
Carrying amount in the consolidated financial statements	48,269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 INTERESTS IN JOINT VENTURES (CONTINUED)

	2016 RMB'000
Gross amounts of Shenzhen Tengyao	
Current assets	7,260,427
Non-current assets	252,324
Current liabilities	(7,492,709)
Non-current liabilities	–
Equity	20,042
Included in the above assets and liabilities:	
Cash and cash equivalents	1,427
Current financial liabilities (excluding trade and other payables and provisions)	–
Non-current financial liabilities (excluding trade and other payables and provisions)	–
Revenue	–
Profit for the year	42
Other comprehensive income	–
Total comprehensive income	42
Included in the above profit:	
Depreciation and amortisation	–
Interest income	81
Interest expense	–
Income tax expense	16
Reconciled to the Group's interest in Shenzhen Tengyao	
Gross amounts of Shenzhen Tengyao's net assets	20,042
Group's effective interest	50%
Group's share of Shenzhen Tengyao's net assets	10,021
Elimination of interest income	(10,021)
Carrying amount in the consolidated financial statements	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 INTERESTS IN JOINT VENTURES (CONTINUED)

	2016 RMB'000
Gross amounts of Shenzhen Logan Mingjun	
Current assets	102,006
Non-current assets	250,000
Current liabilities	(332,492)
Non-current liabilities	–
Equity	19,514
Included in the above assets and liabilities:	
Cash and cash equivalents	9,583
Current financial liabilities (excluding trade and other payables and provisions)	–
Non-current financial liabilities (excluding trade and other payables and provisions)	–
Revenue	–
Loss for the year	(486)
Other comprehensive income	–
Total comprehensive income	(486)
Included in the above loss:	
Depreciation and amortisation	–
Interest income	27
Interest expense	–
Income tax expense	–
Reconciled to the Group's interest in Shenzhen Logan Mingjun	
Gross amounts of Shenzhen Logan Mingjun's net assets	19,514
Group's effective interest	50%
Group's share of Shenzhen Logan Mingjun's net assets	9,757
Carrying amount in the consolidated financial statements	9,757

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14 INTERESTS IN JOINT VENTURES (CONTINUED)

	2016 RMB'000
Gross amounts of Foshan Logan Junjing	
Current assets	2,625,273
Non-current assets	4
Current liabilities	(963,556)
Non-current liabilities	(1,642,000)
Equity	19,721
Included in the above assets and liabilities:	
Cash and cash equivalents	16,009
Current financial liabilities (excluding trade and other payables and provisions)	-
Non-current financial liabilities (excluding trade and other payables and provisions)	1,642,000
Revenue	-
Loss for the year	(1,278)
Other comprehensive income	-
Total comprehensive income	(1,278)
Included in the above loss:	
Depreciation and amortisation	-
Interest income	40
Interest expense	-
Income tax expense	-
Reconciled to the Group's interest in Foshan Logan Junjing	
Gross amounts of Foshan Logan Junjing's net assets	19,721
Group's effective interest	50%
Group's share of Foshan Logan Junjing's net assets	9,861
Elimination of interest income	(2,633)
Elimination of other downstream transaction	(7,228)
Carrying amount in the consolidated financial statements	-

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14 INTERESTS IN JOINT VENTURES (CONTINUED)

	2016 RMB'000
Gross amounts of Shenzhen Yingshenglong	
Current assets	964,039
Non-current assets	54,000
Current liabilities	(1,007,981)
Non-current liabilities	–
Equity	10,058
Included in the above assets and liabilities:	
Cash and cash equivalents	10,325
Current financial liabilities (excluding trade and other payables and provisions)	–
Non-current financial liabilities (excluding trade and other payables and provisions)	–
Revenue	–
Profit for the year	58
Other comprehensive income	–
Total comprehensive income	58
Included in the above profit:	
Depreciation and amortisation	–
Interest income	62
Interest expense	–
Income tax expense	–
Reconciled to the Group's interest in Shenzhen Yingshenglong	
Gross amounts of Shenzhen Yingshenglong's net assets	10,058
Group's effective interest	49%
Group's share of Shenzhen Yingshenglong's net assets	4,928
Elimination of interest income	(4,928)
Carrying amount in the consolidated financial statements	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 INTERESTS IN JOINT VENTURES (CONTINUED)

	2016 RMB'000
Gross amounts of Shenzhen Yingrui	
Current assets	1,966,374
Non-current assets	45,000
Current liabilities	(1,211,371)
Non-current liabilities	(800,000)
Equity	3
Included in the above assets and liabilities:	
Cash and cash equivalents	28
Current financial liabilities (excluding trade and other payables and provisions)	–
Non-current financial liabilities (excluding trade and other payables and provisions)	800,000
Revenue	–
Profit for the year	3
Other comprehensive income	–
Total comprehensive income	3
Included in the above profit:	
Depreciation and amortisation	–
Interest income	4
Interest expense	–
Income tax expense	–
Reconciled to the Group's interest in Shenzhen Yingrui	
Gross amounts of Shenzhen Yingrui's net assets	3
Group's effective interest	50%
Group's share of Shenzhen Yingrui's net assets	2
Elimination of interest income	(2)
Carrying amount in the consolidated financial statements	–

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14 INTERESTS IN JOINT VENTURES (CONTINUED)

	2016 RMB'000
Gross amounts of Shenzhen Huiyi	
Current assets	2,334,813
Non-current assets	10,000
Current liabilities	(2,334,801)
Non-current liabilities	–
Equity	10,012
Included in the above assets and liabilities:	
Cash and cash equivalents	10,932
Current financial liabilities (excluding trade and other payables and provisions)	–
Non-current financial liabilities (excluding trade and other payables and provisions)	–
Revenue	–
Profit for the year	12
Other comprehensive income	–
Total comprehensive income	12
Included in the above profit:	
Depreciation and amortisation	–
Interest income	12
Interest expense	–
Income tax expense	–
Reconciled to the Group's interest in Shenzhen Huiyi	
Gross amounts of Shenzhen Huiyi's net assets	10,012
Group's effective interest	50%
Group's share of Shenzhen Huiyi's net assets	5,006
Elimination of interest income	(5,006)
Carrying amount in the consolidated financial statements	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 INTERESTS IN JOINT VENTURES (CONTINUED)

	2016 RMB'000
Gross amounts of Shenzhen Yurongshun	
Current assets	489,541
Non-current assets	–
Current liabilities	(489,540)
Non-current liabilities	–
Equity	1
Included in the above assets and liabilities:	
Cash and cash equivalents	31
Current financial liabilities (excluding trade and other payables and provisions)	–
Non-current financial liabilities (excluding trade and other payables and provisions)	–
Revenue	–
Profit for the year	1
Other comprehensive income	–
Total comprehensive income	1
Included in the above profit:	
Depreciation and amortisation	–
Interest income	1
Interest expense	–
Income tax expense	–
Reconciled to the Group's interest in Shenzhen Yurongshun	
Gross amounts of Shenzhen Yurongshun's net assets	1
Group's effective interest	50%
Group's share of Shenzhen Yurongshun's net assets	1
Carrying amount in the consolidated financial statements	1

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14 INTERESTS IN JOINT VENTURES (CONTINUED)

	2016 RMB'000
Gross amounts of Shenzhen Juncheng	
Current assets	480,740
Non-current assets	–
Current liabilities	(468,050)
Non-current liabilities	–
Equity	12,690
Included in the above assets and liabilities:	
Cash and cash equivalents	316,878
Current financial liabilities (excluding trade and other payables and provisions)	–
Non-current financial liabilities (excluding trade and other payables and provisions)	–
Revenue	–
Loss for the year	(7,309)
Other comprehensive income	–
Total comprehensive income	(7,309)
Included in the above loss:	
Depreciation and amortisation	–
Interest income	93
Interest expense	1,004
Income tax expense	–
Reconciled to the Group's interest in Shenzhen Juncheng	
Gross amounts of Shenzhen Juncheng's net assets	12,690
Group's effective interest	49%
Group's share of Shenzhen Juncheng's net assets	6,218
Carrying amount in the consolidated financial statements	6,218

