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China South City Holdings Limited 華南城控股有限公司

(於香港註冊成立之有限公司)

(股份代號: 1668)

海外監管公告

本海外監管公告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13.09(2)條而刊發。茲提述華南城控股有限公司(「本公司」)於2011年1月4日及2011年1月7日就發行於2016年到期為250,000,000美元13.50%優先票據刊發的公告(統稱「該等公告」)。

除非文義另有所指，否則本公告所用所有詞彙與該等公告所界定者具有相同含義。

董事會(「董事會」)欣然宣佈，票據發行已於2011年1月14日完成。請參閱隨附有關發行票據的發售備忘錄(「發售備忘錄」)，發售備忘錄已於2011年1月17日刊載於新加坡證券交易所有限公司網站。

於聯交所網站刊載發售備忘錄僅為便於向香港投資者作同等資訊傳達及遵守上市規則第13.09(2)條，而概無其他目的。發售備忘錄並不構成向任何司法權區的公眾人士提呈出售任何證券的招股章程、通告、通函、宣傳冊、廣告或文件，亦非邀請公眾人士提呈認購或購買任何證券的邀約，且不旨在邀請公眾人士提出認購或購買任何證券的要約。

發售備忘錄不應被視為認購或購買本公司任何證券的勸誘，亦不擬構成作出有關勸誘。任何投資決定不應以發售備忘錄所載資料為依據。

謹代表董事會
華南城控股有限公司
聯席主席及執行董事
鄭松興

香港，2011年1月17日

於本公告日期，本公司執行董事為鄭松興先生、梁滿林先生及許揚教授；本公司非執行董事為馬介璋博士銀紫荊星章、銅紫荊星章、孫啟烈先生銅紫荊星章、太平紳士，馬偉武博士及鄭大報先生；以及本公司獨立非執行董事為石萬鵬先生、梁君彥先生金紫荊星章、銀紫荊星章、太平紳士及李偉強先生。

US\$250,000,000



China South City Holdings Limited
華南城控股有限公司

(incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance)

13.50% Senior Notes due 2016

Issue Price: 97.381% plus accrued interest, if any, from the issue date

The Notes will bear interest from January 14, 2011 at the rate of 13.50% per year. We will pay interest on the Notes on January 14 and July 14 of each year, beginning on July 14, 2011. The Notes will mature on January 14, 2016.

We may at our option redeem the Notes, in whole or in part, at any time on or after January 14, 2014, at the redemption prices set forth in this offering memorandum plus accrued and unpaid interest, if any, to the redemption date. At any time and from time to time prior to January 14, 2014, we may redeem up to 35% of the Notes, at a redemption price of 113.50% of their principal amount, plus accrued and unpaid interest, if any, in each case, using the net cash proceeds from sales of certain kinds of capital stock. In addition, we may redeem the Notes at any time prior to January 14, 2014, in whole but not in part, at a price equal to 100% of the principal amount of such Notes plus: (1) accrued and unpaid interest (if any) to the redemption date; and (2) 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), 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 are senior obligations of China South City Holdings Limited guaranteed by our existing subsidiaries other than those organized under the laws of the PRC. We refer to the subsidiaries guaranteeing the Notes as the Subsidiary Guarantors and the guarantors of such Subsidiary Guarantors as the Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a Subsidiary Guarantee required to be provided by a subsidiary of the Company may be replaced by a limited-recourse guarantee, or JV Subsidiary Guarantee. We refer to the subsidiaries providing a JV Subsidiary Guarantee as JV Subsidiary Guarantors. The Notes and the Subsidiary Guarantees will be secured by liens over the capital stock of the Subsidiary Guarantors.

The Notes will: (1) be senior in right of payment to any existing and future obligations of China South City Holdings Limited expressly subordinated in right of payment to the Notes; (2) rank at least *pari passu* with all our other unsecured, unsubordinated indebtedness (subject to any priority rights pursuant to applicable law); (3) be effectively subordinated to all existing and future obligations of our subsidiaries in the PRC; and (4) be effectively subordinated to our other secured obligations and those of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the assets serving as security therefor. However, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) and the pledge of the collateral.

For a more detailed description of the Notes, see "Description of the Notes" beginning on page 173.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 14.

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the Singapore Exchange Securities Trading Limited, or the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this offering memorandum. Approval in-principle for the listing and quotation of the Notes on the Official List of the SGX-ST is not to be taken as an indication of the merits of our company and our subsidiaries, jointly controlled entities and associates or the Notes, Subsidiary Guarantees or JV Subsidiary Guarantees.

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, and they may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only: (1) within the United States to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; and (2) outside the United States in reliance on Regulation S under the Securities Act. For a description of certain restrictions on resale or transfer, see "Transfer Restrictions."

It is expected that delivery of the Notes will be made in book-entry form through the facilities of The Depository Trust Company on or about January 14, 2011 in New York, New York against payment therefor in immediately available funds.

Joint Lead Managers and Joint Bookrunners
(in alphabetical order)

BOC International

UBS

The date of this offering memorandum is January 7, 2011

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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.

IN CONNECTION WITH THIS OFFERING, UBS AG, HONG KONG BRANCH, AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE OR 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. HOWEVER, THERE IS NO ASSURANCE THAT UBS AG, HONG KONG BRANCH, AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, WILL UNDERTAKE ANY SUCH STABILIZATION ACTION. 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 UBS AG, HONG KONG BRANCH, AS STABILIZING MANAGER, AND NOT FOR OR ON BEHALF OF THE COMPANY.

You should rely only on the information contained in this offering memorandum. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it.

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes and for the listing of the Notes on the SGX-ST. 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 (as such terms are defined in U.S. Treasury Regulation section 1.6011-4). This authorization of tax disclosure is retroactively effective to the commencement of discussions with prospective investors regarding the transactions contemplated herein.

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

No representation or warranty, express or implied, is made by BOCI Asia Limited, UBS AG, Hong Kong Branch (collectively, the "Initial Purchasers"), The Hongkong and Shanghai Banking Corporation Limited (the "Trustee"), HSBC Bank USA, N.A. (the "Paying Agent, Transfer Agent and Note Registrar" or the "Agents"), or any of their affiliates or advisors, to the accuracy, completeness or sufficiency of the information contained in this offering memorandum, and nothing contained in this offering memorandum is, or should be, relied upon as, a promise, representation or warranty by the Initial Purchasers, the Trustee or the Agents, whether as to the past or the future. The Initial Purchasers assume no responsibility for its accuracy, completeness or sufficiency or for any statement made or purported to be made by the Initial Purchasers or on our behalf in connection with the Company, the Subsidiary Guarantors or the JV Subsidiary Guarantors (if any) on the issue and offering of the Notes. None of the Initial Purchasers, the Trustee and the Agents accept any responsibility for the contents of this offering memorandum. Each of the Initial Purchasers, the Trustee and the Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering memorandum or any such statement.

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

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been approved or disapproved by the United States Securities and Exchange Commission, 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.

Prospective purchasers are hereby notified that sellers of the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. We are not, and the Initial

Purchasers are not, making an offer to sell the Notes, the Subsidiary Guarantees or 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 “Transfer Restrictions” and “Plan of Distribution” below.

No person has been or is authorized to make any representation concerning us or the Notes other than as contained herein 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. Neither the delivery of this offering memorandum nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This offering memorandum does not constitute an offer of, or an invitation by or on behalf of us, the Initial Purchasers, the Trustee or the Agents to subscribe for or purchase, any of the Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or is unlawful.

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, tax 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 attorney, business adviser and tax adviser for legal, business and tax advice regarding an investment in the Notes.

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

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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 “Issuer,” the “Group,” and words of similar import, we are referring to China South City Holdings Limited itself, or to China South City Holdings Limited and its consolidated subsidiaries, jointly controlled entities and associates as the context requires.

Market data, industry forecasts 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 such 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 forecasts and PRC and property industry statistics.

All references in this offering memorandum to “U.S. dollars” and “US\$” are to United States dollars, the official currency of the United States of America (the “United States” or “U.S.”); all references to “HK dollars” and “HK\$” are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC (“Hong Kong” or “HK”); all references to “RMB” or “Renminbi” are to Renminbi, the official currency of the People’s Republic of China. Solely for the convenience of the reader, this offering memorandum contains translations of certain RMB amounts or HK dollar amounts into U.S. dollars. On December 23, 2010, the noon buying rate in New York City for cable transfers payable in HK dollars as certified for customs purposes by the Federal Reserve Bank of New York was HK\$7.7778 to US\$1.00. On December 23, 2010, the noon buying rate in New York City for cable transfers payable in RMB as certified for customs purposes by the Federal Reserve Bank of New York was RMB6.6450 to US\$1.00. See “Exchange Rate Information.” No representation is made that the HK dollar or RMB amounts stated herein could have been, or could be, converted into U.S. dollars, or vice versa, at such rates or at any other rate.

References to the “PRC” and “China,” solely for purposes of this offering memorandum, refer to the People’s Republic of China and do not include Hong Kong, the Macau Special Administrative Region or Taiwan.

In this offering memorandum, unless the context otherwise requires, references to “affiliate” are to any person or entity directly or indirectly controlled by, or under the direct or indirect common control of, another person or entity; references to “subsidiary” are used with the meaning ascribed to it in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended (the “Listing Rules”), which includes: (1) 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”); (2) any entity which is accounted for and consolidated in the audited consolidated accounts of another entity as a subsidiary pursuant to HKFRS (as defined below) or International Financial Reporting Standards, as applicable; and (3) any entity which will, as a result of the acquisition of its equity interests by another entity, be accounted for and consolidated in the next audited consolidated accounts of such other entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable; all references to “associate” are used with the meaning ascribed thereto under the Listing Rules, which includes: (1) in relation to an individual, his spouse and children under the age of 18, certain trustees, his or his family’s holding companies, as well as companies over which he, his family, trustee interests and holding companies exercise at least 30% voting power; (2) 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 (3) in the context of connected transactions, certain connected persons and enlarged family members of a director, chief executive or

substantial shareholder of a listed issuer; and 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 general meetings or are in a position to control the composition of a majority of the board of directors, and “controlling interest” will be construed accordingly.

References to “PRC government” mean the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof.

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

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

FORWARD-LOOKING STATEMENTS

This offering memorandum includes forward-looking statements which are by their nature subject to certain risks and uncertainties. All statements other than statements of historical fact contained in this offering memorandum, including, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “aim,” “intend,” “plan,” “will,” “may,” “anticipate,” “seek,” “should” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future and are not a guarantee of future performance. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our ability to successfully execute our business plan and strategies and effectively manage our growth;
- future developments, performance, trends and conditions in the trade center, finished and unfinished goods and real estate industries in China and the regions in China where we currently or propose to operate;
- any changes in the regulatory policies of the PRC government, the Guangdong, Jiangxi and Shaanxi provincial governments and the government of the Guangxi Zhuang Autonomous Region and the Pearl River Delta, and other relevant government authorities relating to, among other things, the real estate, logistics and finished and unfinished goods industries;
- any delay or inability in obtaining the various permits, approvals or land use rights for our project developments;
- the effects of competition in the trade center and finished and unfinished goods industries;
- higher than expected losses or financing costs, or lower than expected returns on our investments;

- the sufficiency of our capital resources and cost and availability of external financing;
- governmental approval processes;
- our inability to accurately predict our future results of operations;
- changes in political, economic, legal and social conditions in China, the provinces of Guangdong, Jiangxi and Shaanxi, the Guangxi Zhuang Autonomous Region and the Pearl River Delta, including specific policies with respect to economic growth, inflation, foreign exchange, lending, the availability of credit, trade center development and manufacturing and exports;
- changes in population growth and GDP growth and the impact of these changes on demand for trade centers and finished and unfinished goods;
- timely repayment by our purchasers of mortgage loans guaranteed by us;
- accidents and natural disasters;
- the costs of construction and fluctuations in the price and availability of raw materials used in our trade center business;
- relationships with our joint venture partners, customers, suppliers and contractors, and the performance by them of their contractual obligations;
- our dividend policy and the dividend policy of our subsidiaries, jointly controlled entities and associates;
- our ability to comply with loan and bond covenants;
- general political and economic conditions, including those related to the PRC;
- developments in the PRC economy, measures taken in response thereto by the PRC government and the potential impact these developments and measures may have on our business, including our customers;
- exchange rate fluctuations;
- regulations and restrictions, and the interpretation or implementation of regulations, including tariffs, environmental regulations and land appreciation tax and other tax rules and regulations;
- changes to our expansion plans and estimated capital expenditures; and
- other factors beyond our control.

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

ADDITIONAL INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with resales of the Notes, we are required to furnish upon request of a holder of the Notes and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) if at the time of such request we are neither a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, for so long as any such Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act. So long as any of the Notes remains outstanding, we will provide to the Trustee for forwarding to the holders of the Notes our semi-annual and annual financial statements.

ENFORCEMENT OF CIVIL LIABILITIES

We are incorporated in Hong Kong 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 and Hong Kong. The British Virgin Islands, Hong Kong and other jurisdictions have different bodies of securities laws from the United States and protections for investors may differ.

All of our assets and all of the assets of the Subsidiary Guarantors are, and all or some of the assets of the JV Subsidiary Guarantors (if any) may be, located outside the United States. In addition, all of our directors and officers and the directors and officers of the Subsidiary Guarantors are, and all or some of the directors and officers of the JV Subsidiary Guarantors (if any) may be, nationals or residents of countries other than the United States (principally of the PRC and Hong Kong), and all or a substantial portion of such persons’ assets are located or may be located, as the case may be, outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us, any of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) or such directors and officers or to enforce against us, any of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) 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 the JV Subsidiary Guarantors (if any) expect to appoint Law Debenture Corporate Services Inc. as our and their respective agent to receive service of process with respect to any action brought against us, the Subsidiary Guarantors or the JV Subsidiary Guarantors (if any) 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, the Subsidiary Guarantors or the JV Subsidiary Guarantors (if any) 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 Hong Kong legal counsel, Baker & McKenzie, that Hong Kong has no arrangement for the reciprocal enforcement of judgments obtained within 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 foreign judgment, provided that the foreign judgment is for a debt or definite sum of money and is final and conclusive on the merits.

Hong Kong courts may refuse to recognize or enforce a foreign judgment if such judgment:

- was obtained by fraud;
- was rendered by a foreign court that lacked the appropriate jurisdiction at the time (as determined by Hong Kong jurisdictional rules);

- is contrary to public policy or natural justice; or
- is based on foreign penal, revenue or other public law.

We have been advised by our British Virgin Islands legal adviser, Maples and Calder, that the courts of the British Virgin Islands would recognize as a valid judgment, a final and conclusive judgment *in personam* obtained in the United States courts against us 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: (1) such courts had proper jurisdiction over the parties subject to such judgment and we had either submitted to such jurisdiction or were resident or carrying on business in such jurisdiction and were duly served with process; (2) such courts did not contravene the rules of natural justice of the British Virgin Islands; (3) such judgment was not obtained by fraud; (4) the recognition or enforcement of the judgment would not be contrary to the public policy of the British Virgin Islands; (5) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the British Virgin Islands and (6) there is due compliance with the correct procedures under the laws of the British Virgin Islands.

Furthermore, we have been advised by our PRC legal counsel, Commerce & Finance Law Offices, that there is uncertainty as to whether the courts of the PRC would: (1) enforce judgments of the U.S. courts obtained against us, our directors and officers, the Subsidiary Guarantors or the JV Subsidiary Guarantors (if any) or their directors or officers predicated upon the civil liability provisions of the federal securities laws of the United States; or (2) entertain original actions brought in the courts of the PRC against us, our directors and officers, the Subsidiary Guarantors or the JV Subsidiary Guarantors (if any) or their directors or officers predicated upon the federal securities laws of the United States or the securities laws of any state or territory within the United States. With regard to the above, Commerce & Finance Law Offices has also advised us that China does not have treaties for the reciprocal enforcement of judgments with the United States.

PRESENTATION OF FINANCIAL INFORMATION

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which differ in certain material respects from generally accepted accounting principles in certain other countries, including the United States. There are no material differences, however, between HKFRS and International Financial Reporting Standards. We have not identified the differences between HKFRS and those generally accepted accounting principles in other countries, nor have we quantified the effect of applying those generally accepted accounting principles to our financial statements. In making an investment decision, investors must make their own judgment in assessing our financial statements. You should consult your own professional advisors for an understanding of the differences between HKFRS and generally accepted accounting principles in other countries and how such differences might affect our financial statements and your investment in the Notes. Our reporting currency is the Hong Kong dollar.

GLOSSARY

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

“bonded warehouse”	is a warehouse authorized by customs officials for storing imported goods until removal, without the payment of duties, and pending customs inspection and the completion of other customs procedures. Such warehouses must be secure, with dutiable goods segregated from non-dutiable goods
“commodity properties”	residential properties, commercial properties and other buildings that are developed by property developers
“effective rental rate”	the total contractual base rent, after adjusting to amortize the effect of any discounts and rent-free periods, divided by the leased GFA
“export supervised warehouse”	is a warehouse authorized by customs officials for storing goods that have already obtained export permits, have been settled in foreign exchange with overseas firms and have cleared all customs export formalities
“GFA”	gross floor area, which comprises the above-ground area contained within the external walls of a building, excluding non-leasable and non-saleable area
“land grant confirmation agreement”	a confirmation given by a PRC land authority that a property developer has won the bid for the land use rights of a parcel of land in a government-organized public tender, auction or listing for sale process
“land grant contract”	an agreement between a property developer and a PRC land authority in respect of the grant of the state-owned land use rights of a parcel of land to such property developer
“land grant”	a land grant contract, land grant confirmation agreement or land use rights transfer agreement
“land use rights transfer agreement”	an agreement in respect of the transfer of the land use rights of a parcel of land by the previous grantee of the land use rights in the secondary market
“leasable gross floor area”	comprises the gross floor area designated by us for lease to tenants, including, with respect to our trade center units, the gross floor area sold by us to purchasers of trade center units and leased by us to third parties pursuant to cooperation and lease agreements with the purchasers of these trade center units
“Phase One,” “Phase Two,” or “Phase Three”	phases of development, as provided in the master agreements and the corresponding supplementary agreements, for the construction and development of our trade center projects

“rental occupancy rate”	percentage of leaseable gross floor area: (1) owned and leased out by us; and (2) sold by us to purchasers of trade center units and subsequently leased by us to third party tenants
“saleable GFA”	comprises the area of our trade centers designated by us for sale to purchasers of trade center units
“sq. m.”	square meters
“total occupancy rate”	percentage of total gross floor area: (1) owned and leased out by us; and (2) sold by us to purchasers of trade center units, excluding vacant units
“weighted average rental occupancy rate”	weighted average of the rental occupancy rate of our five trade centers in China South City Shenzhen by leaseable gross floor area

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 headed "Risk Factors" and the financial statements and related notes thereto, before making an investment decision.

Our Business

We are one of the leading developers and operators of large-scale, integrated logistics and trade centers in the PRC, based on GFA, industry coverage and range of supporting services and facilities offered, according to Colliers International. Leveraging our experience and brand reputation, as of September 30, 2010, we had five projects in different stages of development located in regional economic hubs in southern and central China.

Our business model is built on a premise of "One Body with Two Wings," with the "One Body" represented by our large-scale integrated logistics and trade centers, designed to serve as key commercial hubs to satisfy the economic and industrial needs of the regions in which we operate, and the "Two Wings" represented by the supporting residential and commercial facilities, designed to facilitate the operations of our trade center tenants and their customers. We complement our trade center operations by providing comprehensive supporting facilities including hotel, office, warehouse, exhibition and conference facilities. Our residential facilities further complement our trade center operations by providing convenient, high-quality accommodations for our trade center tenants, as well as providing cash flows to cover a portion of project-related capital expenditures. Our business model is further augmented by the on-site presence of PRC government agencies, which offer a diverse range of services to trade center tenants and other customers.

We currently have one integrated logistics and trade center project in operation, China South City Shenzhen. Phase One of China South City Shenzhen serves five complementary light manufacturing industries: (1) textile and clothing; (2) leather and accessories; (3) electronic accessories; (4) printing, paper and packaging; and (5) metals, chemicals and plastics. Phase Two of China South City Shenzhen primarily houses manufacturers and distributors of related finished goods and small commodities, as well as themed products, regional goods including branded undergarments, and goods originating in Hong Kong and Taiwan. Phase Three of China South City Shenzhen, for which we commenced construction in December 2010, will consist of three trade centers for finished goods in the furniture, motor vehicle and electronics industries.