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14 INTERESTS IN JOINT VENTURES (CONTINUED)

Aggregate information of joint venture that is not individually material:

	2016 RMB'000
Carrying amount of individually immaterial joint venture in the consolidated financial statements	–
Amount of the Group's share of the joint venture's	
Loss for the year	(1)
Other comprehensive income	–
Total comprehensive income	(1)

15 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2016 RMB'000	2015 RMB'000
Construction		
Raw materials	4,611	2,672
Property development		
Properties held for development for sale	1,976,817	1,863,770
Properties under development for sale	29,657,327	20,083,350
Completed properties for sale	8,558,344	6,248,552
	40,192,488	28,195,672
	40,197,099	28,198,344

(b) The analysis of carrying value of properties is as follows:

	2016 RMB'000	2015 RMB'000
In the PRC		
– under long leases	40,192,488	28,195,672
Including:		
– Properties expected to be recovered after more than one year	27,423,100	20,156,410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15 INVENTORIES (CONTINUED)

- (c) The Group's certain properties held for development for sale, properties under development for sale and completed properties for sale were pledged against the Group's bank and other loans, details of which are set out in note 21.

16 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Trade receivables (note (i))	129,292	96,181
Prepayments and other receivables	1,742,443	1,291,029
Land deposits (note (v))	725,620	8,348,721
Amounts due from related companies (note (vi))	140,944	166,811
Amount due from a non-controlling interest (note (vi))	14	86,288
Amount due from an associate (note (vii))	14,320	–
Amounts due from joint ventures (note (vii))	55,563	–
Derivative financial instruments:		
– Senior notes redemption call options (note 22)	135,161	36,692
	2,943,357	10,025,722

Notes:

- (i) As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Current or less than 1 month overdue	94,273	61,207
More than 1 month overdue and up to 3 months overdue	149	3
More than 3 months overdue and up to 6 months overdue	5,064	–
More than 6 months overdue and up to 1 year overdue	11,272	25,187
More than 1 year overdue	18,534	9,784
	129,292	96,181

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16 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

Notes: (continued)

- (ii) Receivables which were neither overdue nor impaired relate to a wide range of customers for whom there was no recent history of default. Receivables which were overdue but not impaired relate to independent customers, for which have a good track record of trading with the Group or sufficient rental deposits are held to cover potential exposure to credit risk. Based on past experience, management considers that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.
- (iii) The Group's credit policy is set out in note 25(a).
- (iv) All of the trade and other receivables are expected to be recovered within one year.
- (v) During the year ended 31 December 2015, the Group entered into four land grant contracts for acquisition of the land in the PRC. As at 31 December 2015, a total consideration of RMB8,348,721,000 was paid and recognised as deposits for the acquisition of those pieces of land. During the year ended 31 December 2016, the acquisition of three out of those pieces of the land was completed and respective land use right certificates were obtained.

During the year ended 31 December 2016, the Group entered into three land grant contracts for acquisition of the land in the PRC and as at 31 December 2016, a total consideration of RMB725,620,000 was paid and recognised as deposit for the acquisition of the land.

- (vi) The amounts due from related companies and a non-controlling interest are interest-free, unsecured and recoverable on demand.
- (vii) The amounts due from an associate and joint ventures as at 31 December 2016 are unsecured, interest free and expected to be recovered within one year.

17 ASSETS AND LIABILITIES UNDER CROSS-BORDER GUARANTEE ARRANGEMENTS

In 2014, the Group entered into some cross-border guarantee arrangements with certain financial institutions, whereby certain offshore funding (i.e. in Hong Kong) primarily obtained from the issuance of senior notes has been used as a pledge against advances to onshore (i.e. in the PRC) for the Group's operating use in respect of its property development projects.

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17 ASSETS AND LIABILITIES UNDER CROSS-BORDER GUARANTEE ARRANGEMENTS (CONTINUED)

Pursuant to these arrangements which are made in compliance with the relevant rules and regulations promulgated by the State Administration of Foreign Exchange, the Group's subsidiaries in Hong Kong deposited funds in the relevant financial institutions, which in turn either through its related companies or business partners in the PRC advanced the same amount of funds to the Group's subsidiaries in the PRC. The net cost of such arrangements is 2% (2015: 2%) per annum of the total funds advanced. The pledge of the Hong Kong funds deposited with such financial institutions had been released upon the settlement of the advances in 2016, detailed as follows:

	2016 RMB'000	2015 RMB'000
Assets under cross-border guarantee arrangements		
– included as current assets	–	286,600
Liabilities under cross-border guarantee arrangements		
– included as current liabilities	–	(286,600)
	–	–

18 RESTRICTED AND PLEDGED DEPOSITS

	2016 RMB'000	2015 RMB'000
Restricted deposits (note i)	360,288	351,849
Pledged deposits (note ii)	877,188	2,203,516
	1,237,476	2,555,365

(i) As at 31 December 2016, there was RMB360,288,000 in the Group's restricted deposits, which was limited to use in the development of certain property projects. In accordance with relevant documents issued by the PRC State-Owned Land and Resource Bureau, certain property development companies of the Group are required to place in designated bank accounts certain amounts of presale proceeds from properties as guarantee deposits for the construction of related properties. The deposits can only be used for purchases of construction materials and the payments of construction fees of the relevant property projects when approval from the PRC State-Owned Land and Resource Bureau is obtained. Such restricted deposits will only be released after completion of the related pre-sold properties or issuance of the real estate ownership certificates, whichever is the earlier.

(ii) The Group's certain bank deposits which were pledged as securities in respect of:

	2016 RMB'000	2015 RMB'000
Bank and other loans	475,750	813,850
Mortgage loan facilities granted by the banks to purchasers of the Group's properties	401,438	89,666
Non-interest bearing payable to a financial institution	–	1,300,000
	877,188	2,203,516

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19 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2016 RMB'000	2015 RMB'000
Cash at bank and on hand	13,559,827	8,635,258

The Group's cash and bank balances at 31 December 2016 include RMB11,790,545,000 (2015: RMB6,999,906,000) placed with banks in the PRC, the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from operations:

	2016 RMB'000	2015 RMB'000
Profit before taxation	7,933,434	4,173,510
Adjustments for:		
Interest income	5(a) (390,668)	(93,070)
Finance costs	6(a) 371,850	36,215
Depreciation	6(c) 37,265	22,844
Net gain on disposal of other property, plant and equipment	5(b) (181)	(175)
Net gain on disposal of subsidiaries	5(b) (878)	–
Share of profit of an associate	13 (31,723)	–
Share of losses of joint ventures	14 6,137	–
Net increase in fair value of investment properties	11 (2,681,903)	(943,057)
Net increase in fair value of derivative financial instruments	22 (81,720)	(6,936)
Equity-settled share-based transactions	6(b) 23,731	49,842
Operating profit before changes in working capital	5,185,344	3,239,173
Increase in inventories and land deposits	(11,660,452)	(6,344,051)
Decrease/(increase) in trade and other receivables	6,677,717	(17,663)
Increase in trade and other payables	6,500,153	5,128,602
Cash generated from operations	6,702,762	2,006,061

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20 TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables (note (i))	4,675,389	4,046,221
Other payables and accrued charges	1,241,533	498,071
Customer deposits received	12,368	112,677
Rental and other deposits received	99,511	9,851
Receipts in advance	16,049,478	11,008,496
Amounts due to related companies (note (ii))	497,488	12
Amounts due to joint ventures (note (iii))	1,343,560	–
Non-interest bearing payable to a financial institution (note (iv))	–	1,293,801
	23,919,327	16,969,129

Notes:

- (i) At the end of the reporting period, the ageing analysis of trade payables, based on invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 1 month or on demand	2,866,163	2,274,297
More than 1 month but within 3 months	269,849	351,249
More than 3 months but within 6 months	391,516	464,546
More than 6 months but within 1 year	392,494	628,771
More than 1 year	755,367	327,358
	4,675,389	4,046,221

- (ii) The amounts due to related companies are interest-free, unsecured and repayable on demand.
- (iii) The amounts due to joint ventures are unsecured, interest-free and repayable on demand.
- (iv) The non-interest bearing payable to a financial institution at 31 December 2015 was interest-free, secured by a pledged deposit of RMB1,300,000,000 and fully repaid in 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

21 BANK AND OTHER LOANS

	2016 RMB'000	2015 RMB'000
Bank loans		
– Secured	5,219,809	8,764,105
– Unsecured	4,276,702	1,227,817
	9,496,511	9,991,922
Other loans		
– Secured	3,509,500	1,160,000
– Unsecured	2,072,000	10,000
	5,581,500	1,170,000
Unsecured corporate bonds (Note (i))	12,400,000	5,000,000
	27,478,011	16,161,922

Bank loans are repayable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year or on demand	3,138,501	3,674,885
After 1 year but within 2 years	2,755,320	3,288,797
After 2 years but within 5 years	3,321,240	2,758,870
After 5 years	281,450	269,370
	6,358,010	6,317,037
	9,496,511	9,991,922

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

21 BANK AND OTHER LOANS (CONTINUED)

Other loans as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year or on demand	232,000	370,000
After 1 year but within 2 years	1,670,000	800,000
After 2 within 5 years	3,679,500	–
	5,581,500	1,170,000

At 31 December 2016, the Group's bank and other loans representing:

	2016 RMB'000	2015 RMB'000
Current	3,370,501	4,044,885
Non-current	11,707,510	7,117,037
	15,078,011	11,161,922

Notes:

(i) Corporate bonds

On 19 August 2015 and 27 August 2015 respectively, Shenzhen Logan Holdings Co., Ltd. ("Shenzhen Logan"), a company established in the PRC and a wholly-owned subsidiary of the Company, issued domestic corporate bonds on the Shanghai Stock Exchange. The coupon rates of the first and second tranche with a principal amount of RMB4,000,000,000 and RMB1,000,000,000 were fixed at 5% per annum and 4.77% per annum respectively. The terms of the first and second domestic corporate bonds were 5 years and 4 years. At the end of third year and second year, Shenzhen Logan shall be entitled to adjust the coupon rate of first and second domestic corporate bonds respectively and the bond holders shall be entitled to sell back the bonds.

On 13 January 2016 and 16 May 2016 respectively, Shenzhen Logan issued non-public domestic corporate bonds on Shanghai Stock Exchange. The coupon rates of the first and second tranche with a principal amount of RMB2,500,000,000 and RMB500,000,000 were fixed at 5.8% per annum and 5.2% per annum respectively. The terms of the first and second domestic corporate bonds were 3 years and 4 years. At the end of second year, Shenzhen Logan shall be entitled to adjust the coupon rate of first and second domestic corporate bonds respectively and the bond holders shall be entitled to sell back the bonds.

On 25 July 2016, Shenzhen Logan issued non-public domestic corporate bonds on Shenzhen Stock Exchange. The coupon rate of the domestic corporate bonds with a principal amount of RMB3,000,000,000 was 5.15% per annum. The terms of the domestic corporate bonds were 5 years. At the end of third year, Shenzhen Logan shall be entitled to adjust the coupon rate of domestic corporate bonds and bond holders shall be entitled to sell back the bonds.

On 21 October 2016, Shenzhen Logan issued domestic corporate bonds on the Shenzhen Stock Exchange. The coupon rate of the domestic corporate bonds with a principal amount of RMB1,400,000,000 was 3.4% per annum. The terms of the domestic corporate bonds were 5 years. At the end of third year, Shenzhen Logan shall be entitled to adjust the coupon rate of domestic corporate bonds and bond holders shall be entitled to sell back the bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

21 BANK AND OTHER LOANS (CONTINUED)

Note: (continued)

- (ii) The bank loans bear floating interest rate ranging from 3.25% to 8.05% (2015: 2.8% to 13.0%) per annum, and are secured by the following assets:

	2016 RMB'000	2015 RMB'000
Investment properties	7,440,084	3,898,609
Properties held for development for sale	283,658	202,150
Properties under development for sale	13,919,639	8,110,383
Completed properties for sale	109,260	1,051,776
Other land and building	22,228	22,655
Pledged deposits	475,750	813,850
	22,250,619	14,099,423

Note:

- (i) The bank loans also secured by the Group's equity interest in certain subsidiaries.
- (ii) At 31 December 2016, the amount of RMB4,014,084,000 (2015: RMB Nil) and RMB10,253,122,000 (2015: RMB Nil) of the investment property and properties under development for sale also secured for other loans.
- (iii) All of the Group's banking facilities are subject to the fulfillment of covenants relating to the subsidiaries' certain financial ratios and properties pre-sale schedules, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the bank loans would become payable on demand. The Group regularly monitors its compliance with these covenants.
- (iii) As at 31 December 2016, the Group has six bank loans with an aggregate carrying amount of RMB2,612,500,000 which are repayable in tranches from 1 September 2017 to 24 March 2019. However, the loans contain covenants stating that the Group should repay the loans in line with the cash collection schedules of the respective presale properties.

As at 31 December 2016, the Group has five bank loans with an aggregate carrying amount of RMB1,640,922,000 which are repayable in tranches from 20 October 2017 to 28 September 2019. However, the loans contain covenants stating that the Group or the relevant subsidiaries shall maintain the respective financial ratios at a specific level.

The Group exceeded the thresholds described above, and a total amount of RMB4,253,422,000 of the covenants relating to bank loans had been breached (2015: RMB Nil) as at 31 December 2016. However, management obtained waivers from the banks in December 2016. Accordingly RMB2,372,500,000 of the loans were not repayable on demand at 31 December 2016 and extended until original due dates, while an amount of RMB1,101,061,000 is reclassified to current liabilities and a total amount of RMB1,880,922,000 is represented as current liabilities as at 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

21 BANK AND OTHER LOANS (CONTINUED)

Note: (continued)

- (iv) The other loans are borrowed from other financial institutions, bear interest rate ranging from 4.99% to 12.00% (2015: 6.13% to 11.50%) per annum, and are secured by the following assets:

	2016 RMB'000	2015 RMB'000
Investment properties	4,014,084	–
Properties held for development for sale	248,037	–
Properties under development for sale	11,541,695	1,440,121
Completed properties for sale	–	62,907
	15,803,816	1,503,028

Notes:

- (i) The other loans also secured by the Group's equity interest in certain subsidiaries.
- (ii) At 31 December 2016, the amount of RMB4,014,084,000 (2015: RMB Nil) and RMB10,253,122,000 (2015: RMB Nil) of the investment property and properties under development for sale also secured for bank loans.
- (v) Certain bank loan at 31 December 2016 amounted to RMB538,050,000 (2015: RMB769,000,000) is guaranteed by a related company and Mr. Kei.

22 SENIOR NOTES

Liability component of the senior notes:

	2016 RMB'000	2015 RMB'000
US\$300m Senior Notes (note (i))	2,093,304	1,955,804
US\$250m Senior Notes (note (ii))	1,747,637	1,632,916
US\$260m Senior Notes (note (iii))	1,867,585	–
	5,708,526	3,588,720

Notes:

- (i) On 28 May 2014, the Company issued senior notes with principal amount of US\$300,000,000 due in 2019 ("US\$300m Senior Notes"). The senior notes are interest bearing at 11.25% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 4 June 2019. At any time and from time to time before the maturity date, the Company may at its option redeem the senior notes, at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.
- (ii) On 2 December 2014, the Company issued another senior notes with principal amount of US\$250,000,000 due in 2017 ("US\$250m Senior Notes"). The senior notes are interest bearing at 9.75% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 8 December 2017. At any time and from time to time before the maturity date, the Company may at its option redeem the senior notes, at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22 SENIOR NOTES (CONTINUED)

Notes: (continued)

(iii) On 19 January 2016, the Company issued another senior notes with principal amount of US\$260,000,000 due in 2020 ("US\$260m Senior Notes"). The senior notes are interest bearing at 7.70% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 19 January 2020. At any time and from time to time on or after 19 January 2019, the Company may at its option redeem the senior notes, at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.