As of September 30, 2010, approximately 1.5 million sq.m. of trade center units and ancillary facilities in Phase One and Phase Two of China South City Shenzhen were in operation. Upon completion of Phase Three, currently planned for 2015, we expect that China South City Shenzhen will have a total GFA of 1.5 million sq.m. of trade centers as well as more than 1.1 million sq.m. of supporting facilities.

We sell and lease trade center units at China South City Shenzhen to domestic and international suppliers, manufacturers and distributors of raw materials and finished goods, providing superior facilities and an integrated platform from which to display and sell their products to buyers. We focus on developing our trade centers by providing effective project planning and managing completed trade centers with quality services. We intend to achieve an optimal mix between trade center units for sale and trade center units held as investment properties. As of September 30, 2010, 46.8% of our Phase One trade center units in terms of GFA were sold, 6.7% were held for sale and 46.5% were held as investment properties. As of September 30, 2010, 22.7% of our Phase Two trade center units in terms of GFA were sold, 14.3% were held for sale and 63.0% were held as investment properties and for exhibition centers.

As of September 30, 2010, China South City Shenzhen, including completed properties (Phase One and Phase Two) and properties planned for future development (Phase Three), had a planned aggregate GFA of approximately 2.6 million sq.m. China South City Nanchang, including properties under development (Phase One) and properties planned for future development (Phases Two), had a planned aggregate GFA of approximately 4.3 million sq.m. China South City Nanning, including properties under development (Phase One) and properties planned for future development (Phase Two), had a planned aggregate GFA of approximately 4.9 million sq.m. Our Heyuan project, including properties under development (Phase One) and properties planned for future development (Phase Two), had a planned aggregate GFA of approximately 2.3 million sq.m. China South City Xi'an, all of which is planned for future development, had a planned aggregate GFA of approximately 17.5 million sq.m. We expect the aggregate GFA of these five projects to be approximately 31.6 million sq.m. upon completion.

Our Competitive Strengths

Our unique “One Body with Two Wings” business model provides an integrated platform for our trade center tenants and their customers to receive a comprehensive range of trade, logistics and supporting services

Our business model is built on a premise of “One Body with Two Wings,” with the “One Body” represented by our large-scale integrated logistics and trade centers, designed to serve as key commercial hubs to satisfy the economic and industrial needs of the regions in which we operate, and the “Two Wings” represented by the supporting residential and commercial facilities, designed to facilitate the operations and accommodation of our trade center tenants and their customers. We believe this comprehensive range of trade, logistics and supporting residential and commercial services offered at our trade center projects provides us with diverse revenue streams and differentiates our business model from that of traditional property developers.

Our land costs are significantly lower than other property developers, allowing us to minimize downside risk and providing us with high potential for appreciation in our targeted markets

Our trade center projects are strategically located in fast growing manufacturing and economic regions. Due to the nature of our business, whereby we build our trade center projects to become primary hubs for trade of raw materials and finished goods, we are able to acquire large parcels of land for relatively low cost, providing us with significant potential for profitability, while helping increase the appreciation potential of our land reserves minimizing downside risk and allowing us to offer more attractive sales and leasing terms than those offered by our competitors.

We enjoy strong municipal and regional government support in the locations in which we currently operate and plan to operate

In selecting new sites for our projects, we strategically seek out locations in which local and regional governments have actively expressed a desire to develop integrated logistics and trade centers in their long-term plans. In so doing, we are able to better align our business operations with the long-term economic development plans of the regions in which we develop and operate our projects.

Our current and planned integrated logistics and trade centers are strategically located in fast growing manufacturing and economic centers near well-developed transportation networks

Our current and planned integrated logistics and trade centers are situated at prime locations in fast-growing manufacturing and economic centers near well-developed transportation networks. The Pearl River Delta, where China South City Shenzhen is located, represents one of the largest manufacturing and export regions in China, and is situated near four international airports as well as five container ports, and is connected to each of the major railway arteries in Southern China and at least 10 major highways linking each of the major cities in the Greater Pearl River Delta region.

Our track record demonstrates our development and operational abilities and has helped us to achieve brand name recognition

From October 2003 to December 2004, we developed China South City Shenzhen from an undeveloped land site to a large-scale integrated logistics and trade center. As of September 30, 2010, we had achieved a total occupancy rate of approximately 86% for our five trade centers in Phase One of China South City Shenzhen. Our rental revenues increased from HK\$40.0 million in fiscal year 2007 to HK\$101.3 million in fiscal year 2010. Meanwhile, the average sales price per sq.m. at our trade centers has increased by approximately HK\$9,500, or 143.9%, from approximately HK\$6,600 per sq.m. for our Phase One trade centers in fiscal year 2007 to approximately HK\$16,100 per sq.m. for our Phase Two trade centers in the six month period ended September 30, 2010. We emphasize the design and quality of construction of our trade centers by adopting international practices and applying stringent quality procedures for our integrated logistics and trade center projects. We believe our track record for high-quality design and construction has allowed us to secure a strong position in the development of integrated logistics and trade centers.

We have a strong, experienced management team with a demonstrated record of success

We consider the strength of our senior management team to be fundamental to the success of our integrated logistics and trade center development projects. We rely on our senior management's experience and insight on important factors that contribute to the success of our projects, such as careful site selection, detailed project management, stringent cost control and effective quality control, as well as extensive experience in operational and financial management, which we believe provides us with a key competitive advantage.

Our founding shareholders possess in-depth experience and extensive networks of contacts within their respective industries

Our five founding shareholders, each of whom are either chairmen or executive directors of leading manufacturing and industrial companies based in Hong Kong with operations in the Greater Pearl River Delta region, have extensive experience and a well-developed network of contacts in their respective industries and have provided a firm foundation for our operations and future development.

Our Strategies

Replicate the success of our existing business model in other cities in China

We intend to leverage our experience with China South City Shenzhen to develop similar integrated logistics and trade centers in other regions. We have and will continue to focus our expansion on cities meeting our strategic criteria, including: (1) demonstrated public demand for large-scale trade centers; (2) prime locations close to well-developed transportation networks; (3) promising local and regional economic growth potential, particularly with respect to those industries represented at our trade centers; and (4) strong government support for the development of integrated logistics and trade centers.

We intend to replicate the business model we have developed at China South City Shenzhen as we expand into other markets in China, including in Nanchang and Nanning, where we have commenced construction. We will continue to focus on maintaining diverse revenue streams by offering a comprehensive range of trade, logistics and supporting residential and commercial services at our new trade center projects. We intend to generate cash flows to cover a portion of the capital expenditures of our projects from sales of residential properties. In addition, we will continue to implement our strategy of acquiring large parcels of land for relatively low cost, offering protection against downside risks providing us with significant potential for profitability and appreciation of our land reserves and allowing us to offer more attractive sales and leasing terms than those offered by our competitors. We intend to achieve an optimal mix of properties generating long-term recurring income and capital appreciation with properties generating profit from sales. We intend to strategically balance the amount of GFA for sale and for investment in our properties to enhance our working capital position and to finance a portion of our project development costs.

Maximize occupancy rates, rental rates and traffic flow in our existing and planned trade centers

We plan on maximizing occupancy rates, rental rates and traffic flow in our existing and planned integrated logistics and trade centers by implementing the following initiatives: (1) provide preferential rental terms to maximize occupancy rates and increase rental rates as occupancy rates increase; (2) continue to offer integrated logistics services to increase customers' access to the global supply chain; (3) attract and secure high-quality long-term tenants; and (4) leverage and improve supporting infrastructure and services.

Continue to expand our operations to increase the vertical integration of our trade centers

We have expanded our operations in China South City Shenzhen beyond the wholesale trade of unfinished goods to include the wholesale trade of finished and branded goods in the industries represented at our trade centers. In addition, we are in the process of developing regionally themed and other themed trade centers to further enhance the scope and diversity of trade represented at our trade centers. By expanding our operations in this way, we believe that we have further expanded the scope and elevated the quality of our services beyond those offered by our competitors.

Build our market position and enhance our brand recognition

We intend to augment our sales and marketing program to further strengthen our market position and enhance brand recognition by using a variety of promotional, advertising, public relations and customer service campaigns, both in China and Hong Kong. In our marketing efforts, we will emphasize the competitive strengths of our trade centers, including strategic location, integration into the global logistics supply chain, strong supporting infrastructure and services and high-quality management. Our marketing promotions and advertising campaigns target domestic and multinational companies active in the industries represented at our trade centers.

Our Projects

We currently have three large-scale integrated logistics and trade center projects in various stages of development located in Shenzhen, Nanchang and Nanning, as well as our other properties under development and planned for future development in Heyuan and Xi'an.

Our projects are classified into three categories:

- completed properties, representing properties for which construction of all constituent buildings has been completed and which are available for lease or sale. Our completed properties include Phase One and Phase Two of China South City Shenzhen;
- properties under development, representing properties for which we have obtained land use rights certificates and have planned or commenced construction. Our properties under development include Phase Three of China South City Shenzhen and Phase One of China South City Nanchang, Phase One of China South City Nanning and Phase One of our Heyuan project; and
- properties planned for future development, representing properties with respect to which we have entered into a master agreement or similar agreement with relevant regulatory authorities and which have been approved in accordance with our internal procedures. These projects are still in the planning stage. As a result, we have not received the land use rights with respect to these projects. Our properties planned for future development include Phase Two of China South City Nanchang, Phase Two of China South City Nanning, Phase Two of our Heyuan project and China South City Xi'an.

Our Corporate Information

We were incorporated in Hong Kong on May 8, 2002, as a company with limited liability under the Hong Kong Companies Ordinance. Our registered office and headquarters is located at Room 2205, 22nd Floor, Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui, Kowloon, Hong Kong. Our website is www.chinasouthcity.com. Information contained on our website does not constitute any part of this offering memorandum.

We are listed on The Stock Exchange of Hong Kong Limited and completed our initial public offering in September 2009.

The Offering

Capitalized terms used in this summary and not defined herein shall have the meanings given to them in “Description of the Notes.”

Issuer	China South City Holdings Limited (the “Company”).
Notes Offered	US\$250,000,000 aggregate principal amount of 13.50% Senior Notes due 2016 (the “Notes”).
Offering Price	97.381% of the principal amount of the Notes plus accrued interest, if any, from the issue date.
Maturity Date	January 14, 2016.
Interest	The Notes will bear interest from and including January 14, 2011 at the rate of 13.50% per annum, payable semi-annually in arrears.
Interest Payment Dates	January 14 and July 14 of each year, commencing July 14, 2011.
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 all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);• guaranteed by the Subsidiary Guarantors on a senior basis, subject to certain limitations described under the caption “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral” and “Description of the Notes — The Subsidiary Guarantees;”• effectively subordinated to the other secured obligations (if any) 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 therefore; and• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

After the pledge of the Collateral by the Company and the Subsidiary Guarantor Pledgors and subject to certain limitations described under “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and Collateral,” the Notes will:

- be entitled to a first priority lien on the Collateral pledged by the Company and the Subsidiary Guarantor Pledgors (subject to any Permitted Liens);
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company (subject to any priority rights of such unsecured obligations pursuant to applicable law).
- rank effectively senior in right of payment to unsecured obligations of the Subsidiary Guarantor Pledgors with respect to the value of the Collateral pledged by each Subsidiary Guarantor Pledgor (subject to priority rights of such unsecured obligations pursuant to applicable law).

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

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

The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than those Restricted Subsidiaries organized under the laws of the PRC.

All of the initial Subsidiary Guarantors are holding companies that do not have significant operations or real property assets. See “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees.”

Any future Restricted Subsidiary, other than subsidiaries organized under the laws of the PRC, will provide a guarantee of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor promptly 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 secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

After the pledge of the Collateral (as described below) by the Company and the Subsidiary Guarantor Pledgors, the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be entitled to a first ranking security interest in the Collateral pledged by such Subsidiary Guarantor Pledgor (subject to any Permitted Liens); and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee.

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

Ranking of JV Subsidiary

Guarantees

A JV Subsidiary Guarantee instead of a Subsidiary Guarantee may be provided by a Subsidiary Guarantor following a sale by the Company or any of its Restricted Subsidiaries of Capital Stock in such Subsidiary Guarantor, where such sale is for no less than 20% and no more than 49.9% of the issued Capital Stock of such Subsidiary Guarantor. No JV Subsidiary Guarantee exists as of the Original Issue Date.

The JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will be limited to the JV Entitlement Amount;
- will be effectively subordinated to secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefore;

	<ul style="list-style-type: none"> • 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 rank at least <i>pari passu</i> with all other unsecured, unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).
Security to be Granted	<p>The Company has agreed, for the benefit of the holders of the Notes, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of all of the initial Subsidiary Guarantors (collectively, the “Collateral”) owned by the Company or the Subsidiary Guarantor Pledgors on a first priority basis in order to secure the obligations of the Company under the Notes and of such Subsidiary Guarantor Pledgor under its Subsidiary Guarantee.</p> <p>The Collateral securing the Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each Subsidiary Guarantor Pledgor may incur Permitted Pari Passu Secured Indebtedness, which would be secured by the Collateral on a <i>pari passu</i> basis with the Notes and the Subsidiary Guarantees. See “Description of the Notes — Security.”</p>
Use of Proceeds	<p>The Company intends to use the net proceeds from this offering primarily to fund properties under development and planned for future development (including land grant fees) and for general corporate purposes. See “Use of Proceeds.”</p>
Optional Redemption	<p>At any time and from time to time on or after January 14, 2014, the Company at its option may redeem the Notes, in whole or in part, at the redemption prices set forth in “Description of the Notes — Optional Redemption” plus accrued and unpaid interest, if any, to (but not including) the redemption date.</p> <p>At any time prior to January 14, 2014, 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.</p> <p>At any time and from time to time prior to January 14, 2014, the Company may redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 113.50% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the proceeds from sales of certain kinds of its capital stock, subject to certain conditions.</p>
Repurchase of Notes Upon a Change of Control Triggering Event	<p>Upon the occurrence of a Change of Control Triggering Event, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the repurchase date.</p>

Redemption for Taxation

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

Covenants

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

- incur or guarantee additional indebtedness or 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.”

Transfer Restrictions

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

Form, Denomination and

Registration The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$100,000 of principal amount and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of The Depository Trust Company.

Book-Entry Only	The Notes will be issued in book-entry form through the facilities of The Depository Trust Company for the accounts of its participants, including Euroclear and Clearstream, Luxembourg. For a description of certain factors relating to clearance and settlement, see “Description of the Notes — Book-Entry; Delivery and Form.”			
Delivery of the Notes	The Company expects to make delivery of the Notes, against payment in same-day funds, on or about January 14, 2011, 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 T+5 settlement. See “Plan of Distribution.”			
Trustee.....	The Hongkong and Shanghai Banking Corporation Limited.			
Paying Agent, Transfer Agent and Note Registrar	HSBC Bank USA, N.A.			
Global Security Agent	The Hongkong and Shanghai Banking Corporation Limited.			
Listings	Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in other currencies) for as long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.			
Ratings	The Notes have been provisionally rated “B” by Standard and Poor’s Rating Services and “B2” by Moody’s Investors Service. We cannot assure investors that these ratings will not be adversely revised or withdrawn either before or after delivery of the Notes.			
Governing Law	The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York. The share pledge documents will be governed by the laws of the Hong Kong Special Administrative Region.			
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “Risk Factors.”			
CUSIP/ISIN/Common Code		CUSIP	ISIN	Common Code
	Rule 144A Global Note	16950RAA4	US16950RAA41	056435018
	Regulation S Global Note	Y1515QAB7	USY1515QAB78	056435093

SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables present our summary consolidated financial data. The summary consolidated financial data as of and for each of the years ended March 31, 2008, 2009 and 2010 (except for EBITDA data) have been derived from our audited consolidated financial statements as of such dates and for such years included elsewhere in this offering memorandum. The summary consolidated interim financial data for the six month periods ended September 30, 2009 and 2010 and as of September 30, 2010 have been derived from our unaudited condensed consolidated interim financial statements for such periods and as of such date included elsewhere in this offering memorandum.

Our financial statements have been prepared and presented in accordance with HKFRS. The summary consolidated financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

	Fiscal Year Ended March 31,				Six Months Ended September 30,		
	2008	2009	2010	2010	2009	2010	2010
	(HK\$'000)		(US\$'000)		(HK\$'000)		(US\$'000)
Consolidated Income Statement Data:							
Revenue	562,880	224,399	1,570,229	202,512	249,564	590,515	75,957
Cost of sales	(285,976)	(153,640)	(587,522)	(75,773)	(129,709)	(258,775)	(33,286)
Gross Profit	276,904	70,759	982,707	126,739	119,855	331,740	42,671
Other income and gains	21,701	19,077	150,434	19,401	142,520	19,757	2,541
Fair value gains on investment properties	670,871	1,153,903	1,308,543	168,762	253,038	358,464	46,109
Selling and distribution costs	(45,270)	(89,531)	(83,573)	(10,777)	(40,012)	(39,090)	(5,028)
Administrative expenses	(117,491)	(109,249)	(187,696)	(24,207)	(98,267)	(86,418)	(11,116)
Fair value change in embedded derivative financial instruments	(1,167)	—	—	—	—	—	—
Other expenses	(7,911)	(13,188)	(25,427)	(3,279)	(623)	(172)	(22)
Finance costs	(960)	(6,824)	(32,982)	(4,254)	(11,840)	(16,797)	(2,161)
Share of profits and losses of: A jointly-controlled entity	502	1,120	1,287	166	645	651	84
An associate/associates	(329)	(327)	(302)	(39)	(165)	(162)	(21)
Profit before tax	796,850	1,025,740	2,112,991	272,512	365,151	567,973	73,057
Income tax expense	(241,726)	(272,170)	(785,345)	(101,286)	(119,747)	(225,282)	(28,977)
Profit for the year/period	<u>555,124</u>	<u>753,570</u>	<u>1,327,646</u>	<u>171,226</u>	<u>245,404</u>	<u>342,691</u>	<u>44,080</u>
Attributable to:							
Equity holders of the parent	556,075	754,048	1,329,593	171,477	245,709	347,196	44,659
Minority interests	(951)	(478)	(1,947)	(251)	(305)	(4,505)	(579)
	<u>555,124</u>	<u>753,570</u>	<u>1,327,646</u>	<u>171,226</u>	<u>245,404</u>	<u>342,691</u>	<u>44,080</u>
Other financial data							
EBITDA ⁽¹⁾	827,547	1,066,885	2,182,380	281,461	395,035	595,516	76,600
Adjusted EBITDA ⁽²⁾	202,486	(74,073)	763,219	98,432	8,781	229,667	29,542
Net cash inflow from operating activities	308,989	71,847	894,190	115,323	197,065	282,449	36,331

	As of March 31,				As of September 30,	
	2008	2009	2010	2010	2010	2010
	(HK\$'000)			(US\$'000)	(HK\$'000)	(US\$'000)
Consolidated Balance Sheet Data:						
Non-current assets	5,774,890	8,398,009	11,379,165	1,465,500	12,590,121	1,622,459
Current assets:						
Cash and bank balances	1,228,898	246,084	3,702,977	476,899	3,352,562	432,037
Other current assets	302,480	677,222	1,217,626	156,815	1,186,068	152,846
Total current assets	1,531,378	923,306	4,920,603	633,714	4,538,630	584,883
Total assets	7,306,268	9,321,315	16,299,768	2,099,214	17,128,751	2,207,342
Current liabilities:						
Short-term interest-bearing bank and other borrowings ⁽³⁾	422,975	470,652	1,558,417	200,705	1,601,647	206,400
Other current liabilities	512,504	1,094,993	1,295,291	166,819	1,497,075	192,925
Total current liabilities	935,479	1,565,645	2,853,708	367,524	3,098,722	399,325
Non-current liabilities:						
Long-term interest-bearing bank and other borrowings ⁽³⁾	749,183	898,774	2,644,308	340,555	2,839,435	365,911
Other non-current liabilities	1,979,054	2,360,938	1,775,067	228,607	1,938,758	249,843
Total non-current liabilities	2,728,237	3,259,712	4,419,375	569,162	4,778,193	615,754
Total liabilities	3,663,716	4,825,357	7,273,083	936,686	7,876,915	1,015,079
Total equity	3,642,552	4,495,958	9,026,685	1,162,528	9,251,836	1,192,263
Total equity and liabilities	7,306,268	9,321,315	16,299,768	2,099,214	17,128,751	2,207,342

- (1) EBITDA consists of profit before interest income, income tax expense, depreciation and amortization and finance costs (excluding capitalized interest). EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our profit for the year or period under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented above is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (2) Adjusted EBITDA consists of profit before interest income, income tax expense, depreciation and amortization, finance costs (excluding capitalized interest) and non-operating income and expenses (including fair value gains and losses on investment properties).
- (3) On November 29, 2010, the Hong Kong Institute of Certified Public Accountants issued an interpretation that provides that amounts repayable under loan agreements that contain a repayment on demand clause should be classified as current liabilities in the borrower's statement of financial position. For further information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recently Issued Accounting Pronouncements."

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, prospects, cash flows, financial condition and results of operations. If any of the events described below occur, our business, prospects, cash flows, financial condition and results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment. For more information concerning the PRC and related regulatory matters discussed below, see “Regulation.”

Risks Relating to our Business and our Industry

Our results of operations substantially depend on economic growth and our ability to execute our business strategy.

Our results of operations substantially depend on the successful execution of our business strategy to attract and retain high-quality tenants, achieve market rental rates and improve the surrounding infrastructure. Our success will also depend upon continuing growth in the manufacturing and export industries in the Greater Pearl River Delta region, as well as the regions surrounding Nanchang, Nanning and Xi'an, the location of our properties under development and planned for future development, and our ability to compete with other similar businesses. We may face challenges in implementing our strategy, and our ability to achieve our goals may be adversely affected by various factors, many of which are beyond our control. If we are not able to execute our business strategy or successfully compete with other similar businesses, our business, prospects, cash flows, financial condition and results of operations will be materially and adversely affected.

Our revenues and revenue mix vary significantly based upon the completion dates of our projects and prevailing market conditions.

Our business depends on the success of a small number of large-scale, multi-phase, mixed-use projects developed over the course of several years. Our strategy is to achieve an optimal mix between trade center units for sale and trade center units held as investment properties. We generally sell certain trade center units in the initial stages following completion of a project subject to prevailing market conditions and restrictions. The number of trade centers that we are able to complete during any given period is limited due to the substantial capital requirements for land acquisition and construction, as well as the lengthy development periods required before positive cash flows may be generated. If we believe that market prices will rise in the future, we may also delay sales of some trade center units in order to take advantage of increases of market prices.

Our revenues, and our mix of sales revenues versus rental revenues, vary significantly based upon the completion dates of our projects, among other factors. For instance, we completed and sold 4,850 and 98,000 sq.m. of trade center units in the fiscal years ended March 31, 2009 and 2010, respectively, resulting in a 1,978.1% increase in revenues from sales of trade center units from HK\$67.8 million to HK\$1,408.1 million, accounting for 30.2% and 89.7%, respectively, of our total revenues.

We tend to experience sharp increases in revenues during periods when we complete a significant project or project phase and offer it for sale, followed by declines in revenues during periods when we offer less new saleable GFA. The sale revenues we are able to achieve in a given period vary significantly based upon the GFA and type of properties, the proportion of GFA we allocate to sales versus rental properties, prevailing sales prices, market demand, interest rates, inflation, the availability of attractive mortgage terms to our buyers, the prevailing regulatory environment for property sales, regional economic growth, competition and other factors. Accordingly, our past performance in any given period and in relation to any given project may not be indicative of our future performance. Furthermore, the market prices of trade center units that we hold for future sale may not rise in line with our expectations, or at all.

Part of our strategy is to increase our rental revenue, as well as rental revenue as a proportion of total revenue, as we complete and lease out more rental properties over time. Rental revenue is subject to cyclical changes in market demand. We may not be able to implement this strategy successfully if we cannot complete the development of adequate GFA of new rental properties, achieve adequate rental occupancy rates and achieve adequate effective rental rates. Furthermore, maximizing yields from properties held for investment also depends to a large extent on active ongoing management and maintenance of the properties.

Our revenues from the leasing of trade center units and other properties during the fiscal years ended March 31, 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010 were HK\$77.5 million, HK\$100.2 million, HK\$101.3 million, HK\$49.2 million and HK\$65.1 million, respectively, accounting for 13.8%, 44.6%, 6.4%, 19.7% and 11.0% of our total revenues.

Rental rates vary among projects according to market demand, date of completion and other factors. Tenants generally prefer to rent at a facility with a high occupancy rate, so we offer tenants in newly completed trade center units preferential rental rates and rent-free periods in order to boost initial occupancy rates. If we fail to achieve a sufficiently high occupancy rate at any of our projects, we may need to provide additional incentives to attract a core group of tenants. Our rental revenue for future periods may be adversely affected by these and similar incentive plans.

We may not be able to replace or renew all of our lease agreements upon their expiration.

Most of our existing leases are in our Phase One and Phase Two trade centers. The terms of our leases generally range from 12 to 36 months. Because many leases have identical terms and were entered into soon after completion of the relevant project phase, we often must seek to renew or replace a significant portion of our leases at about the same time. Leases for approximately 45.2% of our total leased GFA of our Phase One trade centers expired on or before December 31, 2010, while none of our lease agreements for our Phase Two trade centers are due to expire until 2012, when 79.5% of such leased GFA is due to expire. When a lease is not renewed, we must sometimes lower our rental rates to attract new tenants.

In exchange for discounts on their purchase price, the buyers of certain Phase Two trade center units have permitted us to lease these units to third parties for terms of three years and retain all the rental income from these units. Pursuant to these arrangements, we are able to earn rental revenue until the expiration of the three-year permitted period, after which we may no longer be entitled to the revenue from such leases.

We cannot assure you that we will be able to renew or replace our existing leases upon expiration or that our occupancy rates and effective rental rates will not decline. Any decline in our occupancy or rental rates could reduce our leasing revenue, which in turn could have a material adverse impact on our business, prospects, cash flows, financial condition and results of operations.

We currently rely on China South City Shenzhen for all of our revenues.

We currently rely on China South City Shenzhen for all of our revenues. This single location revenue source may entail a higher level of risk as compared to other operators of trade centers that have revenue-generating properties spread over several different locations or have a more diverse range of property investments. In the event of a circumstance which adversely affects the operations or business of China South International, or its attractiveness to tenants, we will not have sufficient income from other properties to mitigate any ensuing loss. A concentration of investments in a single location means that we are highly susceptible to a downturn in the Shenzhen property market. In addition, any property damage at China South City Shenzhen, resulting from fire or other causes, or a downturn in the finished and unfinished goods or manufacturing industries in the Greater Pearl River Delta, may have a material adverse effect on our business, prospects, cash flows, financial condition and results of operations.

Furthermore, we cannot assure you that China South City Shenzhen will continue to attract tenants and generate rental income at historical rates, or that it will be successful in the future. We cannot assure you that we will be able to successfully diversify our revenue base, obtain land use rights for all of the land necessary to develop new projects or generate revenue and net income from new projects in amounts that we expect, or at all.

We may not be able to complete the development of Phase Three of China South City Shenzhen or our properties under development and planned for future development at Nanning, Nanchang, Heyuan and Xi'an on time or within budget.

Completing the development of Phase Three of China South City Shenzhen and our properties under development and planned for future development in Nanning, Nanchang, Heyuan and Xi'an will involve obtaining additional land use rights for large plots of land, many of which have existing structures and residents, from municipal and provincial governments of the PRC. Other properties we may develop in the future may also involve similar circumstances. Acquiring these development rights, converting them into land use rights and committing the financial and managerial resources to develop the land involves significant risks. Before an integrated logistics and trade center development generates any revenue, we must make a variety of material expenditures, which include acquiring the development rights and constructing the integrated logistics and trade center development infrastructure.

It generally takes several years for a planned development to generate revenue, and we cannot assure you that such developments will achieve positive cash flows. Our integrated logistics and trade center development activities may be exposed to the following risks:

- we engage independent contractors to provide various services, including but not limited to construction, piling and foundation, engineering, interior decoration, mechanical and electrical installation and utilities installation. The services rendered by any of these independent contractors may not meet our quality standards and timing requirements, and negligence or poor work quality by contractors may result in defects in our buildings or trade center units, which could in turn cause us to suffer financial losses, harm our reputation or expose us to third-party claims;
- we may incur construction and other development costs for a development project which exceed our original estimates due to increases in material, labor, leasing or other costs, which could make the completion of the project uneconomical because market rents or sales prices may not increase sufficiently to compensate for the increase in construction and other development costs. In addition, in recent years, construction costs in China have been increasing as a result of economic growth and increased activity in the property industry in China, as well as increases in wages for construction workers and the prices of construction materials and building equipment. Although our construction contracts typically provide for fixed or capped payments, in the long run increases in construction costs may be passed on to us by our construction contractors. Because it normally takes several years for us to complete a project development, we expect that we will be affected by increases in the costs of construction materials, other goods and services and labor. Any cost increases may reduce our profits if we are unable to pass these increased costs on to our customers;
- we may delay, or change our plans for, integrated logistics trade center development opportunities after we begin to explore them and as a result we may lose deposits paid to participate in the land tender process or fail to recover expenses already incurred;

- we may be unable to complete construction of a property on schedule, or on budget, due to a variety of factors including shortages or increased costs of materials, equipment, contractors and skilled labor; adverse weather conditions; natural disasters; unforeseen engineering, design, environmental, structural or geological problems; labor disputes; disputes with contractors and subcontractors; construction accidents; changes in government priorities and policies or in applicable laws or regulations; changes in market conditions; delays in or increased costs of relocation of existing residents or demolition of existing structures; delays in obtaining requisite licenses, permits or approvals from the relevant authorities; and other problems and circumstances resulting in increased debt service expense and construction costs;
- we may be unable to obtain, or face delays in obtaining, required zoning, land use, building, occupancy, and other governmental permits, rights and authorizations, which could result in increased costs and could require us to abandon our activities in part or as a whole with respect to a project;
- we may be involved in legal, governmental or administrative proceedings or disagreements with regulatory bodies arising out of our operations and may face significant liabilities as a result;
- we may lease or sell developed properties at below expected rental rates or sales prices, and we may experience delays in the sale or leasing of developed properties; and
- occupancy rates, rents and sales prices at newly completed properties may fluctuate depending on a number of factors, including newly completed market and economic conditions, and may result in our investments being less profitable than we expected or not profitable at all.

The occurrence of any of these circumstances, most of which are beyond our control, could delay the completion or affect the profitability of our properties under development and planned for future development in Phase Three of China South City Shenzhen, Nanning, Nanchang, Heyuan and Xi'an and increase our costs, which could adversely affect our business, prospects, cash flows, financial condition and results of operations. In addition, many of the assumptions on which we have based the timetables for our properties under development and planned for future development are also outside of our control. If the actual economic conditions or other facts turn out to be materially different from these assumptions, our actual development timetable could differ materially from that described in this offering memorandum.

We may not be able to obtain adequate funding to complete the development of our properties under development in Shenzhen, Nanning, Nanchang and Heyuan or our property planned for future development in Xi'an.

We will require substantial capital resources to develop our properties under development and planned for future development in Phase Three of China South City Shenzhen, Nanning, Nanchang, Heyuan and Xi'an. Each of these projects is a large-scale project consisting of multiple phases that: (1) will take several years to complete; (2) do not require full completion of all phases to be operational; (3) will be completed on a phase-by-phase basis; and (4) can be financed from a variety of funding sources, including project financing, other bank borrowings, pre-sales, rental income and cash flows from operations.

We rely on cash flows from operations, bank borrowings and offerings of debt and equity securities to fund our development requirements. In this regard, our cash flows from operations alone is not likely to be sufficient to fund our future development requirements. Due to the nature of our trade center development business, we may from time to time experience periods of net cash outflows, when imbalances may arise between the timing of cash inflows from rentals and sales of trade center units and our cash outflows relating to the construction of properties and purchases of land use rights.

We expect to use a portion of the net proceeds of the offering of the Notes for the development of our projects. We may also require additional bank borrowings and, if necessary, future offerings of debt and equity securities for a significant portion of our liquidity requirements to finance the construction costs of these projects, which are expected to be completed in multiple phases. Our ability to secure sufficient funding for project development depends on a number of factors that are beyond our control, including market conditions in debt and equity markets, investors' perception of our business, lenders' perception of our creditworthiness, the PRC economy and PRC regulations. We cannot assure you that we will be able to obtain additional financing at competitive costs, or at all. In addition, we may not be able to renew our existing loan facilities granted by banks in the PRC on satisfactory terms, or at all. If we are unable to obtain necessary additional financing or renew existing loan facilities, we will not be able to complete our properties under development in Shenzhen, Nanning, Nanchang and Heyuan or develop our property planned for future development in Xi'an, and our business development could be severely disrupted.

In addition, the People's Bank of China, or the PBOC, has raised the reserve requirement ratio for commercial banks in China, most recently in December 2010 to 18.5%. Such increases may negatively impact the amount of funds available for corporate lending, including to us, by commercial banks in China. As a result, we cannot assure you that we will be able to obtain sufficient funding to finance intended purchases of land use rights, develop future projects or meet other capital needs as and when required at a commercially reasonable cost, or at all. Failure to obtain adequate funding at a commercially reasonable cost may limit our ability to acquire land, commence new projects or to continue the development of existing projects. Any such failure may also increase our borrowing costs and have a material adverse effect on our business, prospects, cash flows, financial condition and results of operations.

In previous years, the PRC government had introduced a number of measures and regulations to restrict the ability of property developers to raise capital through external financing and other methods. These PRC regulations include the following:

- pre-sale proceeds may only be used to fund the property development costs of the relevant projects to which they relate;
- we cannot pre-sell uncompleted units in a project prior to achieving certain development milestones;
- PRC banks are prohibited from extending loans to real estate companies for the purposes of funding the payment of land premium;
- we cannot borrow from a PRC bank for a particular project unless we fund at least 35% of the estimated total capital required for that project from our own capital;
- we cannot borrow from a PRC bank for a particular project unless we first obtain the land use rights certificate, construction land planning permit, construction works planning permit and construction permit for that project;
- PRC banks are restricted from granting loans for the development of luxury residential properties;
- property developers are strictly prohibited from using the proceeds from a loan obtained from a local bank to fund property developments outside the region where that bank is located;

- PRC banks are restricted from granting revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;
- PRC banks are prohibited from accepting properties that have been vacant for more than three years as collateral for loans;
- In November 2009, the PRC government raised the minimum down payment of land grant fees to 50% and required the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions; and
- In March 2010, the Ministry of Land and Resources of the PRC, or the MLR, stipulated that the minimum down payment of land grant fees of 50% must be paid within one month after the signing of a land grant contract and the rest of the land grant fees must be fully paid within one year after the signing of a land grant contract.

Because the local authorities in Shenzhen treat our subsidiary, China South International Industrial Materials City (Shenzhen) Co. Ltd., or China South International, as an integrated logistics enterprise, we have not been subject to these measures and regulations with respect to China South City Shenzhen. However, if local regulatory authorities were to change their current approach and treat China South International as a property developer, or if higher level or central government regulatory authorities were to override the decision of the local regulatory authorities, China South International would be subject to these measures and regulations with respect to China South City Shenzhen. We have not received any formal assurance or comfort from any authorities that such a change will not occur. Moreover, these measures may apply to our properties under development or future projects. For further discussion on the restrictions imposed on property developers, see “Regulation — Regulations on Foreign-Invested Real Estate Enterprises” and “Regulation — Regulations on Real Estate Financing.” Any application of these measures to our business could have a material adverse effect on our business, prospects, cash flows, financial condition and results of operations.

If we are unable to obtain suitable sites or the land use rights for our properties under development and planned for future development, we will not be able to develop these projects.

We signed master agreements with the Jiangxi Nanchang Honggutan District Management Committee, Nanning City Jiangnan District People’s Government and Heyuan Zijin District People’s Government in February 2007, December 2007 and December 2005, respectively, and certain supplementary agreements thereto. Pursuant to these master agreements and the corresponding supplementary agreements, the municipal governments have identified land which is suitable for our development strategy in these locations. However, the signing of the master agreements and the corresponding supplementary agreements thereto does not guarantee that we will obtain the land identified therein, which may only be transferred by public tender, auction or listing for sale. Although we have obtained land use rights for 1.05 million sq.m., or 67.7% and 890,000 sq.m., or 48.6%, of the identified construction area of the Nanchang and Nanning projects, we cannot assure you that we will be successful in bidding for the remaining parcels of land for these projects or that we will be able to obtain the land use rights at our desired price. If we are not successful in bidding for the remaining parcels of land for our properties under development in Nanchang and Nanning, we will not be able to develop these projects as planned.

Our ability to identify and obtain suitable sites for future development, such as our Xi’an project, is critical to our strategy but is subject to regulatory constraints and other factors outside our control. We cannot assure you that we will be able to identify and acquire suitable sites within our budget, or at all. The PRC government controls substantially all new land supply in the PRC and regulates land sales in the secondary market. Our ability to acquire land use rights and the acquisition costs of such land use rights may be adversely affected by the PRC government’s policies towards land supply, development and pricing. The PRC central and local governments regulate the means by which property developers obtain land sites for property developments. In particular, under PRC government regulations, state-owned land

use rights for residential and commercial property developments may only be granted by public tender, auction or listing-for-sale. The regulatory climate may constrain our ability to pursue development opportunities in the future and may contribute to an increase in land acquisition costs. In this regard, in the past our land acquisition costs reflected the relatively lower amounts applicable to the treatment of China South International as an integrated logistics enterprise by local authorities in Shenzhen. As we increase the proportion of our properties that will be residential properties, we will be required to pay the higher costs applicable to residential properties. Furthermore, the PRC government requires property developers to pay the full land-grant fees for the entire parcel under the land grant contract before they can receive a land use rights certificate and commence development on the land. The implementation of the regulation requires property developers to maintain a higher level of working capital. This may have a material adverse effect on our business, cash flows, financial condition and results of operations.

The treatment of China South International as a foreign-invested real estate enterprise may subject us to restrictions imposed on such enterprises under relevant PRC laws and regulations.

China South International is treated as an integrated logistics enterprise by local authorities in Shenzhen and, as such, it is not subject to rules and regulations in the PRC applicable to foreign-invested real estate enterprises. The local governmental authorities have the discretion as to whether to treat China South International as a foreign-invested real estate enterprise, as opposed to an integrated logistics enterprise, we would become subject to these rules and regulations. Our project companies in Nanchang and Heyuan are treated as domestic real estate developer and our project company in Nanning is currently applying for domestic real estate developer certificate. If the regulatory authorities were to treat any of our project companies as a foreign-invested real estate enterprise, it would need to be recorded as such with the local commerce authorities and be subject to regulations and restrictions applicable to foreign-invested real estate enterprises, including, but not limited to, restrictions on our ability to obtain loans within and outside of the PRC, as well as restrictions on the conversion and sale of foreign exchange into the capital account.

Because China South International is not treated as a foreign-invested real estate enterprise, we are able to downstream funds to China South International in the form of shareholders' loans rather than capital contributions and China South International is not subject to certain approval and registered capital requirements applicable to foreign-invested real estate enterprises. If there is a change of policy resulting in our treatment as a foreign-invested real estate enterprise, it will become subject to registered capital ratio restrictions requiring us to maintain registered capital levels at 50% or more of our total investment. In addition, the General Affairs Department of the State Administration of Foreign Exchange, or the SAFE, issued a notice which stipulates that SAFE will no longer process foreign exchange or debt registrations or applications for the sale and purchase of foreign exchange submitted by certain real estate enterprises with foreign investment. This regulation effectively prohibits foreign-invested real estate companies from raising funds through an offshore parent for the purpose of injecting such funds into the companies by way of shareholder loans but does not restrict property developers from receiving foreign capital through approved transactions that increase the registered capital of existing foreign-invested companies or through the establishment of new foreign-invested real estate companies. As such, we may be subject to this notice if China South International is treated as a foreign-invested real estate enterprise.

Any capital contributions made to our operating subsidiaries in China are also subject to the foreign-invested regulations and foreign exchange regulations in the PRC. For example, in accordance with a circular promulgated by SAFE in August 2008 with respect to the administration of conversion of foreign exchange capital contribution of foreign invested enterprises into Renminbi. Unless otherwise permitted by PRC laws or regulations, Renminbi capital converted from foreign exchange capital contribution can only be applied to the activities within the approved business scope of such foreign-invested enterprise and cannot be used for domestic equity investment or acquisition. Pursuant to this offering memorandum, we may encounter difficulties in increasing capital contributions to our project companies and subsequently converting such capital contributions into Renminbi for equity investment or acquisition in China. In addition, we intend to repatriate to China offshore funds that we may raise in this offering by increasing the registered capital of our existing subsidiaries or by establishing new subsidiaries. However, we cannot assure you that we will be able to obtain all requisite

approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make capital contributions to our project companies as their general working capital or to fund their operations may be negatively affected, which could materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.