(iv) The movements of senior notes are set out below:

	Liability component (note (v)) RMB'000	Redemption call options (notes (vi) and 16) RMB'000	Total RMB'000
<i>US\$300m Senior Notes</i>			
At 1 January 2015	1,844,174	(18,943)	1,825,231
Interest and transaction cost amortised	213,848	–	213,848
Interest paid	(210,506)	–	(210,506)
Change in fair value	–	(13,161)	(13,161)
Exchange difference	108,288	(1,701)	106,587
At 31 December 2015	1,955,804	(33,805)	1,921,999
Interest and transaction cost amortised	232,126	–	232,126
Interest paid	(227,418)	–	(227,418)
Change in fair value	–	(90,475)	(90,475)
Exchange difference	132,792	(5,260)	127,532
At 31 December 2016	2,093,304	(129,540)	1,963,764
<i>US\$250m Senior Notes</i>			
At 1 January 2015	1,539,672	(8,871)	1,530,801
Interest and transaction cost amortised	154,867	–	154,867
Interest paid	(152,032)	–	(152,032)
Change in fair value	–	6,225	6,225
Exchange difference	90,409	(241)	90,168
At 31 December 2015	1,632,916	(2,887)	1,630,029
Interest and transaction cost amortised	168,102	–	168,102
Interest paid	(164,246)	–	(164,246)
Change in fair value	–	2,589	2,589
Exchange difference	110,865	(111)	110,754
At 31 December 2016	1,747,637	(409)	1,747,228
<i>US\$260m Senior Notes</i>			
Proceeds from issuance senior notes	1,695,124	(10,901)	1,684,223
Transaction costs	(1,976)	13	(1,963)
Net proceeds	1,693,148	(10,888)	1,682,260
Interest and transaction cost amortised	132,101	–	132,101
Interest paid	(67,450)	–	(67,450)
Change in fair value	–	6,166	6,166
Exchange difference	109,786	(490)	109,296
At 31 December 2016	1,867,585	(5,212)	1,862,373
Total:			
At 31 December 2016	5,708,526	(135,161)	5,573,365
At 31 December 2015	3,588,720	(36,692)	3,552,028

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22 SENIOR NOTES (CONTINUED)

Notes: (continued)

At 31 December 2016, the Group's senior notes representing:

	Liability component (note (v)) RMB'000
– Current portion	1,747,637
– Non-current portion	3,960,889

- (v) Liability component represents the present value of the contractually determined stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the embedded derivatives. The effective interest rates of the liability component of US\$300m Senior Notes, US\$250m Senior Notes and US\$260m Senior Notes are 11.33%, 9.83% and 7.91% per annum respectively.
- (vi) Redemption call options represent the fair value of the Company's option to early redeem the senior notes and are recorded as derivative financial instruments under "Trade and other receivables" (note 16). The assumptions applied in determining the fair value of the redemption call options at 31 December 2016 are set out in note 25(e).

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 29 May 2014, the Group granted share options to the Group's directors and employees (including certain senior managers or above and certain mid-level managers). The exercise of these share options would entitle the Group's directors and employees of the Group to subscribe for an aggregate of 25,480,000 shares (of which 4,950,000 shares are granted to Mr. Kei) and 164,610,000 shares of the Company respectively. The exercise price is HK\$2.34 per share. Under the share option scheme, the share options granted to the directors and certain senior managers or above will be vested evenly over a period of four years starting from 29 May 2015 and ending on 28 May 2019, while the share options granted to certain mid-level managers will be vested evenly over a period of three years starting from 29 May 2015 and ending on 28 May 2018. These share options are exercisable within a period of six years from the date of grant (i.e. 29 May 2014) subject to the above vesting schedule. Each option gives the holders the right to subscribe for one ordinary share of the Company.

On the same date (i.e. 29 May 2014), the board of directors resolved to grant to Mr. Kei another 8,170,000 share options to subscribe for the Company's shares (the "Additional Options") at the exercise price of HK\$2.34 per share on the same terms as the share options granted on 29 May 2014 (see above). The Additional Options constituted a connected transaction to the Company under the Listing Rules and was approved by the independent shareholders of the Company at an extraordinary general meeting of the Company (the "EGM") held on 31 July 2014.

No options were exercised during the year ended 31 December 2016 (2015: Nil).

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23 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

The weighted average value per share option granted during the period estimated at the date of grant using binomial model was HK\$1.08. The weighted average assumptions used are as follows:

Fair value at measurement date	HK\$1.08
Share price	HK\$2.34
Exercise price	HK\$2.34
Expected volatility	55.667%
Option life	6 years
Dividend yield	0%
Risk-free interest rate	1.26%

The expected volatility was based on statistical analysis of daily share average prices of group of listed companies in the similar industry over the one year immediately preceding the grant date, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends were estimated based on the dividend policy of the Group. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition had not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

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24 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Share capital (note 24(c)) RMB'000	Share premium (note 24(d)(i)) RMB'000	Share-based compensation reserve (note 24(d)(v)) RMB'000	Exchange reserves (note 24(d)(iii)) RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015	393,115	825,019	46,890	7,869	(585,921)	686,972
Changes in equity for 2015:						
Loss and total comprehensive income for the year	-	-	-	14,781	(47,631)	(32,850)
Dividend declared (note 24(b)(iii))	-	-	-	-	(433,736)	(433,736)
Equity-settled share-based transactions (note 6(b))	-	-	49,842	-	-	49,842
Effect of forfeited and cancelled share options	-	-	(21,475)	-	21,475	-
Issuance of shares (note 24(c))	46,706	1,242,434	-	-	-	1,289,140
At 31 December 2015 and 1 January 2016	439,821	2,067,453	75,257	22,650	(1,045,813)	1,559,368
Changes in equity for 2016:						
Profit and total comprehensive income for the year	-	-	-	107,083	707	107,790
Repurchase of own shares	(5,230)	(168,009)	-	-	-	(173,239)
Dividend declared (note 24(b)(iii))	-	-	-	-	(694,998)	(694,998)
Equity-settled share-based transactions (note 6(b))	-	-	23,731	-	-	23,731
Effect of forfeited and cancelled share options (note 23)	-	-	(3,926)	-	3,926	-
At 31 December 2016	434,591	1,899,444	95,062	129,733	(1,736,178)	822,652

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2016 RMB'000	2015 RMB'000
Proposed final dividend and special dividend – HK22 cents and HK3 cents respectively (equivalent to approximately RMB20 cents and RMB3 cents respectively) per share (2015: HK14 cents and nil (equivalent to approximately RMB12 cents and nil) per share)	1,229,115	653,138

The proposed final dividend declared to shareholders of the Company in 2016 is subject to approval at the AGM. The 2016 final dividend proposed to be declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the year

	2016 RMB'000	2015 RMB'000
Final dividend in respect of the previous financial year, approved during the period, of HK 14 cents (equivalent to RMB13 cents) per ordinary share (2015: HK11 cents (equivalent to RMB8.7 cents)) per ordinary share	694,998	433,736

Dividends of HK\$776,959,000 (equivalent to RMB694,998,000) (2015: HK\$550,000,000 (equivalent to RMB433,736,000)) was paid by 31 December 2016.