There is a lack of reliable and updated information on property market conditions in the PRC generally.

We are subject to property market conditions in the PRC generally. Currently, reliable and up-to-date information on the amount and nature of property development and investment activities, the demand for such development, the supply of new properties being developed and the availability of land and buildings suitable for development and investment is not generally available in the PRC. Consequently, our investment and business decisions may not always have been, and may not in the future be, based on accurate, complete and timely information. Inaccurate information may adversely affect our business decisions, which could materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.

The cyclical nature of the real estate and logistics industries could adversely affect our results of operations.

Our results of operations are and will continue to be affected by the cyclical nature of the real estate industry in the PRC. Property values and rents are affected by, among other factors, supply and demand of comparable properties, interest rates, inflation, the rate of economic growth, tax laws and political and economic developments in the PRC. We cannot assure you that property values and rents will not decline. In addition, additional trade center and logistics properties are scheduled for completion over the next few years in China. Increased competition brought by this additional supply could adversely affect trade center rents and occupancy rates as well as sales prices for new trade center units. Our trade centers depend upon the growing demand for such developments in China. A downturn in the PRC economy could materially and adversely affect such demand. For further information on how recent market developments have affected the real estate and logistics industries, see “Industry Overview — Real Estate Market in the PRC.”

The illiquid nature of, and the lack of alternative uses for, investment properties could limit our ability to respond to adverse changes in the performance of our properties.

Investment properties in general are relatively illiquid compared to other types of investments, such as securities. As such, our ability to promptly sell one or more of our investment properties in response to changing economic, financial and investment conditions is limited. The property market is affected by many factors that are beyond our control, including general economic conditions, the availability of mortgage financing and interest rates. We cannot predict whether we will be able to sell any of our investment properties at the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us.

In addition, investment properties may not be readily convertible for alternative uses without substantial capital expenditure if the original function of such investment property became unprofitable due to competition, age, decreased demand, increased supply or other factors. Similarly, substantial capital expenditure may be required to correct defects or to make improvements before an investment property can be sold. These factors and any others that would impede our ability to respond to adverse changes in the performance of our investment properties may materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.

Our flexibility to sell trade center units at China South City Shenzhen, China South City Nanchang and China South City Nanning is limited.

Our sales of warehouse facilities and trade centers in each of China South City Nanchang and China South City Nanning is limited to 60% of the GFA of the properties located on the parcels of land on which these warehouse facilities and trade centers are located. Our business plan for the sales of warehouse facilities and trade centers in each of China South City Nanchang and Nanning contemplates sales of no more than 50% of their GFA, and we believe such limit will not affect our business operations in Nanchang and Nanning. In addition, our sales of trade center units in China South City Shenzhen is limited to 30% of the GFA of the properties located on the parcels of land on which these trade centers are located. As a result, our flexibility to sell trade center units in China South City Shenzhen, China South City Nanchang and China South City Nanning in order to take advantage of rising sales prices and other market conditions is limited, which could have an adverse effect on our business, prospects, cash flows, financial condition and results of operations.

Our results of operations fluctuate from period to period due to the fair value of our investment properties.

Our results of operations fluctuate due to changes in the fair value of our trade center units and other facilities retained for rental income and capital appreciation. Fair value gains on our investment properties include gains recognized upon project completion as applicable properties under development on our balance sheet are transferred to investment properties when completed and ready for use. We reassess the fair value of our investment properties every year. Property valuation typically requires the use of certain bases and assumptions with respect to a variety of factors, including supply and demand of comparable properties, the rate of economic growth in the location of the property, interest rates, inflation and political and economic developments in the PRC. For the fiscal years ended March 31, 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010, we had fair value gains on our investment properties of HK\$670.9 million, HK\$1.15 billion, HK\$1.31 billion, HK\$253.0 million and HK\$358.5 million, respectively, representing 89.7%, 114.1%, 69.2%, 71.4% and 68.9% of the net profit for the respective periods after taking into account deferred income tax on such gains. These fair value gains reflect unrealized capital gains on our investment properties at the relevant balance sheet dates, as well as the reclassification of properties under development to investment properties. These fair value gains were not profit generated from day-to-day rental income from our investment properties, were largely dependent on prevailing property market conditions, and did not generate cash inflow which can be contributed to payments of interest, principal or other amounts under the Notes unless such investment properties can be disposed of and the capital gains are realized. Excluding the effect of gains on changes in fair value of investment properties and the deferred tax expenses in connection with such gains, we would have had a net profit of HK\$57.2 million, a net loss of HK\$106.5 million, a net profit of HK\$408.7 million, HK\$69.8 million and HK\$106.7 million in fiscal years ended March 31, 2008, 2009 and 2010 and six month periods ended September 30, 2009 and 2010, respectively. During these same periods, we had a net cash inflow from operating activities of HK\$309.0 million, HK\$71.8 million, HK\$894.2 million, HK\$197.1 million and HK\$282.5 million, respectively. The change in fair value of our investment properties has been, and will continue to be, significantly affected by the prevailing property market prices and is subject to market fluctuations. We cannot assure you that we will continue to record similar levels of revaluation gains or that the fair value of our investment properties will not decrease in the future, in which case, we may incur a fair value loss. In addition, we cannot assure you that we will be able to realize all or any of these fair value gains. In the event there is a material negative change in the value of our investment properties in the future, our results of operations and financial condition will be materially and adversely affected.

We are exposed to contractual and legal risks relating to pre-sales.

We make certain undertakings in our pre-sale contracts. Our pre-sale contracts and the PRC laws and regulations provide for remedies for breach of these undertakings. For example, if we pre-sell units in a property development and we fail to complete that development, we will be liable to the purchasers for their losses. If we fail to complete a pre-sold property on time, we may be liable to the relevant purchasers

for late delivery under the relevant pre-sale contracts or pursuant to relevant PRC laws and regulations. If delays extend beyond a specified period, the purchasers may terminate their pre-sale contracts and claim for damages. A purchaser may also terminate a contract with us if the GFA of the relevant unit, as set out in the individual property ownership certificate, deviates by more than 3% from the GFA of that unit set out in his or her contract. If a substantial number of purchasers claim against us for breach of contract or terminate their pre-sale contracts with us, our business, prospects, cash flows, financial condition and results of operations may be materially and adversely affected.

The customers of our trade centers and residential properties may not be able to obtain mortgages on favorable terms, or at all, which could reduce our sales.

Many of the purchasers of our trade centers rely, and, going forward, the purchasers of our residential properties will rely, on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing, thus reducing the attractiveness of mortgages as a source of financing for property purchases and adversely affecting the affordability of trade centers and residential properties. In addition, the PRC government and commercial banks may also increase down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unattractive or unavailable to potential property purchasers. In this regard, in recent years and in 2010, the PRC government has issued laws and regulations to raise minimum down payments for property purchases, and impose other requirements. In the event that mortgages become more difficult to obtain or that the costs of such financing increases, many of our prospective customers who rely on mortgages may not be able to purchase our properties. In addition, in line with industry practice, we provide guarantees to banks for mortgage loans that they offer to purchasers of our properties. If there are changes in laws, regulations, policies or practices that would prohibit property developers from providing such guarantees and these banks do not accept alternative guarantees from third parties, if available, it may become more difficult for property purchasers to obtain mortgages from banks in connection with pre-sales. Such difficulties may inhibit pre-sales, which could materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.

We may become liable if our customers default on mortgage or bank loans we have guaranteed.

We guarantee mortgage and bank loans entered into by certain of our purchasers, including purchasers of trade center units and purchasers under finance leases of residential and supporting commercial units. We do not conduct independent credit checks on our customers. Although the mortgages we guarantee typically finance no more than one-half of the purchase price of our trade center units or the finance lease price of our residential and supporting commercial units, if a purchaser defaults on its mortgage or bank loan, we may be required to repay the outstanding amount together with accrued interest thereon and any penalty owed by the defaulting purchaser to the relevant bank. In the event of a purchaser default, we are entitled to take over the legal title and usage rights of the related properties. As of September 30, 2010, our outstanding guarantees in respect of mortgage and bank loans amounted to HK\$281.5 million. If we are called upon to honor a material portion of our guarantees, our business, prospects, cash flows, financial condition and results of operations may be materially and adversely affected.

In addition, we make entrusted loans in connection with the sales and finance leases of certain units by advancing an amount, typically no more than one-half of the purchase price or the finance lease price, to the purchaser's lending bank. These advances appear as loan receivables and finance lease receivables on our consolidated balance sheet. In the event of a purchaser default, we write off the receivable and are entitled to take over the legal title and usage rights of the related properties.

Changes in laws and regulations in relation to pre-sale of properties may adversely affect our business, prospects, cash flows, financial condition and results of operations.

Proceeds from the pre-sales of our properties may be an important source of funds for our property developments and may have a significant impact on our cash flows and liquidity position. In August 2005, the PBOC proposed in a report that the practice of pre-selling uncompleted properties be discontinued, on the grounds that pre-sales create significant market risks and generate transactional irregularities. Since the PBOC proposal, various cities in China, including Shenzhen, have issued supervision measures

regarding the pre-sale payment requirements and restrictions. However, there are no central level regulations adopted by PRC central government authorities. We cannot assure you that the PRC central government will not ban or impose material limitations on presales of uncompleted properties in the future. Future implementation of any restrictions on our ability to pre-sell our properties, including any requirements to increase the amount of up-front expenditure we must incur prior to obtaining the pre-sale permit, would extend the time required for recovery of our capital outlay and would force us to seek alternative means to finance a portion of our property developments, which could have a material adverse effect on our business, prospects, cash flows, financial condition and results of operations.

Our operations are subject to extensive governmental regulation, and we are susceptible to changes in policies related to the real estate and logistics markets in China.

In order to develop and operate a trade center or residential development, we must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of our trade center or residential development, including land use rights documents, planning permits, construction permits, and certificates or confirmation of completion and acceptance. Each approval is dependent on the satisfaction of certain conditions.

We cannot assure you that we will be able to fulfill the pre-conditions necessary to obtain required governmental approvals, or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the real estate or logistics industries in general or the particular processes with respect to the grant of approvals in China. There may be delays on the part of relevant administrative bodies in reviewing our applications and granting approvals. For example, property developers are typically required to deliver to purchasers the relevant individual property ownership certificates within one to two years after delivery of the property or within a time frame set out in the relevant sale and purchase agreement. Under current regulations, property developers are required to submit requisite governmental approvals in connection with their property developments, including various approval certificates and a property survey report, to the local bureau of land resources and housing administration after the receipt of the certificate of completion for the relevant properties and to apply for the general property ownership certificate in respect of these properties. Property developers are then required to submit, within regulated periods after delivery of the properties, various documents in respect of the properties purchased by the respective purchasers. Delays by the various administrative authorities in reviewing the application and granting approval, as well as other factors, may affect timely delivery of the general and/or individual property ownership certificates. We may also be subject to periodic delays in our trade center and residential development projects due to building moratoria in the areas in which we operate or plan to operate. If we are unable to obtain, or experience material delays in obtaining, the requisite governmental approvals, or if a building moratorium is implemented at one or more of our project sites, the development and sale of our projects could be substantially disrupted, which would have a material adverse effect on our business, prospects, cash flows, financial condition and results of operations.

We also may be liable for monetary penalties to purchasers for late delivery of the individual property ownership certificates due to delays in the administrative approval processes, or for other reasons beyond our control. Furthermore, we cannot assure you that the implementation of laws and regulations by relevant authorities, or the interpretation or enforcement of such laws and regulations, will not cause us to incur additional costs. For example, the majority of our land used for China South City Shenzhen is designated by the local government in Shenzhen for integrated logistics uses. Under applicable PRC laws and regulations, however, “integrated logistics” is not a designated category for land use. Therefore, the land use rights certificates and building ownership certificates for China South City Shenzhen’s trade centers (which are combined into one certificate) indicate that our land and buildings are for “warehousing (integrated logistics)” purposes. Relevant government agencies of the Shenzhen Municipal Government have concluded that our use of land primarily for the wholesale business is consistent with regulations of the Shenzhen government governing the “integrated logistics” industry. Because there are not national laws, regulations or policies governing the “integrated logistics” industry in the PRC, we rely on regulations and policies in Shenzhen for the legality of our current land use. However, we cannot assure you that PRC governmental authorities will not issue regulations on the integrated logistics industry that restrict our current and planned activities or that we will not be required to change our land uses.

Between 2004 and the first half of 2008, in response to concerns over the scale of the increase in property investment and the potential overheating of the property sector in the PRC, the PRC government introduced policies to restrict development in the property sector. Beginning in the second half of 2008, in order to combat the impact of the global economic slowdown, the PRC government adopted measures to encourage domestic consumption in the residential property market and support property development. The PRC government is expected to revise or terminate such favorable policies according to changes in market conditions. For example, in December 2009 and January 2010, the PRC government adjusted some of its policies in order to enhance regulation in the property market, restrain property purchases for investment or speculation purposes and keep property prices from rising too quickly in certain cities. In December 2009, the PRC government abolished certain preferential treatment relating to business taxes payable upon transfers of residential properties by property owners. In January 2010, the PRC government imposed more stringent requirements on mortgage loans by requiring purchasers who have already purchased a residence through mortgage financing to pay a minimum down payment of 40% of the purchase price for any additional residences. In April 2010, the State Council issued a notice, which, among other things, provides that the minimum down payment for the first property that is larger than 90 sq.m. shall be not less than 30% of the purchase price, down payment for the second property bought with mortgage loans shall be not less than 50% of the purchase price and the loan interest rate shall be not lower than 110% the benchmark lending rate published by the PBOC. In certain areas where commodity residential properties are in short supply and prices rise too quickly, the banks may suspend mortgage loans for the third or further properties bought by mortgage applicants or to non-residents who cannot provide any proof of tax or social insurance payment for more than one year. To strengthen property market regulation and enhance the implementation of these existing policies, on September 29, 2010, the PBOC and China Banking Regulatory Commission, or CBRC, jointly issued a notice according to which the minimum down payment has been raised to 30% for all first home purchases, and commercial banks throughout China are required to suspend mortgage loans for purchases of a customer's third parcel of residential property and beyond. In November 2010, Ministry of Housing and Urban Construction and the SAFE jointly issued a notice on restriction to sales of properties in the PRC by foreign individuals and foreign entities. According to this notice, a foreign individual may purchase only one self-use residential property within the PRC, and foreign entities which have established branches or representatives within the PRC may purchase only non-residential properties for office use in the registered city. We cannot assure you that the PRC government will not adopt more stringent industry policies, regulations and measures in the future. If we fail to adapt our operations to new policies, regulations and measures that may come into effect from time to time with respect to the real property industry, or such policy changes disrupt our business or cause us to incur additional costs, our business, prospects, cash flows and results of operations may be materially and adversely affected.

We face competition from other trade centers and other property developers.

We face competition from other trade centers in China, particularly in Guangdong Province with regard to China South City Shenzhen. The greatest concentration of similar trade centers in China is in the Greater Pearl River Delta, the Yangtze River Delta and the Bohai-Ring region near Beijing. The finished and unfinished goods featured at these competing trade centers include textile and clothing, leather and accessories, electronic accessories, printing and finished goods, paper and packaging and metals, chemicals and plastics that compete with the finished and unfinished goods featured at China South City Shenzhen. In addition, there may be an increase in supply of trade centers in the Greater Pearl River Delta and elsewhere in China, such as Nanchang, Nanning and Xi'an, in the future. Each of Guangxi Zhuang Autonomous Region, Jiangxi Province and Shaanxi Province also has numerous trade centers varying in size and type of industries represented. The competition may limit our ability to attract and retain tenants and buyers and may reduce the rents or prices we are able to charge. We cannot assure you that we will compete effectively against other trade center operators.

In addition, we expect to increase the proportion of residential properties in our properties under development and planned for future development in Nanchang, Nanning, Heyuan and Xi'an. As a result, we will face increasing competition in the future from residential and other property developers. We expect competition among property developers for land reserves that are suitable for property development to remain intense. In addition, PRC governmental land supply policies and implementation

measures may further intensify competition for land in China among property developers. The increasing number of property developers and the intensity of competition among property developers for land, financing, raw materials, skilled management and labor resources may result in increased costs for land acquisition, an over-supply of properties for sale, a decrease in property prices and a slowdown in the rate at which new property developments are approved by governmental authorities. Our inability to compete effectively could materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.

Demand for our trade centers and residential properties may continue to be negatively affected by the recent financial market and economic crisis.

In 2008 and 2009, the economies of the United States, Europe and certain countries in Asia experienced a severe and prolonged recession. Although the PRC economy continued to grow, the rate of growth in 2009 was slower than in previous years, and in particular the growth of the economy in the Greater Pearl River Delta region was negatively impacted. In this regard, the financial crisis had a negative impact on exports by manufacturers, including industrial suppliers, which are our principal tenants. These factors affected us by contributing to an increase in delinquencies by trade center tenants and a slowdown in the growth of our occupancy rate for Phase One of China South City Shenzhen. While some economies have resumed growth, there remains the risk that the recovery will be short-lived. In addition, recent events have raised questions about debt levels and potential sovereign defaults in certain countries in Europe. Any deterioration in economic conditions could have a material adverse effect on our business in a number of ways. For example, current and potential tenants and purchasers of trade center and residential units may be unable to sustain their business operations or make agreed upon rental or purchase payments for trade center or residential units, all of which could lead to a reduced demand for our trade center units, reduce our profit margins and delay our receipt of rental and purchase payments. In addition, a deterioration in economic conditions could depress demand for properties and reduce our average sales prices of our trade center units and residential properties. Furthermore, a deterioration of conditions in the banking system and financial markets could result in a severe tightening in credit and equity markets, which may adversely affect the availability, terms and cost of borrowings for us and our customers, including financings necessary to complete our properties under development in Nanchang, Nanning, Heyuan and our property planned for future development in Xi'an. In response to a rapid increase in liquidity in the PRC market and the rapid growth in certain industries, such as the real estate industry, as a result of the implementation of fiscal stimulus measures by the PRC government in response to the economic crisis, the PRC government later implemented a number of measures to control such increase and growth, including raising interest rates and the statutory deposit reserve ratios applicable to PRC commercial banks and monitoring overall growth in bank lending. Any of these factors may adversely affect our business, prospects, cash flows, financial condition and results of operations.

We may not be able to obtain qualification certificates, or extend or renew qualification certificates, for real estate development.

Because our subsidiary, China South International, is not treated as a domestic real estate developer, it does not require a long-term (two year) qualification certificate, which is normally granted to domestic real estate developers. The Shenzhen Municipal Bureau of Land Resources and Housing Management has, in the past, granted a short-term qualification certificate to China South International confirming that China South International is allowed to undertake the development of properties necessary for its integrated logistics and trade center operations, provided that such property development operations occur within the site area of China South City Shenzhen. In May 2010, China South International obtained an annual renewal of the short-term qualification certificate.

Although we have successfully renewed this qualification certificate in the past, the final decision with respect to future applications is at the discretion of the local authorities. As a result, we cannot assure you that China South International will be able to renew the qualification certificate in a timely manner, or at all. Our project company in Nanchang has obtained the domestic real estate developer certificate from Nanchang local government authorities in July 2010 and our project company in Heyuan has obtained the domestic real estate developer certificate in September 2010. In addition, as of the date

of this offering memorandum, our project company in Nanning is applying for the domestic real estate developer certificate with the Nanning local government authorities. If our project companies are unable to obtain or renew qualification certificates, they may not be permitted by the PRC government to continue to engage in property development activities associated with the development of their integrated logistics trade center businesses, which would materially and adversely affect our business, prospects, cash flows, results of operations and financial condition.

We face risks associated with the use of debt to fund developments and working capital, including refinancing risk and foreclosure risk.

We rely on debt financing, including borrowings secured by buildings, investment properties, properties under development and rental properties to finance our development activities and for general working capital purposes. We are subject to the risks normally associated with debt financing. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity or debt capital, our cash flows may not be sufficient to repay all maturing debt. If prevailing interest rates or other factors at the time of any refinancing result in higher interest rates, increased interest expense would adversely affect our ability to service our debt and our financial condition and results of operations. If we are unable to obtain or refinance our debt, our business, prospects, cash flows, financial condition and results of operations could be adversely affected.

Our business may be adversely affected by increases in interest rates and reserve requirement ratios.