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24 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

(i) Issued share capital

	2016		2015	
	No. of shares '000	HK\$'000	No. of shares '000	HK\$'000
Ordinary shares, issued and fully paid:				
At 1 January	5,557,554	555,755	5,000,000	500,000
Issuance of shares	–	–	557,554	55,755
Shares repurchased (note ii)	(61,232)	(6,123)	–	–
At 31 December	5,496,322	549,632	5,557,554	555,755
RMB'000 equivalent at 31 December		434,591		439,821

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

The Company was incorporated on 14 May 2010 with authorised capital of HK\$380,000 divided into 3,800,000 of HK\$0.1 each. 1 fully paid share of HK\$0.1 was allotted and issued to Ms. Kei.

On 2 November 2012, the Company allotted and issued at par (i.e. HK\$0.1 per ordinary share) an aggregate of 999 shares, out of which 939 shares were allotted and issued to Ms. Kei and 20 shares were allotted to each of Dragon Jubilee Investments Limited, Gao Run Holdings Limited and Thrive Ally Limited, all of which are companies incorporated in the British Virgin Islands and are wholly owned by Ms. Kei.

Upon the completion of the Reorganisation on 1 April 2013, the Company became the holding company of the Group.

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24 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(i) Issued share capital (continued)

As at 31 December 2012, except for Guangdong Modern Construction Design and Consultation Co., Ltd. and Foshan Logan Sunshine Seaward Property Co., Ltd., all the companies comprising the Group were direct or indirect subsidiaries of the Company. The share capital in the consolidated statement of financial position as at 31 December 2012 represented the Company's share capital of HK\$100. The paid-in capital of Guangdong Modern Construction Design and Consultation Co., Ltd. and Foshan Logan Sunshine Seaward Property Co., Ltd. totalling RMB12,930,000 were included in the other reserve.

Pursuant to written resolutions of the Company's shareholders passed on 18 November 2013, the Company's authorised ordinary share capital was increased to HK\$10,000,000,000 by the creation of an additional 99,996,200,000 shares of HK\$0.1 each, ranking pari passu with the existing shares of the Company in all respects.

Capitalisation issue

Pursuant to written resolutions of the Company's shareholders passed on 18 November 2013, conditional upon the crediting of the share premium account of the Company as a result of the issue of shares pursuant to the global offering set out in the Prospectus, the directors had authorised to allot and issue a total of 4,249,999,000 shares, by way of capitalisation of the sum of HK\$424,999,900 (equivalent to RMB334,150,000) standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholders as appearing on the register of members of the Company.

Issuance of shares under global initial public offering ("IPO")

On 20 December 2013, the Company was successfully listed on the Stock Exchange following the completion of its IPO of 750,000,000 shares of HK\$0.1 each issued at a price of HK\$2.1 per share. Proceeds of HK\$75,000,000 (equivalent to RMB58,965,000), representing the par value of shares issued, were credited to the Company's share capital. The remaining proceeds (net of listing expenses) of HK\$1,474,393,000 (equivalent to RMB1,159,169,000) were credited to the share premium account.

Issuance of shares during 2015

On 25 November 2015 and 3 December 2015, a total of 557,554,000 shares with of HK\$0.1 each were issued at a price of HK\$2.78 per share. Proceeds of HK\$55,755,000 (equivalent to RMB46,706,000), representing the par value of shares issued, were credited to the Company's share capital. The remaining proceeds (net of transaction costs) of HK\$1,483,150,000 (equivalent to RMB1,242,434,000) were credited to the share premium account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

24 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(ii) Repurchase and cancellation of own shares

During the reporting period, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased and cancelled	Highest price paid per share RMB	Lowest price paid per share RMB	Aggregate price paid RMB'000
January 2016	3,072,000	1.91	1.77	5,760
February 2016	528,000	1.90	1.81	1,003
February 2016	56,000	1.92	1.86	108
March 2016	1,056,000	2.13	2.03	2,233
April 2016	3,134,000	2.51	2.36	7,725
August 2016	5,974,000	2.84	2.73	17,132
August 2016	4,004,000	2.91	2.83	11,909
August 2016	3,374,000	2.91	2.85	10,101
August 2016	5,214,000	2.90	2.74	15,454
August 2016	66,000	2.94	2.84	199
September 2016	4,160,000	2.92	2.86	12,484
October 2016	7,920,000	2.97	2.75	23,095
October 2016	1,760,000	2.87	2.78	5,086
October 2016	2,404,000	2.87	2.78	6,962
October 2016	2,840,000	2.86	2.78	8,317
October 2016	3,016,000	2.89	2.83	8,871
October 2016	5,136,000	2.93	2.80	15,203
October 2016	2,580,000	2.95	2.86	7,684
October 2016	546,000	2.91	2.81	1,577
October 2016	1,120,000	2.84	2.78	3,209
November 2016	1,150,000	2.77	2.71	3,235
November 2016	1,062,000	2.73	2.66	2,937
November 2016	800,000	2.73	2.69	2,235
November 2016	260,000	2.77	2.69	720
Total	61,232,000			173,239

Pursuant to section 37(3) of the Companies Law of the Cayman Islands, an amount equivalent to the fair value of the shares repurchased and cancelled of HK\$195,259,000 (equivalent to approximately RMB173,239,000) was transferred out from share capital and share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

24 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves

(i) Share premium

The share premium account is governed by the Cayman Companies Law and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in paying distributions or dividends to equity shareholders.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(w).

(iii) PRC statutory reserves

PRC statutory reserves include general reserve, statutory surplus reserve and statutory public reserve fund.

General reserve

The general reserve is non-distributable and the transfer to this reserve is determined by the board of directors in accordance with the relevant laws and regulations of the PRC. This reserve can be used to offset accumulated losses and increase capital upon approval from the relevant authorities.

Statutory surplus reserve

According to the PRC Company Law, the PRC subsidiaries of the Group (excluding foreign investment enterprises) are required to transfer 10% of their profit after taxation, as determined under the PRC Accounting Regulations, to the statutory surplus reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

24 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves (continued)

(iv) Other reserve

At 1 January 2016, the other reserve represents:

- (1) The difference between the consideration paid arising from the Reorganisation and the paid-in capital of Shantou Jinfengyuen Realty Co., Ltd., Shantou Logan Realty Co., Ltd., Shantou Jiarun Property Co., Ltd. and Shenzhen Logan Holdings Co., Ltd.;
- (2) The difference between the capital injection and paid-in capital of Shantou Jinfengyuen Realty Co., Ltd., Shantou Logan Realty Co., Ltd., Shenzhen Jinjun Property Co., Ltd. and Shenzhen Logan Junjing Property Development Co., Ltd..
- (3) The difference between the consideration paid and carrying amount of non-controlling interest acquired arising from acquisition of additional interests of Foshan Nanhai Logan Realty Co., Ltd., Foshan Logan Realty Co., Ltd. and Shantou Logan Junjing Property Co., Ltd..

During 2016, the movement of the other reserve represents:

- (1) The difference between the capital injection and carrying amount of non-controlling interest produced arising from capital injection of Huizhou Daya Bay Dongzhen Property Co., Ltd..
- (2) The difference between the consideration paid and carrying amount of non-controlling interest acquired arising from acquisition of additional interests of Shenzhen Jinjun Property Co., Ltd..

(v) Share-based compensation reserve

Share-based compensation reserve represents the fair value of services in respect of share options granted under the share option scheme as set out in note 23.

The share options lapsed due to the resignation of the certain mid-level managers. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the related share-based compensation reserve is transferred to retained profits.

(vi) Distributability of reserves

At 31 December 2016, the aggregate amounts of the Company's reserves available for distribution to equity shareholders of the Company was RMB292,999,000 (2015: RMB1,044,290,000). After the end of the reporting period, the directors proposed a final dividend and a special dividend of HK22 cents and HK3 cents respectively, equivalent to approximately RMB20 cents and RMB3 cents respectively (2015: HK14 cents and nil respectively, equivalent to approximately RMB12 cents and nil respectively) per share, amounting to RMB1,229,115,000 (2015: RMB653,138,000). This dividend has not been recognised as a liability at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

24 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to fund its property development projects, provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of net debt to equity ratio. This ratio is calculated as net debt divided by total equity of the Group. Net debt is calculated as total interest bearing bank and other loans and senior notes less cash and cash equivalents and restricted and pledged deposits.

The adjusted net debt to equity ratio at 31 December 2016 and 2015 was as follows:

	2016 RMB'000	2015 RMB'000
Total bank loans	9,496,511	9,991,922
Total other loans	5,581,500	1,170,000
Senior notes	5,708,526	3,588,720
Corporate bonds	12,400,000	5,000,000
Non-interest bearing payable to a financial institution	–	1,293,801
	33,186,537	21,044,443
Less: Cash and cash equivalents	(13,559,827)	(8,635,258)
Restricted and pledged deposits	(1,237,476)	(2,555,365)
Net debt	18,389,234	9,853,820
Total equity	25,751,346	17,460,917
Net debt to equity ratio	71.4%	56.4%

As at 31 December 2016, Shenzhen Logan Holdings Co., Ltd, a wholly-owned subsidiary of the Company (established in the People's Republic of China) (the "Issuer"), has totally issued an amount of RMB12.4billion of corporate bonds, of which RMB7.4 billion are publicly issued (2015: RMB6.0 billion). According to Securities Law of the People's Republic of China, the accumulated bond balance constitutes no more than 40% of the net asset value of the Issuer. Other than the ratio, neither the Company nor any other of its subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arise in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, and trade and other receivables. The Group maintains a defined credit policy and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has limit exposure to any single financial institution. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties and receivable from construction contracts, which enable management to assess their recoverability and to minimise exposure to credit risk. In respect of rental income from leasing properties, sufficient rental deposits are held to cover potential exposure to credit risk. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with these receivables. Adequate impairment losses have been made for estimated irrecoverable amounts.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover the expected cash demands, subject to approval by the Company's board of directors. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed funding lines from major financial institutions to meet its liquidity requirements in the short and longer term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2016					
	Contractual undiscounted cash outflow					Carrying amount RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	
Trade payables	2,588,846	1,295,063	743,116	48,364	4,675,389	
Other payables and accrued charges	1,241,533	–	–	–	1,241,533	1,241,533
Bank loans	3,619,051	3,051,707	3,528,603	351,731	10,551,092	9,496,511
Other loans	565,728	1,957,188	3,804,078	–	6,326,994	5,581,500
Corporate bonds	620,800	620,800	13,328,527	–	14,570,127	12,400,000
Senior notes	2,276,342	373,002	4,210,100	–	6,859,444	5,708,526
Amounts due to related companies	497,488	–	–	–	497,488	497,488
Amounts due to joint ventures	1,343,560	–	–	–	1,343,560	1,343,560
	12,753,348	7,297,760	25,614,424	400,095	46,065,627	40,944,507
Financial guarantees issued: – Maximum amount guaranteed (note 28)	9,806,196	–	–	–	9,806,196	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

	2015					Carrying amount RMB'000
	Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	
Trade payables	3,718,865	144,358	182,998	-	4,046,221	4,046,221
Other payables and accrued charges	498,071	-	-	-	498,071	498,071
Bank loans	4,197,916	3,593,551	3,047,600	362,837	11,201,904	9,991,922
Other loans	459,559	801,973	-	-	1,261,532	1,170,000
Non-interest bearing payable to a financial institution	1,293,801	-	-	-	1,293,801	1,293,801
Liabilities under cross-border guarantee arrangements	300,893	-	-	-	300,893	286,600
Corporate bonds	247,700	247,700	5,605,378	-	6,100,778	5,000,000
Senior notes	385,694	2,007,496	2,274,973	-	4,668,163	3,588,720
Amounts due to related companies	12	-	-	-	12	12
	11,102,511	6,795,078	11,110,949	362,837	29,371,375	25,875,347
Financial guarantees issued:						
- Maximum amount guarantee (note 28)	8,156,977	-	-	-	8,156,977	

(c) Interest rate risk

The Group's interest rates risk arises primarily from cash and cash equivalents, restricted and pledged deposits and bank borrowings issued at variable rates.

The Group does not anticipate significant impact to cash and cash equivalents and restricted and pledged deposits because the interest rates of bank deposits are not expected to change significantly.

The interest rates and terms of repayment of bank loans of the Group is disclosed in note 21 to the financial statements. The Group does not carry out any hedging activities to manage its interest rate exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (continued)

Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and total equity attributable to equity shareholders of the Company by approximately RMB14,119,000 (2015: RMB71,856,000) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at the end of the reporting period. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next end of the reporting period. The analysis is performed on the same basis for 2016.

(d) Currency risk

Almost all the Group's operating activities are carried out in the PRC with most of the transactions denominated in RMB. The Group is exposed to foreign currency risk arising from the exposure of RMB against Hong Kong dollars as a result of its investment in the PRC and certain of the general and administrative expenses settled in Hong Kong dollars. In addition, RMB is not freely convertible into foreign currencies and the conversion of RMB into foreign currencies is subject to rules and regulations of the foreign exchange control promulgated by the PRC government. The Hong Kong holding companies which use RMB as functional currency holds lots of RMB, the exchange rate fluctuation between RMB and Hong Kong dollars results in large exchange gain or loss.

The Group's exposure at 31 December 2016 to currency risk also arise from the senior notes which are denominated at United States dollars. As Hong Kong dollars are pegged to United States dollars, the movement of exchange rate of Hong Kong dollars against United States dollars is considered insignificant.

(i) **Exposure to currency**

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency is excluded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (continued)

(i) Exposure to currency (continued)

	Exposure to foreign currencies (expressed in Renminbi)					
	2016			2015		
	Renminbi	Hong Kong	United States	Renminbi	Hong Kong	United States
	RMB'000	Dollars	Dollars	RMB'000	Dollars	Dollars
Trade and other receivables	–	77,535	–	–	38,115	–
Cash and cash equivalents	71,221	893,654	2,082,567	1,602,248	1,370,360	249,344
Trade and other payables	(494,000)	(15,733)	(6,980)	–	(51)	–
Bank loans	(50,859)	(649,414)	(511,508)	(47,628)	–	(897,994)
Senior notes	–	–	(5,708,526)	–	–	(3,588,721)
Net exposure arising from recognised assets and liabilities	(473,638)	306,042	(4,144,447)	1,554,620	1,408,424	(4,237,371)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2016			2015		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity
		RMB'000	RMB'000		RMB'000	RMB'000
Renminbi	5%	(19,774)	–	5%	58,298	–
	(5%)	19,774	–	(5%)	(58,298)	–
Hong Kong Dollars	5%	–	12,777	5%	–	52,816
	(5%)	–	(12,777)	(5%)	–	(52,816)
United States Dollars	5%	–	(173,031)	5%	–	(158,901)
	(5%)	–	173,031	(5%)	–	158,901

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (continued)

(ii) Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rates ruling at the end of the reporting periods for presentation purposes.

The sensitivity analysis assumes that the change foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting periods, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2015.

(e) Fair value measurement

(i) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's derivative financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (continued)

(i) Financial assets measured at fair value (continued)

	Fair value at each end of the reporting period RMB'000	Fair value measurements as at the end of each reporting period categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
<i>At 31 December 2016</i>				
Assets:				
- Senior notes redemption call options	135,161	-	-	135,161
<i>At 31 December 2015</i>				
Assets:				
- Senior notes redemption call options	36,692	-	-	36,692

During the year ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's derivative financial instruments were revalued as at 31 December 2016 (2015: all). The valuations were carried out by an independent firm of surveyors, APAC Asset Valuation and Consulting Limited. The Group's management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (continued)

(ii) Information about Level 3 fair value measurements

		Significant Valuation techniques unobservable inputs	Range (weighted average)
Senior note redemption call options	Residual method	Risk free rate	0.257% – 1.497% (2015: 0.409% – 1.406%)
		Option adjusted spread	3.078%-4.698% (2015: 5.953% – 6.107%)
		Discount rate	3.658%-6.195% (2015: 6.362% – 7.513%)

The fair values of derivative financial instruments are determined using the residual method by subtracting the fair value of the straight debt from the quoted market price of the notes at the date of valuation. The fair value measurement is negatively correlated to risk free rate, option adjusted spread and discount rate.