We rely on borrowings to finance a substantial part of our project developments. Prior to the Notes offering, our borrowings primarily consisted of loans from commercial banks in China. Many of our customers also finance their purchases of trade center units and residential properties through loans. As of September 30, 2010, the PBOC benchmark one-year lending rate was 5.31% and reserve requirement ratios ranged from 13.5% to 17.0%. In October 2010, the PBOC further increased the benchmark one-year lending rate to 5.56%. In December 2010, the PBOC further increased the reserve requirement ratio for commercial banks in China to 18.5%. Increases in bank reserve requirement may reduce the amount of funds available to commercial banks in the PRC to lend to businesses, including us, or to consumers to finance property purchases. Increases in interest rates increase our finance costs. Moreover, interest rate volatility can make it difficult for us to make plans and implement our strategies and can deter potential trade center unit buyers. Any of these factors may have a material and adverse effect on our business, prospects, cash flows, financial condition and results of operations.

We may not be successful in expanding into the new geographic regions that we target or in developing our new projects.

We are developing projects in new geographical locations outside Shenzhen, including Nanchang, Nanning, Heyuan and Xi'an. Our properties under development are different in scale and scope from our completed properties in terms of targeted customers and industry segments. For example, we plan to have new trade centers focusing on furniture, motor vehicles and electronics industries in Phase Three of China South City Shenzhen. We may not be successful in expanding into the new geographic regions that we target or in developing our new projects. In addition, our experience in Shenzhen may not be applicable to Nanchang, Nanning, Heyuan, Xi'an and other provinces and cities where we may develop projects in the future. These cities may differ from Shenzhen in terms of the level of economic development, transportation infrastructure, regulatory practices, quality of contractors, business practices and customer tastes, behavior and preferences. If we are not able to adapt our business model to other geographical locations, our business and growth prospects would be materially and adversely affected.

Our founding shareholders have substantial influence over us and their interests may not be aligned with the interests of our creditors, including the holders of the Notes.

Our founding shareholders have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. The interests of our founding shareholders may not be consistent with our interests or those of our creditors, including the holders of the Notes, and our founding shareholders may cause us to enter into transactions or take, or omit to take, other actions or make decisions that conflict with the best interests of our creditors, including holders of the Notes.

We depend on our founding shareholders, and our business and growth prospects may be severely disrupted if we lose the support and service of all or any one of them.

Our success and growth depends on the efforts of our founding shareholders, two of whom are also our executive directors. Our founding shareholders are critical to our success because of their strategic vision and their industry knowledge and relationships. If we were to lose their support, our relationships with lenders, government officials, potential tenants and industry personnel could be adversely affected. We may not be able to replace a founding shareholder easily or at all. As a result, the loss of any of our founding shareholders, whether because any one or more of them become unwilling to continue in their present capacities with us, develop disagreements, leave to join a competitor or form a competing business, or other reasons, would severely disrupt our business and growth prospects.

We depend on our senior management and other important staff members, as well as on our ability to attract and retain qualified management personnel.

We depend on the efforts and skill of our senior management and other important staff members. For a description of our senior management and other important staff members, see “Management.” As a result, our future success depends to a significant extent on the continuing service and coordination of these individuals, who are not obligated to remain employed with us.

Our success also depends on our ability to identify, hire, train and retain suitably skilled and qualified employees with requisite industry expertise. The loss of any member of our senior management team or our other key employees could have a material adverse effect on our business if we are unable to find suitable replacements in a timely manner. Competition for such personnel is intense, and any failure to recruit and retain the necessary personnel or the loss of a significant number of employees at any time could harm our business and prospects.

We may suffer losses caused by natural disasters, and these losses may not be fully covered by insurance.

Our business may be adversely affected due to the occurrence of typhoons, severe storms, earthquakes, floods, wildfires or other natural disasters or similar events in the areas where we develop and operate our trade centers. Although we carry insurance on our properties with respect to specified catastrophic events of types and in amounts and with deductibles that we believe are in line with coverage customarily obtained by owners of similar properties, we cannot guarantee you that our insurance coverage is sufficient to cover potential losses, and there are other types of losses, such as from war, nuclear contamination, tsunamis, pollution and acts of terrorism, for which we cannot obtain insurance at a reasonable cost or at all. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital invested in a property, as well as the anticipated future revenues from the property. Nevertheless, we would remain obligated for any bank borrowings or other financial obligations related to the property. It is also possible that third-party insurance carriers will not be able to maintain reinsurance sufficient to cover any losses that may be incurred. Any material uninsured loss could materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.


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

Potential liability for environmental problems could result in substantial costs.

We are subject to a variety of environmental laws and regulations during the construction of our development projects. 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. Environmental laws and conditions may result in project delays, may cause us to incur substantial compliance and other costs and can prohibit or severely restrict project development activity in environmentally sensitive regions or areas. In addition, we cannot predict the impact that unforeseeable environmental contingencies or new or changed laws or regulations may have on us or our trade center projects.

As required by PRC law, independent environmental consultants have conducted environmental impact assessments at all of our construction projects. Although the environmental investigations conducted to date have not revealed any material environmental liability, it is possible that these investigations did not reveal all environmental liabilities or their extent, and there may be material environmental liabilities of which we are unaware. Upon completion of each project, the relevant environmental authorities will inspect the site to ensure compliance with all applicable environmental standards and prepare a report to confirm such compliance. In the past, we experienced delays in completing environmental inspections for our hotel and restaurant at China South City Shenzhen. For further information, see "Business — Environmental Matters." In order to comply with applicable environmental laws, rules and regulations, we have adopted certain measures to improve our internal control procedures. However, we cannot assure you that such internal control procedures will be effective in preventing noncompliance. If any portion of our projects is found to be non-compliant with relevant environmental standards or if we are unable to obtain necessary licenses for releasing contaminants, we may be subject to suspension of a portion of our operations as well as fines and penalties.

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

We have registered the trademark  “华南城” (China South City) and its logo  with the Trade Marks Registry in Hong Kong and the PRC Trademark Office under various categories relating to metals, textiles, machines, electronics and many other categories. Any unauthorized use of our brands, trademarks, trade names and other intellectual property rights could harm our business. We cannot assure you that our trade names or trademarks will not be subject to infringement in the future. Any unauthorized or inappropriate use of our trade names or trademarks could harm our market image and reputation. If we are unable to adequately protect our brand, trademarks, trade names and other intellectual property rights, we may lose these rights and our business, prospects, cash flows, financial condition and results of operations may be materially and adversely affected.

The discovery of cultural relics at a construction site could result in the delay or abandonment of a property development project.

Xi'an was an ancient, political, economic and cultural center in China, and Xi'an is home to a large quantity of valuable cultural relics and historic sites. Under PRC law, if any cultural relics are discovered beneath our development sites during our construction process, such discovery must be immediately reported to the local department of cultural relics administration and construction must be immediately suspended or partly suspended for archaeological surveying. If an underground discovery is classified as "highly valuable" by archaeologists and a parcel of land is considered to be of public interest by reason of its historical or archaeological significance, the parcel of land has to be returned to the government and the entire project has to be relocated. Although the government is required to compensate a property

developer for a parcel of land returned to it for archaeological purposes, we cannot assure you that such compensation will be sufficient to cover the full amount of the land grant fees paid, any other expenses incurred by the developer in connection with the relevant site or consequential damages. If any historic relics are discovered under any of the construction sites in the future at the Xi'an project, the completion of the projects may be delayed or we may even be required to return the relevant parcels of land to the government, which may materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.

We may not be able to successfully manage our growth.

We anticipate expanding the scope of our operations significantly in the coming years. Managing our growth and implementing necessary internal controls will continue to result in substantial demands on our management, operational and other resources. Managing our future growth will require us to, among other things:

- recruit, train, manage and appropriately expand our managerial, accounting, internal audit, engineering, technical, sales and other human resources and other components of our business on a timely and effective basis;
- develop or acquire sufficient internal sources of liquidity or access to additional financing from external sources;
- manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties; and
- strengthen, implement and maintain our internal controls 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 be able to manage our expanding operations effectively or that we will be able to continue to grow. Our expansion plans may also adversely affect our existing operations and thereby have a material adverse effect on our business, prospects, cash flows, financial condition and results of operations.

Sales of our properties are subject to land appreciation tax and income tax.

Our sales of trade center units are subject to land appreciation tax in the PRC. In addition, sales of residential properties in our properties planned for future development may be subject to land appreciation tax. Land appreciation tax is payable on the gain, representing the balance of the proceeds received on such sale, after deducting various prescribed items, including sums paid for acquisition of land use rights, the direct costs and expenses of the development of the land and construction of buildings and supplementary facilities or the appraised price of any previous buildings and structures existing on the land and taxes related to the assignment of the real property. Under applicable PRC laws and regulations, land appreciation tax is chargeable on the gain at progressive rates ranging from 30% to 60%. Property developers enjoy a deduction which is equal to 20% of the sums paid for acquisition of land use rights and the direct costs of land development and construction of new buildings and supplementary facilities. On May 25, 2010, Notice of the State Administration of Taxation on Strengthening the Collection of Land Appreciation Tax (關於加強土地增值稅徵管工作的通知) was issued by the State Administration of Taxation. The notice requires that, except for affordable residential housing, the land appreciation prepayment tax rate in the eastern provinces shall not be lower than 2%, while such prepayment tax rate shall not be lower than 1.5% in central and northeast provinces and 1% in western provinces.

The Shenzhen municipal tax authority started to impose the land appreciation tax in November 2005. The land appreciation prepayment tax rate in Shenzhen has been adjusted several times by the Shenzhen municipal tax authority. On August 1, 2010, according to the most recent adjustment, the land appreciation prepayment tax rates in Shenzhen have been raised to 2%, 4% and 3% for each of “ordinary standard housing facilities,” “villas” and “other types of property,” respectively. However, the relevant tax authorities have yet to commence the assessment of our land appreciation taxes in order to collect the additional tax payments from us, and, therefore, we have not made the additional payments of land appreciation tax since then. In fiscal years ended March 31, 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010, we made provisions for land appreciation tax in the amount of HK\$20.4 million, HK\$17.7 million, HK\$269.6 million, HK\$44.5 million and HK\$89.1 million, respectively. Our cash flows and financial condition will be affected if the PRC tax authorities proceed to collect the land appreciation tax for which we have made provisions. In addition, provisioning for land appreciation tax requires our management to use a significant amount of judgment with respect to the appreciation of land value and the allowability of deductible items for income tax purposes. If the land appreciation tax provisions we have made are substantially lower than the actual land appreciation tax amounts assessed by the tax authorities, our results of operations, financial condition and cash flows will be materially and adversely affected.

The implementation of the PRC Enterprise Income Tax Law may significantly increase our income tax expenses.

On March 16, 2007, the PRC National People’s Congress, the PRC legislature, adopted a new tax law, the Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法) (the “Enterprise Income Tax Law”), which became effective January 1, 2008. On December 6, 2007, the State Council issued the Implementation Regulations of the Enterprise Income Tax Law (the “Implementation Regulations”), which also became effective January 1, 2008. The Enterprise Income Tax Law imposes a uniform tax rate of 25% for all enterprises incorporated or resident in China, including foreign-invested enterprises, and eliminates many tax exemptions, reductions and preferential treatments formerly applicable to foreign-invested enterprises. However, the Enterprise Income Tax Law grandfathered preferential tax treatments for foreign-invested enterprises established before March 16, 2007. For foreign-invested enterprises that are currently enjoying the preferential tax rate of 15%, their applicable tax rate will be gradually phased into the new 25% tax rate during a five-year transitional period commencing 2008. Other than a newly-established subsidiary, for which the income tax rate is 25%, we have seven other subsidiaries in Shenzhen that are currently taxed at a preferential income tax rate of 24%. This preferential tax rate will expire in 2012 and will increase to the uniform EIT rate of 25% at that time. Our corporate income tax would have increased if these seven subsidiaries did not enjoy a preferential tax rate. A sudden increase in tax rates on our PRC subsidiaries or a demand by the relevant tax authority for retroactive payment of taxes may materially adversely affect our financial condition, prospects, cash flows and results of operations.

Under the Enterprise Income Tax Law and Implementation Regulations, if we are deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC, a withholding tax at the rate of 10% will be applicable to any dividends paid to us by our PRC subsidiaries, unless we are entitled to reduction or elimination of such tax, including by tax treaty. According to a tax treaty between the PRC and Hong Kong, dividends paid by a foreign-invested enterprise in China to a shareholder incorporated in Hong Kong will be subject to withholding tax at a rate of 5% if the Hong Kong shareholder directly holds a 25% or more interest in the PRC enterprise. We cannot assure you, however, that the current tax treaties in place between the PRC and Hong Kong will remain in place or that we will continue to be able to enjoy a reduced withholding tax on dividends we receive from our PRC subsidiaries.

Any occurrence or recurrence of severe acute respiratory syndrome, or SARS, avian influenza, influenza H1N1 or other widespread public health problems could adversely affect our business, prospects, cash flows, financial condition and results of operations.

In 2003, there was an outbreak of SARS in Hong Kong, China, other Asian countries and Canada. The SARS outbreak had a significant adverse impact on the economies of many of the countries affected. During the SARS outbreak, certain segments of the real estate markets in Hong Kong and China, including the Greater Pearl River Delta, experienced declining average occupancy rates, sale prices and rental rates. The occurrence of SARS in Guangdong Province in 2003 was estimated by the Department of Statistics of Guangdong Province to have lowered the province's GDP by 1.2%. There have been media reports regarding the spread of the H5N1 virus, or avian influenza, among birds and in particular poultry, as well as some isolated cases outside Hong Kong and China of transmission of the virus to humans. The World Health Organization in June 2009 raised its pandemic alert level to 6, its highest level, in response to an outbreak of influenza A caused by the H1N1 virus that resulted in a number of confirmed cases worldwide. We cannot assure you that there will not be a serious outbreak of a contagious disease in the PRC in the future. A renewed outbreak of SARS, avian influenza, influenza H1N1 or other widespread public health problems in the PRC could have a material adverse effect on the PRC economy and its property market generally, and on our business, prospects, cash flows, financial condition and results of operations.

We may be subject to delays, fines or forfeitures of land if we do not develop such land in compliance with the terms of the underlying land grant contract.

Under PRC law, if a developer fails to develop land according to the terms of the underlying land grant contract (including terms relating to land use, payment of fees or the time for commencement and completion of development), the relevant land administration authorities may issue a warning to or impose a penalty on the developer or require the developer to forfeit the land. In addition, development not in accordance with land grant contracts may result in the breach of applicable PRC laws or regulations, orders to cease work, delays in completion, delays in the commencement of pre-sales or sales or orders to demolish non-conforming structures, among other consequences. Furthermore, the amendment of land grant contracts may result in payments of additional land grant fees. We cannot assure you that circumstances leading to delays, fines or possible forfeiture of land will not occur in the future. For example, we have one parcel of land at China South City Nanning with a site area of approximately 450,000 sq.m., a portion of which we have developed for residential use instead of warehouse use, as set forth in the related land grant contract. We have received a letter from the Nanning municipal government acknowledging our application to change the status of the land. In addition, we have received a letter from the Nanning Jiangnan district government and have entered into a supplemental agreement to our Nanning project master agreement clarifying that the Jiangnan district government has agreed to (1) our application for the conversion of the relevant land use rights from warehouse to residential use and (2) assist us in the conversion of the land use rights to supporting commercial and residential use. If we are successful in converting this land to residential use, we may be required to pay additional land grant fees. However, pursuant to the letter provided by the Jiangnan district government and the supplemental agreement to our Nanning project master agreement, the Jiangnan district government has agreed to provide additional funding for the development of the infrastructure within the Nanning project. Based on the supplemental agreement, the letters provided by the Nanning municipal and Jiangnan district officials and the opinion of our PRC legal counsel, we do not believe we will be subject to material delays, material fines or forfeitures of land in relation to the development of this parcel of land. However, unless and until we obtain government approvals to convert the land use rights for this land, we cannot assure you that we will be able to develop or sell this parcel of land for residential use.

In addition, although the local government is responsible in the master agreement, the corresponding supplementary agreements and the land grant contracts for relocating existing residents on the land and associated relocation expenses, the local government may experience delays in its negotiation process with the original occupants of the land which may result in delays in the development of our properties under development and planned for future development in Nanchang, Nanning, Heyuan and Xi'an. For example, as of the date of this offering memorandum, approximately 37,000 sq.m. of China South City Nanning had existing residents on the land. Based on the land grant contract and the supplementary agreement for China South City Nanning, if the Nanning local government does not complete the relocation of these residents prior to April 2012, we will not be able to commence the construction on this parcel of land, which will delay our development plan in China South City Nanning. With respect to our properties under development and planned for future development in Heyuan, Nanchang and Xi'an, we will be responsible for land payments only following the successful relocation of existing residents by and at the cost of the local government.

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

Under the relevant regulation of construction quality in PRC, all property development companies in the PRC must provide certain quality warranties for the properties they develop or sell. We are required to provide these warranties to our customers. We may sometimes receive quality warranties from our third-party contractors with respect to our development projects. If a significant number of claims are brought against us under our warranties and if we are unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, we could incur significant expenses to resolve such claims or face delays in correcting the related defects, which could in turn harm our reputation and have a material and adverse effect on our business, prospects, financial condition and results of operations.

Risks Relating to Doing Business in the PRC

Economic, political and social conditions, as well as government policies in China could have a material adverse effect on our business, prospects, cash flows, results of operations and financial condition.

All of our business is conducted in, and all of our revenues are derived from, China. Accordingly, our business, prospects, cash flows, financial condition and results of operations are, to a significant degree, subject to economic, political and social developments in China.

The economy of China differs from the economies of most developed countries in many respects, including, but not limited to: structure; governmental involvement; level of development; growth rate of GDP; capital re-investment; allocation of resources; control of foreign currency; and rate of inflation.

The economy of China has been transitioning from a planned economy to a market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industries by imposing industrial policies. It also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Policies and measures taken by the PRC government to regulate the economy and guide the allocation of resources may benefit the overall economy of China but could have a significant negative impact on our business. For example, our business, prospects, cash flows, results of operations and financial condition may be materially and adversely affected by:

- government control over capital investment;
- new laws and regulations and the interpretations of those laws and regulations;
- the introduction of measures to control inflation or regulate growth;
- changes in interest rates and statutory reserve rates for banks and government control of bank lending activities;
- changes in the rate or method of taxation and tax regulations that are applicable to us; and
- the imposition of additional restrictions on currency conversions and remittances abroad.

The PRC legal system has inherent uncertainties that could negatively impact our business.

Our business is operated through, and our revenues are generated by, our operating subsidiaries in the PRC. Substantially all of our assets are located in the PRC. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has issued laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their nonbinding nature, the interpretation and enforcement of these laws and regulations may involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. Furthermore, the legal protections available to us under these laws and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and could result in substantial costs and diversion of resources and management attention.

Fluctuation in the exchange rates of the Renminbi may have a material adverse effect on us and on your investment.

The exchange rates between the Renminbi, the U.S. dollar and other foreign currencies is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall by as much as 0.5% each day. As of December 23, 2010, this change in policy had resulted in the value of the Renminbi appreciating against the U.S. dollar by approximately 24.55% compared to July 21, 2005. There remains significant international pressure on the PRC government to adopt a more flexible currency policy. On June 20, 2010, the PBOC announced its intention to further reform the Renminbi exchange rate regime by allowing greater flexibility in the Renminbi exchange rate, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar or other foreign currency.

Substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. We rely on dividends paid by our operating subsidiaries, which in turn will be used by us to pay interest on the Notes. To the extent that we need to convert the proceeds from this offering and future financing into the Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would reduce the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments of interest and certain other amounts on the Notes or for other business purposes, appreciation of the U.S. dollar against the Renminbi would reduce the U.S. dollar amount available to us.

Governmental control over currency conversion may limit our ability to utilize our cash effectively and potentially affect our ability to pay interest to Noteholders.

We currently receive substantially all of our revenues in Renminbi through our ownership and operation of China South City Shenzhen. However, certain of our expenses, including labor costs for our employees in Hong Kong, rental expenses for our office space in Hong Kong and advertising expenses for advertising in Hong Kong and overseas media are denominated in foreign currencies, mostly Hong Kong dollars and U.S. dollars. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch 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 loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Under our current corporate structure, our Company's income is 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 the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay interest to Noteholders. In addition, because a significant amount of our future cash flows from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies.

We may be deemed a PRC resident enterprise under the Enterprise Income Tax Law and thus be subject to PRC taxation on our worldwide income and be obligated to withhold PRC income tax on payment of interest and certain other amounts on Notes.

Under the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) (the "EIT Law") enacted by the National People's Congress in March 2007, enterprises established under the laws of foreign countries or regions whose "de facto management bodies" are located within the PRC are considered "resident enterprises" for PRC tax purposes and will generally be subject to the EIT at the rate of 25% on their global income. The implementation rules of the EIT Law define the term "de facto management body" as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise. The State Administration of Taxation promulgated a circular in April 2009 which specifies certain criteria for the determination of the "de facto management bodies" for foreign enterprises that are controlled by PRC enterprises or PRC enterprise groups. However, there have been no official implementation rules regarding the determination of the "de facto management bodies" for enterprises established offshore by private individuals or foreign enterprises like us. Substantially all of our management is currently located in the PRC. If we are treated as a PRC resident enterprise for income tax purposes, we will be subject to income tax at the rate of 25% on our global income. Furthermore, we would be obligated to withhold PRC income tax of up to 7%, subject to approval by the relevant tax authorities, on payments of interest and certain other amounts on the Notes to investors that are non-resident enterprises located in Hong Kong or 10% on payments of interest and other amounts on the Notes to investors that are non-resident enterprises located outside Hong Kong, because the interest and other amounts would be regarded as being derived from sources within the PRC. If we fail to make proper withholdings, we may be subject to fines and other penalties. Similarly, any gain realized by such nonresident enterprise investor from the transfer of the Notes would be regarded as being derived from sources within the PRC and accordingly would be subject to a 10% PRC tax.

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

In the event we are treated as a PRC “resident enterprise” under the EIT Law, we may be required to withhold PRC tax on interest payable to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under “Description of the Notes — Redemption for Taxation Reasons,” in the event we are required to pay additional amounts as a result of certain changes in or interpretations of tax law, including any change or interpretation 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 at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest.

We may face PRC regulatory risks relating to our Share Option Scheme.

On March 28, 2007, the State Administration for Foreign Exchange issued the *Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company*, or the Stock Option Rules.

Under the Stock Option Rules, PRC citizens who are granted stock options and other types of stock-based awards by an overseas publicly listed company are required, through an agent of the overseas publicly listed company, generally its PRC subsidiary or a financial institution, to obtain approval from the local State Administration for Foreign Exchange branch.

If we are unable to comply with these rules, we may be subject to the relevant penalties and may become subject to more stringent review and approval processes with respect to our foreign exchange activities, such as our PRC subsidiaries’ payment of dividends to us or borrowing of foreign currency loans, which would adversely affect our business and financial condition. None of the recipients of Share Options under our current Share Option Agreements are required to obtain approval from the local SAFE branch because none of these recipients is a PRC citizen. We may face regulatory risks relating to our Share Option Scheme, however, if we grant share options to PRC citizens in the future.

It may be difficult to effect service of process upon us or our directors or senior officers who reside in China or to enforce against them in China any judgments obtained from non-PRC courts.

A significant portion of our assets and our subsidiaries are located in the PRC. In addition, most of our directors and officers reside in the PRC, and the assets of our directors and officers may also be located in the PRC. As a result, it may not be possible to effect service of process outside the PRC upon most of our directors and officers, including with respect to matters arising under applicable securities laws. A judgment of a court of another jurisdiction may be reciprocally recognized or enforced in the PRC if that jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of any other requirements. Our PRC legal adviser has advised us that the PRC does not have treaties providing for the reciprocal acknowledgement and enforcement of judgments of courts with the United States and most other western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in any of these jurisdictions may be difficult.

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, including jointly controlled entities and associates in the PRC. The Notes will not be guaranteed by any current or future PRC subsidiaries. Our primary assets are loans to and ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors and certain Non-Guarantor Subsidiaries. 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 subsidiaries.

Creditors, including trade creditors of Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on the Non-Guarantor Subsidiaries' assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our Non-Guarantor Subsidiaries (including their obligations under guarantees issued in connection with our business), and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of September 30, 2010, our PRC subsidiaries had unsubordinated indebtedness in the amount RMB3,830.5 million (US\$572.5 million), capital commitments of RMB4,964.2 million (US\$742.0 million) and contingent liabilities arising from guarantees of RMB242.8 million (US\$36.3 million). The Notes and the Indenture permit us, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) and our Non-Guarantor Subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. 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 a third party of a 20% to 49.9% equity interest in such subsidiary by its direct or indirect majority shareholders (subject to the satisfaction of certain conditions, including a cap on the non-guaranteed portion of the assets of all JV Subsidiary Guarantors in aggregate). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such Subsidiary Guarantor, or 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.

We have incurred significant indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial condition and could further intensify the risks associated with our leverage.

We have significant indebtedness outstanding. As of September 30, 2010, our consolidated current bank loans and other loans and our consolidated non-current bank loans and other loans amounted to HK\$1,601.6 million (US\$206.4 million) and HK\$2,839.4 million (US\$365.9 million), respectively. In addition, as of September 30, 2010, our consolidated capital commitments were HK\$5,755.6 million (US\$742.0 million). See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness and Contingent Liabilities — Commitments and Contingent Liabilities — Capital Commitments."

In addition, we and our subsidiaries may from time to time incur substantial additional indebtedness. Although the Indenture limits us and our subsidiaries from incurring additional debt, these limitations are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we face as a result of such indebtedness and leverage could intensify. The amount of our indebtedness could have important consequences to the Noteholders. 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 condition;
- require use to dedicate a substantial portion of our cash flows from operations to servicing and repaying indebtedness, reducing the availability of cash flows to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in the 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, our ability to borrow additional funds; and
- increase the cost of additional financing.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing existing indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms.

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

The Indenture includes 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 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;

- engage in any business other than permitted business;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

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

If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture, there could be a default under the terms of these agreements or the Indenture, 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 these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indenture, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under our other debt agreements, including the Indenture. If any of these events occur, we cannot assure you that our assets and cash flows 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 subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, including our jointly controlled entities and associates in the PRC, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments or agreements of such subsidiaries. For example, certain loan agreements of our subsidiaries contain covenants that limit their ability to pay dividends to us until the loans are repaid, or unless certain net profit thresholds are satisfied, or, in certain cases, limit their ability to pay dividends to us if the amount of the dividends exceed 30% of their after-tax profits. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity securities would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees (as the case may be).

The ability of our subsidiaries in the PRC to pay dividends to their shareholders is subject to the requirements of PRC law. PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Such profits differ from profits determined in accordance with 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. In addition, starting from January 1, 2008, dividends for the year 2008 and onward paid by our PRC subsidiaries to their non-PRC parent companies have been subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to an avoidance of double taxation arrangement between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such restrictions tax rate may be lowered to 5%. However, according to a circular issued by the State Administration of Taxation in October 2009, tax treaty benefits will be denied to “conduit” or shell companies without business substance. As a result of such restrictions, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees (as the case may be), and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

At present, our PRC subsidiaries are also required to pay a 7% withholding tax on the interest paid under any shareholder loans and to provide evidence of this and other documents before they can make payments of interest and principal on shareholder loans in foreign currency. See “— Risks Relating to Doing Business in the PRC — Governmental control over currency conversion may limit our ability to utilize our cash effectively and potentially affect our ability to pay interest to Noteholders.”

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

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

In light of land prices, sizes of projects, the competitive landscape and other factors, we may from time to time consider developing property developments 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 minority joint ventures, these restrictions are subject to important exceptions and qualifications. See the definition of “Permitted Investment” in “Description of the Notes.”

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

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

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have sufficient available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of outstanding Notes. Our failure to make the offer to purchase or 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, refinancing, restructurings or other recapitalizations. These types of transactions could, however, 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 insolvency laws of Hong Kong and the British Virgin Islands differ from U.S. bankruptcy law and the laws of other jurisdictions with which holders of the Notes are familiar.

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

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

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 for the listing and quotation of the Notes on the Official List of the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing on the SGX-ST, or that, if listed, a liquid trading market will develop. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See “Transfer Restrictions.” We cannot predict whether an active trading market for the Notes will develop or be sustained.

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

The Notes have been provisionally rated “B” by Standard and Poor’s Ratings Services and “B2” by Moody’s Investors Service. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. 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 a rating will remain unchanged for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of any rating assigned to the Notes may adversely affect the market price of the Notes.

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 revenue, profit and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price of debt securities for comparable companies, government regulations and changes thereof applicable to our industry and general economic conditions in the PRC 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.

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 and the financial information in this Offering Memorandum are prepared and presented in accordance with HKFRS, which differ in certain significant respects from generally accepted accounting principles in other jurisdictions.

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

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

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

The Notes will initially only be issued in global certificated form and held through The Depository Trust Company, or DTC, and its participants, including Euroclear Bank S.A./N.V., or Euroclear, and Clearstream Banking, *société anonyme*, Luxembourg, or Clearstream. Interests in the global notes 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 Notes. The custodian for DTC will be the sole registered holder of the global notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes will be made to the Paying Agent, who will make payments to DTC. Thereafter, these payments will be credited to accounts of participants (including Euroclear and Clearstream) who hold book entry interests in the global notes representing the Notes and will be credited by such participants to indirect participants. After payment to the custodian for DTC, 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 DTC, Euroclear and Clearstream, and if you are not a participant in DTC, Euroclear and Clearstream, on the procedures of the participant through which you own your interest in the Notes, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the notes. Instead, if you own a book entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from the DTC, 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 DTC, Euroclear and Clearstream. The procedures to be implemented through DTC, Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the notes.

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

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

We conduct substantially all of our business operations through our PRC subsidiaries, but none of our current PRC subsidiaries and their direct PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of PRC or their future PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries. Moreover, the charge over the shares of the offshore subsidiaries of the Company (the “Collateral”) will not include the capital stock of our existing or future Non-Guarantor Subsidiaries.

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

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

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

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

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

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

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

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

The pledge of certain Collateral may in some circumstances be voidable.

The pledge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong and the British Virgin Islands at any time within six months of the perfection of the pledge or, under some circumstances, within a longer period. Pledges of capital stock of future Subsidiary Guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain Collateral may be voided based on the analysis set forth above under “— The Subsidiary Guarantees or JV Subsidiary Guarantees (if any) may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or any JV Subsidiary Guarantees.” If the pledges of the Collateral were to be voided for any reason, holders of the Notes would have only an unsecured claim against us and the Subsidiary Guarantor Pledgors.

The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and other pari passu secured indebtedness.

The Collateral will consist only of the capital stock of the initial Subsidiary Guarantors and may in the future include our proportional interest in the JV Subsidiary Guarantors (if any). The security interest in respect of certain Collateral may be released upon the disposition of such Collateral, and any proceeds from such disposition may be applied, prior to repaying any amounts due under the Notes, to repay other debt or to make investments in properties and assets that will not be pledged as additional Collateral.

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

The value of the Collateral in the event of liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. No independent appraisals of any of the Collateral have been prepared by or on behalf of us in connection with this offering of the Notes. Accordingly, we cannot assure you that the proceeds of any sale of the Collateral following an acceleration of the Notes would be sufficient to satisfy, or would not be substantially less than, amounts due and payable on the Notes. By its nature, the Collateral, which consists solely of the capital stock of any existing or future Subsidiary Guarantor, is likely to be illiquid and is unlikely to have a readily ascertainable market value. Likewise, we cannot assure you that the Collateral will be saleable or, if saleable, that there will not be substantial delays in its liquidation. The Collateral consists of shares of our non-PRC subsidiaries. With one exception, our non-PRC subsidiaries do not currently hold shares of any of our PRC subsidiaries. Our PRC subsidiaries hold substantially all of our consolidated assets and generate substantially all of our consolidated revenue. Accordingly, holders of the Notes should not expect to be able, directly or indirectly, to direct the management or policies of, or otherwise exert control over, our PRC subsidiaries or gain access to our key assets by foreclosing upon the Collateral, which may further limit the value of the Collateral.

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

The pledge of certain Collateral may be released under certain circumstances.

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

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discount and other estimated expenses payable in connection with this offering, will be approximately US\$235.2 million. We intend to use the net proceeds from this offering primarily to fund our properties under development and properties planned for future development (including land grant fees) and for general corporate purposes.

We may adjust our plans to make investments in our property development business in response to changing market conditions, changes in government policies and other factors. In these situations, we will carefully evaluate the situation and may reallocate the use of proceeds.

EXCHANGE RATE INFORMATION

Hong Kong

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since 1983, the Hong Kong dollar has been generally linked to the U.S. dollar at the rate of HK\$7.80 to US\$1.00. Under existing Hong Kong law: (1) there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of dividend payments to U.S. residents; and (2) there are no limitations on the rights of non-residents or foreign owners to hold the Units offered in this offering. The Basic Law of Hong Kong, or 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 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. The Hong Kong government has indicated its intention to maintain the link at that rate. 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.

On May 18, 2005, the Hong Kong Monetary Authority announced the introduction of certain refinements to the operation of the linked exchange rate system. These refinements effectively set the market exchange rate of the Hong Kong dollar against the U.S. dollar within a fixed trading range from HK\$7.75 to HK\$7.85 against US\$1.00. However, we cannot assure you that the Hong Kong government will maintain the link within the range of HK\$7.75 to HK\$7.85, or at all.

The following table sets forth information concerning exchange rates between the Hong Kong dollar and the U.S. dollar for the periods indicated.

	Period End	Noon Buying Rate		
		Low	Average ⁽¹⁾	High
		(HK\$ per US\$)		
2005	7.7533	7.7999	7.7755	7.7514
2006	7.7771	7.7928	7.7685	7.7506
2007	7.7984	7.8289	7.8008	7.7497
2008	7.7499	7.8159	7.7814	7.7497
2009	7.7536	7.7618	7.7513	7.7495
2010				
January	7.7665	7.7752	7.7624	7.7539
February	7.7619	7.7716	7.7670	7.7619
March	7.7647	7.7648	7.7612	7.7574
April	7.7637	7.7675	7.7627	7.7565
May	7.7850	7.8030	7.7856	7.7626
June	7.7865	7.8040	7.7880	7.7690
July	7.7672	7.7962	7.7753	7.7651
August	7.7781	7.7788	7.7702	7.7605
September	7.7599	7.7738	7.7643	7.7561
October	7.7513	7.7642	7.7580	7.7513
November	7.7649	7.7656	7.7546	7.7501
December (through December 23)	7.7778	7.7789	7.7717	7.7612

Source: Federal Reserve Bank of New York for the periods through December 2008 and the Federal Reserve H.10 Statistical Release for the periods beginning on or after January 1, 2009.

(1) Annual average are calculated by averaging the rates on the last business day of each month during the annual period. Monthly averages are calculated by averaging the rates on each business day during the month.

On December 23, 2010, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was US\$1.00 = HK\$7.7778 as certified for customs purposes by the Federal Reserve Bank of New York.

China

Since January 1, 1994, the PBOC has set and published daily a base exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. On July 21, 2005, the PBOC announced a reform of its exchange rate system and revalued the Renminbi to RMB8.11 to US\$1.00. Under the reform, the Renminbi is no longer effectively linked to the U.S. dollar but instead is allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, according to market demand and supply conditions. The PBOC announces the Renminbi's closing price each day, and that rate serves as the midpoint of the next day's trading band. On May 18, 2007, the PBOC announced that, effective May 21, 2007, it would widen the daily trading band of the Renminbi against the U.S. dollar from 0.3% to 0.5%. As a result, the Renminbi is now permitted to rise or fall 0.5% each day from the midpoint set each morning. In June 2010, the PBOC announced that it would further reform and increase the flexibility of the RMB exchange rate system. The PRC government may make more specific policy changes or further adjustments to the exchange rate system in the future.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for each of the periods indicated.

	Period End	Noon Buying Rate		
		Low	Average ⁽¹⁾	High
		(RMB per US\$)		
2005	8.0702	8.2765	8.1826	8.0702
2006	7.8041	8.0702	7.9579	7.8041
2007	7.2946	7.8127	7.5806	7.2946
2008	6.8225	7.2946	6.9193	6.7800
2009	6.8259	6.8470	6.8295	6.8176
2010				
January	6.8268	6.8295	6.8269	6.8258
February	6.8258	6.8330	6.8285	6.8258
March	6.8258	6.8270	6.8262	6.8254
April	6.8247	6.8275	6.8256	6.8229
May	6.8305	6.8310	6.8275	6.8245
June	6.7815	6.8323	6.8184	6.7815
July	6.7735	6.7807	6.7762	6.7709
August	6.8069	6.8069	6.7873	6.7670
September	6.6905	6.8102	6.7369	6.6869
October	6.6705	6.6912	6.6675	6.6397
November	6.6670	6.6892	6.6538	6.6330
December (through December 23)	6.6450	6.6745	6.6569	6.6450

Source: Federal Reserve Bank of New York for the periods through December 2008 and the Federal Reserve H.10 Statistical Release for the periods beginning on or after January 1, 2009.

(1) Annual average are calculated by averaging the rates on the last business day of each month during the annual period. Monthly averages are calculated by averaging the rates on each business day during the month.

On December 23, 2010, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was US\$1.00 = RMB6.6450 as certified for customs purposes by the Federal Reserve Bank of New York.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated capitalization and indebtedness as of September 30, 2010 on an actual and as adjusted basis after giving effect to the issuance of the Notes and receipt of the net proceeds from this offering by us (but before the application of such net proceeds). The following table should be read in conjunction with our unaudited condensed consolidated interim financial statements and related notes for the six month period ended September 30, 2010 included elsewhere in this offering memorandum.

	As of September 30, 2010			
	Actual		As adjusted	
	HK\$	US\$	HK\$	US\$
	(in thousands)			
Cash and bank balances	3,352,562	432,037	5,177,690	667,237
Short-term debt ⁽¹⁾				
Interest-bearing bank and other borrowings	1,601,647	206,400	1,601,647	206,400
Total short-term borrowings	1,601,647	206,400	1,601,647	206,400
Long-term debt ⁽²⁾				
Interest-bearing bank and other borrowings	2,839,435	365,911	2,839,435	365,911
Notes to be issued	—	—	1,939,975	250,000
Total long-term debt	2,839,435	365,911	4,779,410	615,911
Equity				
Equity attributable to equity holders of the parent				
Issued capital	59,796	7,706	59,796	7,706
Reserves	9,112,990	1,174,370	9,112,990	1,174,370
	9,172,786	1,182,076	9,172,786	1,182,076
Minority interests	79,050	10,187	79,050	10,187
Total equity	9,251,836	1,192,263	9,251,836	1,192,263
Total capitalization ⁽³⁾	12,091,271	1,558,174	14,031,246	1,808,174

(1) Includes the current portion of long-term debt.

(2) Excludes the current portion of long-term debt.

(3) Total long term debt plus total equity.

Subsequent to September 30, 2010, we obtained new banking facilities of approximately HK\$234.1 million from local PRC banks, and have drawn down approximately HK\$568.9 million in new and existing loan facilities. Approximately HK\$351.1 million in the newly drawn down facilities was used to repay an existing project loan agreement pursuant to the terms of a new project loan agreement and approximately HK\$217.7 million is intended for use to develop our properties under development and for working capital.

Except as disclosed above, there has been no material change in our capitalization or indebtedness since September 30, 2010.

SELECTED CONSOLIDATED FINANCIAL DATA

The following tables present our selected consolidated financial data. The selected consolidated financial data as of and for each of the years ended March 31, 2008, 2009 and 2010 (except for EBITDA data) have been derived from our audited consolidated financial statements as of such dates and for such years included elsewhere in this offering memorandum. The selected consolidated interim financial data for the six months ended September 30, 2009 and 2010 and as of September 30, 2010 had been derived from our unaudited condensed consolidated interim financial statements for such periods and as of such date included elsewhere in this offering memorandum.