As at 31 December 2016 and 2015, it is estimated that with all other variables held constant, a decrease/increase in risk free rate, option adjusted spread and discount rate by 1% would not have material impact on the Group's profit. The analysis is performed on the same basis for 2015.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	36,692	27,814
Fair value at inception	10,888	–
Change in fair value	81,720	6,936
Exchange difference	5,861	1,942
At 31 December	135,161	36,692

The changes in fair values of derivative financial instruments are presented in "net increase in fair value of derivative financial instruments" in the consolidated statement of profit or loss.

(iii) Financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their values as at 31 December 2015 and 2016 based on the nature or short-term maturity of these financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

26 COMMITMENTS

Commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Contracted for	5,593,891	11,983,863
Authorised but not contracted for	18,672,299	21,096,818
	24,266,190	33,080,681

Capital commitments mainly related to development expenditure for the Group's properties under development and expenditure in respect of future investment and property development.

27 SIGNIFICANT LEASING ARRANGEMENTS**(a) Lessor**

The Group leases out a number of building facilities under operating leases, consisting primarily of retail shops attached to some property development projects and office space. The leases typically run for an initial period of 1 to 15 years, with an option to renew the leases after that date at which time all terms are renegotiated. Further details of the carrying value of the properties are contained in note 11.

The Group's total future minimum lease incomes under non-cancellable operating leases are receivable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	90,436	80,301
After 1 year but within 5 years	166,182	176,235
After 5 years	62,074	68,283
	318,692	324,819

(b) Lessee

The Group leases office space under operating leases. The leases typically run for an initial period of 1 to 2 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	9,556	6,668
After 1 year but within 5 years	3,380	11,058
	12,936	17,726

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

28 CONTINGENT LIABILITIES

Guarantees given to financial institutions for mortgages facilities granted to buyers of the Group's properties:

	2016 RMB'000	2015 RMB'000
Guarantees given to financial institutions for mortgages facilities granted to purchasers of the Group's properties	9,806,196	8,156,977

The Group has entered into agreements with certain banks with respect to mortgage loans provided to buyers of the property units. Pursuant to the mortgage agreements signed between the Group and the banks, the guarantee will be released upon the issuance of the individual property ownership certificate. Should the mortgagors fail to pay the mortgage monthly installment before the issuance of the individual property ownership certificate; the banks can draw down the security deposits up to the amount of outstanding mortgage installments and demand the Group to repay the outstanding balance to the extent that the deposit balance is insufficient.

The amount of guarantee deposits required varies among different banks, but usually within a range of 3% to 5% of the mortgage loans granted to buyers, with prescribed capped amount. Such guarantees usually last for 3 months, according to the relevant record of the Group.

The management does not consider that the Group will sustain a loss under these guarantees during the year under guarantee, as the Group has not applied for individual property ownership certificates for these buyers and can take over the ownership of the related properties and sell the properties to recover any amounts paid by the Group to banks. The management also considers that the market value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Group in the event that the buyers default payments to banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

29 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions and balances disclosed elsewhere in the financial statements, major related party transactions entered by the Group during the year are follows:

	Note	2016 RMB'000	2015 RMB'000
Construction contracts income from related companies	(i)	211,607	116,280
Rental income from related companies	(ii)	2,070	–
Interest income from an associate and joint ventures	(iii)	315,308	–
Management service fee income			
from a related company	(iv)	1,501	700
Disposal of subsidiaries to joint ventures	(v)	109,000	–
Acquisition of subsidiary from the relative of the Chairman of the Company	(vi)	(494,000)	–
Acquisition of investment property from a related party	(vii)	(22,775)	–
Remuneration of key management personnel	(viii)	(80,500)	(40,856)

Notes:

- (i) The Group was engaged for the construction projects of related companies.
- (ii) The Group received rentals deriving from its investment properties from related companies.
- (iii) This represented the gross interest income from the associate and joint ventures, which is before the elimination of interest between the Group and the associate or joint ventures. The Group has been providing funds to the associate and joint ventures. The advances are interest bearing, unsecured and have no fixed term of repayment (For details, please see notes 13 and note 14).
- (iv) The Group provided management service to a related company.
- (v) During the year ended 31 December 2016, the Group disposed 11 newly set-up subsidiaries to joint ventures of the Group. Please refer to note 33 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

29 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

Notes: (continued)

- (vi) On 5 December 2016, the Group entered into an acquisition agreement with a relative of the Chairman of the Company. Please refer to note 31 for details.
- (vii) The Group purchased an investment property from a related party.
- (viii) Remuneration of key management personnel, including amounts paid to the directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	80,500	40,856
Post-employment benefits	–	–
	80,500	40,856

(b) Balances with related parties

	Note	2016 RMB'000	2015 RMB'000
Amount due from an associate (note)	13	3,019,480	–
Amounts due from joint ventures (note)	14	12,320,588	–
Amounts due from related companies	16	140,944	166,811
Amounts due from an associate and joint ventures	16	69,883	–
Amounts due to related companies	20	(497,488)	(12)
Amounts due to joint ventures	20	(1,343,560)	–
Guarantee provided by a related company and Mr. Kei.	21	538,050	769,000

Note: These amounts are included in interests in an associate and joint ventures which are disclosed in notes 13 and 14.

30 LOANS COVENANTS WAIVERS

As explained in note 21(iii), a total amount of RMB4,253,422,000 of the covenants relating to bank loans had been breached. The Group obtained RMB2,372,500,000 out of RMB4,253,422,000 of waivers of the breaches of covenants in December 2016. On the basis of its forecasts, management believes that the risk of the covenants being breached is low and the Group will continue as a going concern for the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

31 ACQUISITION OF SUBSIDIARIES

On 5 December 2016, Jolly Gain Investments Limited (“Jolly Gain”), a wholly-owned subsidiary of the Company, entered into an agreement with Mr. Yao Yaojia (“Mr. Yao”, brother in law of the Chairman of the Company, Mr Kei) and Honk Jee Loong Holdings Company Limited (“HJL”, wholly-owned by Mr. Yao). Pursuant to the agreement, Jolly Gain had agreed to acquire the entire issued share capital of Pak San Bay Investments Company Limited (“Pak San Bay”), from HJL at a consideration of RMB494 million. Pak San Bay (through its wholly-owned subsidiary (collectively “Pak San Bay Group”)) in turn owned 75% interest in a property project in Guangdong. The transaction constituted a connected transaction to the Company under the Listing Rules and was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company (the “EGM”) held on 5 December 2016. The transaction was completed on 31 December 2016.

This acquisition has been accounted for using the acquisition method. Pak San Bay Group was acquired so as to continue the expansion of the Group’s property development operations.

	2016 RMB’000
Other property, plant and equipment	132
Inventories	1,252,790
Trade and other receivables	3,279
Cash and cash equivalents	55,418
Trade and other payables	(468,875)
Deferred tax liability recognised	(184,010)
Net identified assets and liabilities	658,734
Less: Non-controlling interest	(164,734)
	494,000
Bargain purchase arising on acquisition	–
Total consideration	494,000
Total consideration	494,000
Amount due to a related party	(494,000)
Total consideration paid	–
Cash and cash equivalents acquired	(55,418)
Net cash inflow arising from acquisition	55,418

On acquisition day, the book value of assets and liabilities acquired amounted to RMB79,911,000 and the fair value of assets and liabilities acquired amounted to RMB658,734,000.