Our financial statements have been prepared and presented in accordance with HKFRS. The selected consolidated financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

	Fiscal Year Ended March 31,				Six Months Ended September 30,		
	2008	2009	2010	2010	2009	2010	2010
	(HK\$'000)			(US\$'000)	(HK\$'000)		(US\$'000)
Income Statement Data:							
Revenue	562,880	224,399	1,570,229	202,512	249,564	590,515	75,957
Cost of sales	(285,976)	(153,640)	(587,522)	(75,773)	(129,709)	(258,775)	(33,286)
Gross Profit	276,904	70,759	982,707	126,739	119,855	331,740	42,671
Other income and gains	21,701	19,077	150,434	19,401	142,520	19,757	2,541
Fair value gains on investment properties	670,871	1,153,903	1,308,543	168,762	253,038	358,464	46,109
Selling and distribution costs	(45,270)	(89,531)	(83,573)	(10,777)	(40,012)	(39,090)	(5,028)
Administrative expenses	(117,491)	(109,249)	(187,696)	(24,207)	(98,267)	(86,418)	(11,116)
Fair value change in embedded derivative financial instruments	(1,167)	—	—	—	—	—	—
Other expenses	(7,911)	(13,188)	(25,427)	(3,279)	(623)	(172)	(22)
Finance costs	(960)	(6,824)	(32,982)	(4,254)	(11,840)	(16,797)	(2,161)
Share of profits and losses of:							
A jointly-controlled entity	502	1,120	1,287	166	645	651	84
An associate/associates	(329)	(327)	(302)	(39)	(165)	(162)	(21)
Profit before tax	796,850	1,025,740	2,112,991	272,512	365,151	567,973	73,057
Income tax expense	(241,726)	(272,170)	(785,345)	(101,286)	(119,747)	(225,282)	(28,977)
Profit for the year/period	555,124	753,570	1,327,646	171,226	245,404	342,691	44,080
Attributable to:							
Equity holders of the parent	556,075	754,048	1,329,593	171,477	245,709	347,196	44,659
Minority interests	(951)	(478)	(1,947)	(251)	(305)	(4,505)	(579)
	<u>555,124</u>	<u>753,570</u>	<u>1,327,646</u>	<u>171,226</u>	<u>245,404</u>	<u>342,691</u>	<u>44,080</u>
Other financial data							
EBITDA ⁽¹⁾	827,547	1,066,885	2,182,380	281,461	395,035	595,516	76,600
Adjusted EBITDA ⁽²⁾	202,486	(74,073)	763,219	98,432	8,781	229,667	29,542
Net cash inflow from operating activities	308,989	71,847	894,190	115,323	197,065	282,449	36,331

	As of March 31,				As of September 30,	
	2008	2009	2010	2010	2010	2010
	(HK\$'000)			(US\$'000)	(HK\$'000)	(US\$'000)
Consolidated Balance Sheet Data:						
Non-current assets	5,774,890	8,398,009	11,379,165	1,465,500	12,590,121	1,622,459
Current assets:						
Cash and bank balances	1,228,898	246,084	3,702,977	476,899	3,352,562	432,037
Other current assets	302,480	677,222	1,217,626	156,815	1,186,068	152,846
Total current assets	1,531,378	923,306	4,920,603	633,714	4,538,630	584,883
Total assets	7,306,268	9,321,315	16,299,768	2,099,214	17,128,751	2,207,342
Current liabilities:						
Short-term interest-bearing bank and other borrowings ⁽³⁾	422,975	470,652	1,558,417	200,705	1,601,647	206,400
Other current liabilities	512,504	1,094,993	1,295,291	166,819	1,497,075	192,925
Total current liabilities	935,479	1,565,645	2,853,708	367,524	3,098,722	399,325
Non-current liabilities:						
Long-term interest-bearing bank and other borrowings ⁽³⁾	749,183	898,774	2,644,308	340,555	2,839,435	365,911
Other non-current liabilities	1,979,054	2,360,938	1,775,067	228,607	1,938,758	249,843
Total non-current liabilities	2,728,237	3,259,712	4,419,375	569,162	4,778,193	615,754
Total liabilities	3,663,716	4,825,357	7,273,083	936,686	7,876,915	1,015,079
Total equity	3,642,552	4,495,958	9,026,685	1,162,528	9,251,836	1,192,263
Total equity and liabilities	7,306,268	9,321,315	16,299,768	2,099,214	17,128,751	2,207,342

- (1) EBITDA consists of profit before interest income, income tax expense, depreciation and amortization and finance costs (excluding capitalized interest). EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our profit for the year or period under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented above is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (2) Adjusted EBITDA consists of profit before interest income, income tax expense, depreciation and amortization, finance costs (excluding capitalized interest) and non-operating income and expenses (including fair value gains and losses on investment properties).
- (3) On November 29, 2010, the Hong Kong Institute of Certified Public Accountants issued an interpretation that provides that amounts repayable under loan agreements that contain a repayment on demand clause should be classified as current liabilities in the borrower's statement of financial position. For further information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recently Issued Accounting Pronouncements."

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 Data" and our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. Our consolidated financial statements were prepared in accordance with HKFRS.

Overview

We are one of the leading developers and operators of large-scale, integrated logistics and trade centers in the PRC, based on GFA, industry coverage and range of supporting services and facilities offered, according to Colliers International. Leveraging our experience and brand reputation, as of September 30, 2010, we had five projects in different stages of development located in regional economic hubs in southern and central China.

Our business model is built on a premise of "One Body with Two Wings," with the "One Body" represented by our large-scale integrated logistics and trade centers, designed to serve as key commercial hubs to satisfy the economic and industrial needs of the regions in which we operate, and the "Two Wings" represented by the supporting residential and commercial facilities, designed to facilitate the operations of our trade center tenants and their customers. We complement our trade center operations by providing comprehensive supporting facilities including hotel, office, warehouse, exhibition and conference facilities. Our residential facilities further complement our trade center operations by providing convenient, high-quality accommodations for our trade center tenants, as well as providing cash flows to cover a portion of project-related capital expenditures. Our business model is further augmented by the on-site presence of PRC government agencies, which offer a diverse range of services to trade center tenants and other customers.

We currently have one integrated logistics and trade center project in operation, China South City Shenzhen. Phase One of China South City Shenzhen serves five complementary light manufacturing industries: (1) textile and clothing; (2) leather and accessories; (3) electronic accessories; (4) printing, paper and packaging; and (5) metals, chemicals and plastics. Phase Two of China South City Shenzhen primarily houses manufacturers and distributors of related finished goods and small commodities, as well as themed products, regional goods including branded undergarments, and goods originating in Hong Kong and Taiwan. Phase Three of China South City Shenzhen, for which we commenced construction in December 2010, will consist of three trade centers for finished goods in the furniture, motor vehicle and electronics industries.

As of September 30, 2010, China South City Shenzhen, including completed properties (Phase One and Phase Two) and properties planned for future development (Phase Three), had a planned aggregate GFA of approximately 2.6 million sq.m. China South City Nanchang, including properties under development (Phase One) and properties planned for future development (Phases Two), had a planned aggregate GFA of approximately 4.3 million sq.m. China South City Nanning, including properties under development (Phase One) and properties planned for future development (Phase Two), had a planned aggregate GFA of approximately 4.9 million sq.m. Our Heyuan project, including properties under development (Phase One) and properties planned for future development (Phase Two), had a planned aggregate GFA of approximately 2.3 million sq.m. China South City Xi'an, all of which is planned for future development, had a planned aggregate GFA of approximately 17.5 million sq.m. We expect the aggregate GFA of these five projects to be approximately 31.6 million sq.m. upon completion.

We generate revenue at China South City Shenzhen primarily from sales of trade center units and rental income from our trade center units and supporting facilities. Accordingly, our results of operations tend to fluctuate from period to period depending upon the proportion and GFA of trade center units that are sold or leased, and when our projects in various stages of development are completed. We generally sell a portion of our trade center units, and thereby generate revenues and cash flows, in the initial stages

following completion of a trade center development. Sales of trade center units in the initial stages following completion of a trade center development assist in financing the development of our projects. In addition, we have arrangements with certain purchasers of trade center units to allow us to lease their trade center units to third parties pursuant to which we receive rental income. The amount of our revenues from rental income has increased historically in line with the development of our projects, and we expect the amount and proportion of our revenues from rental income to increase in the future as we continue to complete additional properties under development.

We will require additional capital expenditures to develop Phase Three of China South City Shenzhen and our properties under development in Nanchang, Nanning, Heyuan and planned for future development in Xi'an. With respect to our properties under development in Shenzhen, Nanchang, Nanning and Heyuan, as of September 30, 2010, we had contracted, but not provided for, an amount of HK\$897.7 million, and authorized, but not contracted for, an amount of HK\$4,857.4 million. With respect to our property planned for future development in Xi'an, we have not acquired any land parcels for this project. We intend to rely on a combination of sales of trade center units, finance lease and rental income, the proceeds of this offering, domestic bank borrowings and other internally generated funds to finance our capital expenditures.

Factors Affecting Our Results of Operations

We have identified the following important factors (as well as uncertainties associated with such factors) that could impact our future results of operations and financial condition.

The GFA, Sales Prices, Rental Rates and Occupancy Levels of Our Trade Centers

Our business depends on the success of a small number of large-scale, multi-phase, mixed-used projects developed over the course of several years. Our policy is to maintain an optimal mix between trade center units for sale and trade center units held as investment properties. However, our results of operations and the sources and amount of our cash from operations may vary significantly from period to period depending upon the type and GFA of our completed trade center units that are sold or rented out to tenants, as well as when our projects in various stages of development are completed. Our revenues, and our mix of sales revenues versus rental revenues, vary significantly based upon the completion dates of our projects, among other factors. For instance, we completed and sold 4,850 and 98,000 sq.m. of trade center unit saleable GFA in the fiscal years ended March 31, 2009 and 2010, respectively, resulting in a 1,978.1% increase in revenues from sales of trade center units from HK\$67.8 million to HK\$1,408.1 million.

The GFA of the trade center units we sell or lease depends on the progress we make on the construction of our development projects. Our results of operations and cash flows also vary depending on the market demand at the time we sell or rent our completed trade centers, the rental and occupancy rates of our investment properties and the sales prices for sold trade center units. The rental rates, sales prices and occupancy levels of our trade center developments are dependent on market prices in the local market, which depend on local demand and supply conditions, competitive conditions and general macroeconomic conditions in the PRC, including GDP growth rates, interest rates, inflation rates and unemployment rates.

We tend to experience sharp increases in revenues during periods when we complete a significant project or project phase and offer it for sale, followed by declines in revenue during periods when we offer less new saleable GFA. Historically, periods in which we had a larger percentage of trade center units sold to buyers generated greater revenues and cash flows than periods in which we had a larger percentage of trade center units completed and retained for investment and rented out to tenants. Such sale revenues also vary significantly based upon the GFA and quality of new saleable GFA, the proportion of GFA we allocate to sales versus rental properties, prevailing sales prices, market demand, interest rates, inflation, the availability of attractive mortgage terms to our buyers, the prevailing regulatory environment for property sales, regional economic growth, competition and other factors. Please see "Risk Factors — Risks Relating to our Business and our Industry — Our revenues and revenue mix vary significantly based upon the completion dates of our projects and prevailing market conditions."

Part of our strategy is to increase our rental revenue, as well as rental revenue as a proportion of total revenue, as we complete and lease out more rental properties over time. Rental revenue is subject to cyclical changes in market demand. Rental rates vary among projects according to market demand, date of completion and other factors. Tenants generally prefer to rent at a facility with a high occupancy rate, so we offer tenants in newly completed trade center units preferential rental rates and rent-free periods in order to boost initial occupancy rates. If we fail to achieve a sufficiently high occupancy rate at any of our projects, we may need to provide additional incentives to attract a core group of tenants. Our rental revenue for future periods may be negatively impacted by these and similar incentive plans.

Our sales of trade center units in China South City Shenzhen are limited to 30% of the GFA of the properties located on the parcels of land on which these trade centers are located. Our sales of logistics facilities and trade centers in each of Nanchang and Nanning is limited to 60% of the GFA of the properties located on the parcels of land on which these logistics facilities and trade centers are located. Our business plan for the sales of logistics facilities and trade centers in Nanchang and Nanning contemplates sales of no more than 50% of their GFA and we believe such limit will not affect our results of operations. We are not subject to GFA restrictions on sales of residential and other properties at Nanchang, Nanning or Heyuan.

Changes in Product Mix

The prices and gross profit margins of our products vary by the location and the classification and end use of certain facilities on the properties that we develop and sell or rent. Our trade center and commercial facilities usually afford us higher sales profit margins than residential and logistics facilities, because they typically have higher sales prices per sq.m. As a result, our gross profit margin is affected by the proportion of sales revenue attributable to trade centers, which have our higher gross margins compared to sales revenue attributable to residential properties, which have lower gross margins. In addition, properties in larger-scale projects will typically command a higher selling price as the overall development approaches completion due to the attractiveness of a more established development, thereby increasing our sales profit margin during the relevant period. Our product mix varies from period to period due to a number of reasons, including project locations, land size and cost, market conditions and our development planning. While trade centers remain our primary focus, we expect our properties under development in Nanchang and Nanning will include more residential facilities than China South City Shenzhen, and that our property under development in Heyuan will comprise primarily residential properties.

Valuation of Our Investment Properties

Our investment properties consist of trade centers and supporting commercial facilities that are held for rental income and capital appreciation. We state our investment properties at their fair value on our balance sheet as non-current assets as of each balance sheet date based on valuations by Savills Valuation and Professional Services Limited, a qualified independent professional valuer. With respect to newly completed properties, the properties are measured initially at cost and, subsequently, at fair value. The change in fair value of a newly completed project is calculated as the difference between the project's fair market value as of the first balance sheet date after completion and the project's construction costs. Thereafter, the fair market value of the project for the most recent balance sheet date is compared to the fair market value as of the previous balance sheet date. As we complete new projects in the future, we expect the addition of these new projects will positively contribute to changes in fair values of investment properties, especially in the years in which the projects are completed.

Net increases or decreases in the fair market value of investment properties are reflected as an income or expense item, as appropriate, in the income statement as "change in fair value of investment properties." In addition, the fair value gains on our investment properties include gains recognized when the fair value of applicable investment properties under development can be reliably measured. Revaluation of completed investment properties has in the past resulted in, and may in the future result in, significant fluctuations in our results of operations.

We had fair value gains on investment properties of HK\$670.9 million, HK\$1.15 billion, HK\$1.31 billion, HK\$253.0 million and HK\$358.5 million in the fiscal years ended March 31, 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010, respectively. During the fiscal years ended March 31, 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010, changes in fair value of investment properties represented 89.7%, 114.1%, 69.2%, 71.4% and 68.9%, respectively, of our net profit for the respective periods after taking into account related deferred tax expense. The following table sets forth a breakdown of the changes in fair value of our investment properties for the periods indicated.

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2008	2009	2010	2009	2010
	(HK\$ in thousands)				
Trade center units (Phase One and Phase Two of China South City Shenzhen)	659,358	1,193,534	1,290,375	246,230	328,622
Office buildings (Phase One and Phase Two of China South City Shenzhen)	11,513	(39,631)	18,168	6,808	29,842
Total	670,871	1,153,903	1,308,543	253,038	358,464

Costs Associated with Land Acquisition and Construction

Land acquisition costs, construction costs and capitalized finance costs are the principal components of our cost of properties sold. Land acquisition costs, which primarily consist of land grant fees, have increased in recent years due to a greater demand for properties as a result of the PRC's economic growth. PRC governmental land supply policies and implementation measures may further intensify competition among developers for available land. For example, competition has significantly increased due to regulations introduced in July 2002 requiring departments and agencies to grant state-owned land use rights for residential or commercial property development through competitive processes, including public tenders, auctions or listings for sale at land exchanges administered by local governments. In addition, the PRC government recently set a minimum down payment for land grant fees of 50%, which is required to be paid within one month of signing the land grant contract. The remaining land grant fee is required to be fully paid within one year of signing the land grant contract, subject to limited exceptions.

Construction costs, which comprise all costs related to the design and construction of a project, can vary widely based on GFA, type of development, building design, types of construction materials, height of the buildings, and geology of the construction site. Changes in the market price for construction materials can cause fluctuations in construction costs. We did not experience any material increases in construction costs during fiscal years 2008 and 2009 for Phase One of China South City Shenzhen, from which we have generated most of our revenues, because construction of the Phase One trade centers was completed in December 2004 and our construction costs were fixed with respect to the construction of the other facilities of Phase One of China South City Shenzhen. We experienced increases in construction costs during fiscal years 2009 and 2010 and the six month period ended September 30, 2010 for Phase Two of China South City Shenzhen compared to Phase One, primarily due to: (1) the design and architecture of our Phase Two trade centers, which, unlike the Phase One trade centers, are large-scale shopping mall complexes fully equipped with escalators, air-conditioning and other amenities; and (2) a general increase in the cost of construction materials and labor. We will require substantial resources to develop our properties under development and planned for future development in Phase Three of China South City Shenzhen, Nanning, Nanchang, Heyuan and Xi'an. Each of these projects is a large-scale project consisting of multiple phases that: (1) will take several years to complete; (2) do not require full

completion of all phases to be operational; (3) will be completed on a phase-by-phase basis; and (4) can be financed from a variety of funding sources, including project financing, other bank borrowings, pre-sales, rental income and other cash flow from operations. In this regard, as a result of the continued growth and development of the PRC economy and the property development industry, wages for construction workers and the prices of construction materials and building equipment have experienced a substantial increase in recent years, and we expect continued increases in the future.

Our capitalized expenses include all costs relating to the acquisition of land parcels, construction and development of our projects, including interest expense, to the extent that such costs are directly attributable to the costs of the construction and development of the projects. Finance costs we incur after we complete construction are not capitalized.

Land use rights costs and construction costs may fluctuate from period to period depending upon the timing of our acquisitions of land, our ability to fix our construction costs and the construction schedules of our properties under development.

Land Appreciation Tax

Under PRC laws and regulations, our PRC subsidiaries that engage in integrated logistics and trade center development activities are subject to land appreciation tax, or LAT, which is levied on us by local tax authorities in accordance with: (1) the Notice on the Levy of Land Appreciation Tax in Shenzhen Municipality; (2) the Notice on the Adjustment of Rates of Land Appreciation Tax in Shenzhen Municipality; and (3) the Announcement on the Adjustment of Rates of Land Appreciation Tax in Shenzhen Municipality, issued by the Shenzhen Local Taxation Bureau on November 9, 2005, July 1, 2008 and July 23, 2010, respectively. These regulations provide that all enterprises and individuals, domestic and foreign, who receive income as a result of a grant of land use rights are subject to prepayment of LAT at the rates of 2%, 4% and 3%, respectively. LAT is levied on the “appreciation value” of property, as defined in the relevant tax laws. All taxable gains from the sale or transfer of land use rights, buildings and related facilities in China are subject to LAT at progressive rates that range from 30% to 60%. The local taxation bureau of Shenzhen did not impose LAT until November 2005. On November 1, 2005, upon obtaining a real estate qualification certificate, we began to pay LAT at a fixed prepayment rate of 0.5% on the total sales amount of the contracts we entered into with purchasers of trade center units for the fiscal year. During the fiscal years ended March 31, 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010, we made LAT payments in the amount of HK\$0.3 million, HK\$0.3 million and HK\$39.2 million, nil and HK\$7.3 million, respectively, and we made provisions for LAT in the amount of HK\$20.4 million, HK\$17.7 million, HK\$269.6 million, HK\$44.5 million and HK\$89.1 million, respectively. The method of calculating LAT liability may differ for a subsidiary from year to year depending on the application made by such subsidiary and approvals granted by government authorities. See “Risk Factors — Risks Relating to Our Business and Our Industry — Sales of our properties are subject to land appreciation tax and income tax.”

Economic and Other Conditions in the PRC

The trade center market is sensitive to broader economic developments. The economic growth China has experienced over the past two decades has led to growth in both wholesale trade aimed at large-scale industrial and commercial purchasers and retail trade aimed at individual consumers, which has facilitated the development of trade centers where merchant wholesalers and retailers can sell goods to purchasers. Beginning in the second half of 2008, China’s economy experienced a slowdown as a result of the global economic crisis, affecting consumer and business spending generally, including trade among domestic and international suppliers, manufacturers and distributors of raw materials and finished goods, which form our primary customer base, as well as the demand for, and prices of, real estate properties. Although China’s economy has shown positive signs of recovery and demand for our trade centers has grown significantly since the economic downturn, demand for our trade centers may continue to be affected by future domestic and international macroeconomic developments.

Our continued growth will, to a certain extent, depend on the continued development of trade among industrial and commercial purchasers and the growth in size and purchasing power of the middle class in China. China South City Shenzhen is located in Guangdong Province and our trade centers planned for future development are located in the provinces of Jiangxi, Shaanxi and the autonomous region of Guangxi. China's GDP grew at a CAGR of approximately 16.5% between 2005 and 2009, and the GDP of Guangdong, Jiangxi, Guangxi and Shaanxi grew at a CAGR of approximately 15.0%, 17.2%, 18.1% and 20.1% between 2005 and 2009, respectively. The real estate and logistics markets in these regions are also affected by a number of other macroeconomic factors, including the level of interest rates, the exchange rate of the Renminbi and the PRC political, economic and regulatory environment.

Regulatory Environment

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

- any changes in the PRC with respect to land acquisition, property development and property developer policies, tax policies, planning, zoning and land use rights policies and building design and construction regulations; and
- the availability of project and mortgage financing, interest rates and regulations affecting the transfer of completed properties.

For further information on the regulatory environment in the PRC, see "Regulation."