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(Expressed in Renminbi)

32 ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

	2016 RMB'000
Consideration paid	2,000,000
Amounts due from non-controlling interests (note 16)	86,288
Others	5,145
Carrying amount of non-controlling interests acquired	(997,889)
Excess of consideration paid recognised in other reserve	1,093,544

During 2015 and 2016, the Group acquired additional interests in three subsidiaries from the non-controlling interests. Details of the transactions are as follows:

(i) **Shenzhen Jinjun Property Co., Ltd. (“Shenzhen Jinjun”)**

On 26 December 2016, the Group acquired 49% equity interest in Shenzhen Jinjun from a non-controlling interest, Pingan Dahua, at a consideration of RMB2,086,288,000.

The excess of the consideration paid in respect of the acquisition of additional interests in the subsidiary over the carrying amount of the non-controlling interest of approximately RMB997,889,000 amounted to approximately RMB1,088,399,000 is recognised in other reserve in accordance with the accounting policy set out in note 2(d).

(ii) **Foshan Logan Realty Co., Ltd. (“Foshan Logan”)**

On 10 December 2015, the Group entered into an equity transfer agreement with a non-controlling interest to acquire additional 49% equity interests in Foshan Logan at a consideration of approximately RMB217,754,000. Upon the completion of the above transaction, Foshan Logan became the Group's indirect wholly-owned subsidiary.

The excess of the consideration paid in respect of the acquisition of additional interests in the subsidiary of approximately RMB217,754,000 over the carrying amount of the non-controlling interest of approximately RMB94,561,000 amounted to approximately RMB123,193,000 is recognised in other reserve in accordance with the accounting policy set out in note 2(d).

(iii) **Shantou Logan Junjing Property Co., Ltd. (“Shantou Logan”)**

On 31 December 2015, the Group entered into an equity transfer agreement with a non-controlling interest to acquire additional 49% equity interests in Shantou Logan at a consideration of approximately RMB1,312,776,000. Upon the completion of the above transaction, Shantou Logan became the Group's indirect wholly-owned subsidiary.

The excess of the consideration paid in respect of the acquisition of additional interests in the subsidiary over the carrying amount of the non-controlling interest of approximately RMB580,022,000 amounted to approximately RMB732,754,000 is recognised in other reserve in accordance with the accounting policy set out in note 2(d).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

32 ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES (CONTINUED)**(iv) Foshan Nanhai Logan Realty Co., Ltd. ("Foshan Nanhai")**

On 13 November 2015, the Group entered into an equity transfer agreement with a non-controlling interest to acquire additional 49% equity interests in Foshan Nanhai at a consideration of approximately RMB552,367,000. Upon the completion of the above transaction, Foshan Nanhai became the Group's indirect wholly-owned subsidiary.

The excess of the consideration paid in respect of the acquisition of additional interests in the subsidiary of approximately RMB552,367,000 over the carrying amount of the non-controlling interest of approximately RMB286,950,000 amounted to approximately RMB265,417,000 is recognised in other reserve in accordance with the accounting policy set out in note 2(d).

33 DISPOSAL OF SUBSIDIARIES

During the year end 31 December 2016, the Group has disposed certain subsidiaries. Subsequent to the disposals, these entities are no longer subsidiaries of the Group and certain of these subsidiaries became joint ventures of the Group.

The effect of such disposals on the Group's assets and liabilities is set out below:

	RMB'000
Inventories	3,407
Trade and other receivables	708,417
Cash and cash equivalents	233,434
Trade and other payables	(816,136)
Net assets attributable to the Group disposed of	129,122
Less: Non-controlling interest	-
	129,122
Net gain on disposal of subsidiaries	878
Total consideration	130,000
Total consideration received, satisfied in cash	-
Cash and cash equivalents disposed of	(233,434)
Net cash outflow arising from disposals	(233,434)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Plant and equipment		7,295	–
Investments in subsidiaries		10,211	10,211
		17,506	10,211
Current assets			
Prepayments and other receivables		4,740,722	5,536,466
Cash and cash equivalents		2,966,168	285,728
		7,706,890	5,822,194
Current liabilities			
Other payables		32,296	–
Bank loan		1,160,922	205,295
Senior notes		1,747,637	–
		2,940,855	205,295
Net current assets		4,766,035	5,616,899
Total assets less current liability		4,783,541	5,627,110
Non-current liabilities			
Bank loan		–	479,022
Senior notes		3,960,889	3,588,720
		3,960,889	4,067,742
NET ASSETS		822,652	1,559,368
CAPITAL AND RESERVES			
	24		
Share capital		434,591	439,821
Reserves		388,061	1,119,547
TOTAL EQUITY		822,652	1,559,368

Approved and authorised for issue by the board of directors on 30 March 2017.

Lai Zhuobin
Director

Xiao Xu
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (a) On 3 January 2017, the Company issued another senior notes with principal amount of US\$200,000,000 due in 2022 (“US\$200m Senior Notes”). The senior notes are interest bearing at 5.75% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 3 January 2022. At any time and from time to time before the maturity date, the Company may at its option redeem the senior notes, at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.
- (b) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 24(b).
- (c) Shenzhen Logan Holdings Company Limited, a wholly-owned subsidiary of the Company (established in the People’s Republic of China) has issued an Asset-backed securitization of an amount of RMB1,521 million for a term of three years after the reporting period. Under this assignment between the Group and the Specific Purpose Entity set up by a financial institution (“SPE”) in the PRC, as and when the Group receives the sales proceeds from customers, the Group would remit any cash flows it collects on behalf of the SPE. On 25 January 2017, the securities under this ABS have been fully subscribed.
- (d) On 22 March 2017, the Company and KWG Property Holding Limited (“KWG”) have entered into a joint venture through the formation of Unicorn Bay Limited, a previously wholly-owned subsidiary (“the JV company”). Each of the Company and KWG owns 50% of the issued share capital of the JV Company.

The purpose of the JV Company is to develop the Ap Lei Chau Inland Lot No. 136 at Lee Nam Road, Ap Lei Chau, Hong Kong (the “Site”) into a residential development which has a total land premium of HKD16,855,780,000.

36 ULTIMATE CONTROLLING PARTY

At 31 December 2016, in the opinion of the directors of the Company, Ms. Kei, who is a non-executive director of the Company, is the ultimate controlling party of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
<i>Amendments to HKAS 7, Statement of cash flows: Disclosure initiative</i>	1 January 2017
<i>Amendments to HKAS 12, Income taxes: Recognition of deferred tax assets for unrealised losses</i>	1 January 2017
<i>HKFRS 9, Financial instruments</i>	1 January 2018
<i>HKFRS 15, Revenue from contracts with customers</i>	1 January 2018
<i>Amendments to HKFRS 2, Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
<i>HKFRS 16, Leases</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

(b) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group preliminarily assesses that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(v). Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

HKFRS 15, Revenue from contracts with customers (continued)

(a) Timing of revenue recognition (continued)

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

- (a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- (c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts HKFRS 15 some of the Group's contract manufacturing and residential property development activities that are currently recognised at a point in time may meet the HKFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced. It is also possible that for the remainder of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

HKFRS 15, Revenue from contracts with customers (continued)

(b) Significant financing component (continued)

Advance payments are not common in the Group's arrangements with its customers, with the exception of when residential properties are marketed by the Group while the property is still under construction. In this situation, the Group may offer buyers a discount compared to the sales price payable, provided the buyer agrees to pay the balance of the purchase price early.

Currently, the revenue from property sales is recognised when the property is complete, measured at the amount received from the customer, irrespective of whether the customer pays early or on completion. However, under HKFRS 15 such advance payment schemes are likely to be regarded as including a financing component.

The Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once HKFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue. Any adjustment to the transaction price under HKFRS 15, if considered necessary, would result in interest expense being recognised while the construction work is still in progress to reflect the effect of the financing benefit obtained from the customers, with a corresponding increase to revenue on sale of properties recognised when control of the completed property is transferred to the customer.

(c) Sales with a right of return

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group expects that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

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37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

HKFRS 16, Leases

As disclosed in note 2(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 27(b), at 31 December 2016 the Group’s future minimum lease payments under non-cancellable operating leases amount to RMB12,936,000 for properties, the majority of which is payable within 1 year. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

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