In response to concerns over the increase in property investment and the overheating of the property sector in the PRC, the PRC government has introduced policies to restrict development in the property sector. From time to time, the PRC government adjusts or introduces macroeconomic control policies to encourage or restrict development in the private property sector by regulating land grants, land utilization, pre-sales of properties, bank financing and taxation. Measures taken by the PRC government to control money supply and credit availability also have a direct impact on our business and results of operations. The PRC government may introduce initiatives which may affect our and our customers' access to capital and the means by which we may finance property development. See "Risk Factors — Risks Relating to Our Business and Our Industry — Our operations are subject to extensive governmental regulation, and we are susceptible to changes in policies related to the real estate and logistics markets in China."

Pre-sales

Proceeds from pre-sales of properties under development constitute a source of our operating cash inflow during our project development process. PRC law allows us to pre-sell properties before their completion upon satisfaction of certain conditions and requires us to use the specific pre-sale proceeds to develop the project that has been pre-sold. The amount and timing of cash received from pre-sales are affected by a number of factors, including any restrictions and conditions in our pre-sale permits issued by, and land use contracts entered into with, the Shenzhen Municipal Bureau of Land Resources and Housing Management, which limited the sales of trade center units in Phase One and Phase Two of China South City Shenzhen to 30% of the GFA of the properties located on the parcels of land on which these trade centers are located. Our sales of logistics facilities and trade centers in each of Nanchang and Nanning is limited to 60% of the GFA of the properties located on the parcels of land on which these logistics facilities and trade centers are located. Our business plan for the sales of logistics facilities and trade centers in Nanchang and Nanning contemplates sales of no more than 50% of their GFA and we believe such limit will not affect our results of operations. We are not subject to GFA restrictions on sales of residential and other properties at Nanchang, Nanning or Heyuan. Other factors include the permitted timing and other restrictions on pre-sales imposed by relevant PRC laws and regulations, market demand

and the number of our properties that are available for pre-sale. Any modification of the relevant pre-sale permits and land use contracts, or any restriction on our ability to engage in the pre-sales of our properties, could result in a reduced cash inflow, which could increase our reliance on external financing and increase our finance costs, and accordingly, could have an adverse effect on our ability to finance our continuing property developments and our results of operations. See “Risk Factors — Risks Relating to Our Business and Our Industry — Our revenues and revenue mix vary significantly based upon the completion dates of our projects and prevailing market conditions.”

Demand for Residential Properties in China

Domestic economic conditions and the volatility of residential property prices in the PRC may impact our business and results of operations, particularly with respect to our properties planned for future development in Nanchang, Nanning, Heyuan and Xi’an, which are intended to include more residential units as compared to China South City Shenzhen. The residential property industry in the PRC is significantly dependent on the PRC’s overall economic growth and consumer demand for residential properties. The development of the PRC economy and the resulting demand for residential properties in China are expected to have an increasing impact on our results of operations as our properties planned for future development begin operations.

Critical Accounting Policies

We have identified accounting policies which involve subjective assumptions and estimates as well as complex judgments relating to certain accounting items. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our financial statements.

Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Note 2 to our audited consolidated financial statements and unaudited condensed consolidated interim financial statements included in this offering memorandum.

Revenue Recognition

We recognize revenue from the sale of properties in our income statement when the significant risks and rewards of ownership have been transferred to the buyer. We consider the significant risks and rewards of ownership to have been transferred when the construction of properties is completed, the properties are delivered to the buyers pursuant to the sales agreement and the collectibility of the related receivables is reasonably assured. We include deposits received on properties sold prior to the date of revenue recognition, including pre-sale proceeds, in the balance sheet as other payables, accruals and deposits received.

We recognize rental income in the period in which the properties are leased on a straight-line basis over the lease term. Any rent-free period offered as an incentive to our trade center tenants is amortized over the term of the related lease agreements.

Because the building ownership certificates granted to us for West Garden and the Global Logistic Center restrict the transfer of the underlying property, we have entered into lease agreements with tenants of these units. However, because the lease terms will last in duration for the major part of the economic life of the units and the lease agreements with tenants of these units transfer to the tenants substantially all the risks and rewards incidental to ownership, we treat the leases for accounting purposes as finance leases in accordance with the current accounting standards in Hong Kong. We commenced delivery of the residential units of West Garden and the office units of our Global Logistic Center in February 2008 and April 2010, respectively. We recognize revenue from these units once the following criteria are satisfied: (1) construction is completed; (2) construction completion registration procedures are completed; (3) delivery is made to the tenants pursuant to the finance lease agreement; and (4) the collectibility of the related receivables is reasonably assured. See “Business — Purchaser and Tenant Financing.”

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that taxable profit will be available against which these deductible temporary differences can be utilized. Deferred tax assets and liabilities are determined at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Land Appreciation Tax

Under PRC tax laws and regulations, our properties developed for sale are subject to LAT. We have calculated and accrued all LAT payable on our property sales and transfers made since November 2005 in accordance with the progressive rates specified in relevant tax laws, including the LAT Notice. LAT provisions represent provisions for the estimated LAT payable in relation to our properties sold during a period. We estimate and make provisions for the amount of LAT payable based on our own calculations in accordance with our understanding of the relevant laws and regulations. Our estimate of LAT provisions requires us to exercise significant judgment with respect to the appreciation of land value, total proceeds derived from the sale or lease of projects and the allowability of deductible items for income tax purposes. Our net profit in the relevant periods will be affected if the ultimate tax determination differs from the amounts that were initially recorded. In addition, any disagreements with the tax authorities could result in additional taxes, and possibly, penalties.

Valuation of Properties

In accordance with Hong Kong Accounting Standard 40 “Investment Properties” issued by the Hong Kong Institute of Certified Public Accountants, investment properties may be recognized by using either the fair value model or the cost model. We state our investment properties at their fair value as non-current assets in our balance sheet on the basis of valuations by a qualified independent professional valuer. We provide the independent professional valuer with various information including relevant data pertaining to the leases existing on our investment properties for the valuer to use as a basis for valuation purposes. See “— Factors Affecting Our Results of Operations — Valuation of Our Investment Properties” for more information on the valuation of our investment properties.

We state our properties held for sale and properties held for finance lease, both classified as current assets on our balance sheet, at the lower of cost and net realizable value on an individual property basis. Cost includes all development expenses, applicable borrowing costs and other direct costs attributable to the development of such properties. Net realizable value is determined by reference to the prevailing market prices on an individual property basis.

We state our properties under development as assets in our balance sheet. We state our properties under development at cost less impairment losses. Properties under development are not depreciated until construction or development is completed, at which time they are reclassified as investment properties at fair value. Any difference between the fair value of an investment property at completion and its previous carrying amount is recognized in our income statement. Cost includes the direct costs of construction and capitalized borrowing costs on related borrowings during the period of construction. Properties under development are transferred to the appropriate category of property, plant and equipment, investment properties, properties held for finance lease or properties held for sale when completed and ready for use.

Description of Components of Results of Operations

Revenues

Although we have properties under development and planned for future development, we currently rely on China South City Shenzhen for all of our revenues. We generate revenues from: (1) sales of our Phase One and Phase Two trade center units; (2) leasing of residential units in West Garden and office units in our Global Logistic Center, which we characterize as finance lease income; (3) rental income from leases of trade center units, warehouses, supporting commercial facilities and, to a lesser extent, motor vehicles and other properties located in Shenzhen; (4) income from the operation of our hotel in China South City Shenzhen; and (5) property management fees and other fees from providing management and other services to our tenants in China South City Shenzhen.

The following table sets forth a breakdown of our revenues for the periods indicated.

	Fiscal Year Ended March 31,						Six Months Ended September 30,			
	2008		2009		2010		2009		2010	
	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	%
	(in thousands, except for percentages)									
Sale of properties . . .	46,759	8.3	67,758	30.2	1,408,108	89.7	173,268	69.4	381,523	64.6
Finance lease income	403,178	71.6	9,913	4.4	11,245	0.7	3,934	1.6	117,036	19.8
Rental income	77,451	13.8	100,167	44.6	101,277	6.4	49,207	19.7	65,127	11.0
Hotel income	19,596	3.5	25,505	11.4	22,930	1.5	10,942	4.4	11,019	1.9
Property management service income . .	14,267	2.5	20,426	9.1	24,523	1.6	12,213	4.9	15,810	2.7
Other fee income . . .	1,629	0.3	630	0.3	2,146	0.1	—	—	—	—
Total	562,880	100.0	224,399	100.0	1,570,229	100.0	249,564	100.0	590,515	100.0

Sale of Properties

Sale of properties represents revenue only from the sales of our Phase One and Phase Two trade center units. Pursuant to the master agreements and the corresponding supplementary agreements with the local government agencies that grant the relevant land use rights, our sales of trade center units in Phase One and Phase Two of China South City Shenzhen are limited to 30% of the GFA of the properties located on the parcels of land on which these trade centers are located. We present revenues from property sales net of sales tax levied on the relevant contracted sales value.

Finance Lease Income

Finance lease income represents revenue from the lease arrangements for our West Garden residential units in Phase Two of China South City Shenzhen and our Global Logistic Center office units. Tenants make their rental payments for the West Garden residential units and Global Logistic Center office units at the beginning of the lease term, either in the form of a lump-sum payment or with an initial deposit followed by payment of the outstanding balance within two months of the payment of the initial deposit. We include the revenue from our residential and office units in the income statement and the related construction costs are accounted for as cost of properties under finance lease in the income statement.

Rental Income

Rental income represents revenue from the rental of our Phase One and Phase Two trade center units, warehouses, supporting commercial facilities, and to a lesser extent, motor vehicle leases and rental of other properties located in Shenzhen. These properties also include Phase One and Phase Two trade center units sold and subsequently leased by us to third parties under agreements with the purchasers of these units. Under these arrangements, we provide purchase price discounts to buyers of trade center units who choose not to occupy their units but, instead, allow us to lease out their units to third parties for an agreed term, while we keep the rental revenue generated thereby. We calculate rental revenue based on the effective rental rate multiplied by leased GFA. We amortize rental income on a straight-line basis over the term of the lease. Our rental income and occupancy rates have generally increased since the completion of China South City Shenzhen's Phase One trade centers in December 2004.

Hotel Income

Hotel income revenue represents income from the operation of our Grand City Hotel (Shenzhen).

Property Management Service Income

Property management service income represents income from the provision of property management services, such as security, cleaning, repair and maintenance services, through our wholly owned subsidiary Shenzhen First Asia Pacific, to our tenants in China South City Shenzhen. We charge tenants a monthly property management fee for their lease term, which is currently fixed at RMB3.8 per sq.m. for our Phase One trade center units, RMB15.0 per sq.m. for our Phase Two trade center units and RMB8.0 per sq.m. for our office buildings in the Global Logistic Center.

Other Fee Income

Other fee income represents income from the provision of exhibition services and other services.

Cost of Sales

Cost of sales primarily represents the costs of properties sold and costs of services provided, which includes rental expenses. The principal component of cost of sales is the cost of properties sold. The following table sets forth a breakdown of our cost of sales for the periods indicated.

	Fiscal Year Ended March 31,						Six Months Ended September 30,				
	2008		2009		2010		2009		2010		
	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	%	
	(in thousands, except for percentages)										
Cost of properties sold ⁽¹⁾	7,652	2.7	21,333	13.9	422,031	71.8	52,368	40.4	105,344	40.7	
Cost of properties under finance lease	217,638	76.1	5,006	3.2	5,922	1.0	2,097	1.6	63,554	24.6	
Cost of services provided	60,686	21.2	127,301	82.9	159,569	27.2	75,244	58.0	89,877	34.7	
Total	<u>285,976</u>	<u>100.0</u>	<u>153,640</u>	<u>100.0</u>	<u>587,522</u>	<u>100.0</u>	<u>129,709</u>	<u>100.0</u>	<u>258,775</u>	<u>100.0</u>	

(1) Includes construction costs and related costs, such as land use rights costs and capitalized expenses.

Cost of Properties Sold

Cost of properties sold includes costs we have incurred directly in the course of our property development activities. These consist primarily of: (1) construction costs; and (2) related costs, such as land use rights costs and capitalized expenses.

Construction Costs. We outsource the construction of all of our projects to third party contractors, whom we select through a competitive tender process. Our construction contracts provide for payments which cover substantially all labor, materials, fittings and equipment costs, subject to re-negotiation for design changes requested by our tenants during construction or changes in government-regulated steel prices. Our construction costs consist primarily of payments to our third party contractors, which are paid over the construction period based on specified milestones. Our construction costs also include land leveling expenses, surveying expenses and design fees.

Other Costs. Land use rights costs include the land grant fees we pay to acquire land use rights for our property development site. Land grant fees are the payments to the relevant land bureau or the relevant provincial or local government for the right to occupy, use and develop a particular parcel of land and to market the units or other projects developed on such land.

We acquired our land for China South City Shenzhen through negotiations with local government authorities in accordance with local regulations. Our land use rights costs for China South City Shenzhen are fixed under our master agreement and the corresponding supplementary agreements with the local government authorities. We have acquired a portion of the land for our properties under development in Nanchang, Nanning and Heyuan. Our master agreements and the corresponding supplementary agreements with local government authorities for these projects provide that the land use right costs for these properties be determined through competitive bidding at public tender, auction or listing for sale. Under the master agreements and our corresponding supplementary agreements, we are not required to pay relocation costs with respect to the properties planned for future development in Nanchang, Nanning and Heyuan. In the master agreements and the corresponding supplementary agreements, the local government has agreed to pay the actual expenses for clearing the land and relocation of the residents on the relevant site, as well as building certain infrastructure for the project, such as roads.

Cost of Properties under Finance Lease

Cost of properties under finance lease includes costs we have incurred directly in the course of our property development activities related to our West Garden residential units and Global Logistic Center office units at China South City Shenzhen. These consist of: (1) land use rights costs; (2) construction costs; and (3) capitalized expenses.

Cost of Services Provided

Our cost of services provided includes costs associated with property management services, including security, cleaning and maintenance services. Beginning in the fiscal year ended March 31, 2008, cost of services provided also included rental costs that we incurred in leasing trade center units as well as the operating expenses of Grand City Hotel (Shenzhen).

Other Income and Gains

Other income and gains consists primarily of interest income from banks and loan receivables. Interest income from loan receivables consists of interest income from entrusted loans, which we provide through authorized banks in the PRC to purchasers of trade center units, office buildings of Global Logistic Center and tenants of our West Garden residential units. The majority of our entrusted loans are long-term loans, having a maturity greater than one year. Entrusted loan interest income accrues over the duration of the loan. The loans to trade center unit purchasers are secured by the underlying properties sold to the purchasers. We record the receivables for entrusted loans as loan receivables and finance lease receivables in the balance sheet. Other income also includes contracted income from the operation of

hotel supporting facilities, as well as income from forfeited rental deposits from tenants who breach their lease terms or early terminate their leases. For the fiscal year ended March 31, 2010, we also recognized fair value gains on held for trading investments and a one-off gain on the restructuring and buy back of US\$125 million convertible notes, or the Convertible Notes, issued on July 11, 2007 and bearing interest at coupon rates ranging from 7% to 11% per annum.

Change in Fair Value of Investment Properties

We engage a qualified independent property valuer on an annual basis to conduct a valuation of our investment properties. See “— Factors Affecting Our Results of Operations — Valuation of Our Investment Properties.”

Selling and Distribution Expenses

Our selling and distribution expenses include:

- staff salaries (including commissions), employee benefit expenses and office expenses for sales and marketing personnel;
- advertising fees associated with advertisements placed in various mass media outlets, and design and promotion expenses, which include print advertisement costs, marketing materials, billboard and other display advertising costs;
- depreciation and amortization of facilities used by marketing personnel; and
- miscellaneous expenses, including fees associated with sponsoring conferences, business related travel expenses, referral fees paid to tenants who introduce new tenants to our trade centers and organizational membership fees for our selling and marketing staff.

We expect our selling and distribution expenses, in particular costs related to wages, advertising, design, and office expenses, to increase as we develop Phase Three of China South City Shenzhen, our properties under development in Nanchang, Nanning and Heyuan and our property planned for future development in Xi'an.

Administrative Expenses

Administrative expenses principally include:

- staff salaries and employee benefit expenses for our management, administrative, finance and accounting staff, employee share option benefits and directors fees;
- depreciation of fixed assets, including office buildings and self-use properties, but excluding investment properties and properties under development;
- consultancy fees paid in relation to corporate strategy, marketing and promotion, property management and property development and legal and professional fees;
- office expenses;
- water and electricity fees;
- business development expenses and promotional activities; and
- miscellaneous expenses, such as rental of residential quarters, motor vehicles and shuttle buses for administrative staff, utilities expenses, property insurance expenses and travel expenses.

We expect that our administrative expenses will increase as we grow our operations in Phase Two and Three of China South City Shenzhen, as well as our properties under development in Nanchang, Nanning and Heyuan and our property planned for future development in Xi'an.

Fair Value Change in Embedded Derivative Financial Instruments

The issuance of the Convertible Notes was subject to the success of a qualified public offering prior to July 2012, the maturity date of the Convertible Notes. The option to convert was accounted for as an embedded financial derivative. The fair value of the embedded option was assigned as the derivative component of the Convertible Notes and the change in fair value at each balance sheet date was included in the income statement. The value of the conversion option was determined by a qualified independent valuer. On March 28, 2008, we entered into an agreement with the holders of the Convertible Notes. As a result, the conversion feature attached to the Convertible Notes was removed and the Convertible Notes became interest-bearing debt, and as such, the Convertible Notes were no longer convertible into the Company's shares. On June 26, 2009, we entered into another agreement with the holders of the Convertible Notes to enhance our liquidity position and support our growth. The holders of the Convertible Notes agreed to reduce the coupon interest and to remove the put option feature, which would have required the Company to redeem the Convertible Notes.

Other Expenses

Other expenses consist primarily of provisions for trade receivables, impairment of interests in jointly controlled entities and donations to charitable organizations.

Finance Costs

Our finance costs consist primarily of interest paid on bank borrowings. Interest rates on our bank borrowings, most of which are granted by PRC commercial banks and denominated in Renminbi, are typically linked to PBOC rates. Effective from October 20, 2010, the PBOC benchmark rate for one-year loans was 5.56% per annum and the benchmark rate for one-year to three-year loans was 5.60% per annum.

We capitalize certain of our interest expenses based on the purposes for which the underlying borrowings or proceeds from offerings of debt securities are used. Under HKFRS, we are permitted to capitalize interest expenses related to debt incurred for construction costs directly attributable to the acquisition, construction or production of qualifying assets, and we are required to cease capitalization of such costs when the assets are substantially ready for their intended use or sale. Because the proceeds from the Convertible Notes were used for the development and construction of Phase Two of China South City Shenzhen, we capitalized all related interest expenses. In fiscal years 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010, bank borrowings used for general working capital purposes were recorded as interest expenses in the income statement.

Share of Results of Jointly Controlled Entities

Share of results of jointly controlled entities consists primarily of profit or loss, as applicable, from China South NEL and China South Royal Restaurant (Shenzhen). Profit or loss from Grand City Hotel (Shenzhen) was reflected as share of results of jointly controlled entities for the period from April 1, 2007 to July 27, 2007, when Grand City Hotel (Shenzhen) became a wholly owned subsidiary. After July 27, 2007, the results of Grand City Hotel (Shenzhen) have been consolidated in our financial statements.

Share of Results of Associates

Share of results of associates primarily includes profit or loss, as applicable, of China South Intimex and China South City Pico Exhibition, in each of which we hold a 30% interest. China South Intimex engages in website development, the maintenance and development of software, the provision of consultancy services and trading of e-commerce hardware and software. China South City Pico Exhibition provides exhibition services.

Taxation

We and our subsidiaries are incorporated in different jurisdictions, with different taxation requirements. The following table sets forth the components of income taxes for the periods indicated.

	Fiscal Year Ended March 31,						Six Months Ended September 30,			
	2008		2009		2010		2009		2010	
	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	%
	(in thousands, except for percentages)									
Enterprise income tax	—	—	22,500	8.3	170,243	21.7	6,732	5.6	29,475	13.1
Land appreciation tax	20,423	8.4	17,713	6.5	269,619	34.3	44,479	37.2	89,140	39.6
Deferred PRC tax	221,303	91.6	231,957	85.2	345,483	44.0	68,536	57.2	106,667	47.3
Total income tax	<u>241,726</u>	<u>100.0</u>	<u>272,170</u>	<u>100.0</u>	<u>785,345</u>	<u>100.0</u>	<u>119,747</u>	<u>100.0</u>	<u>225,282</u>	<u>100.0</u>

Enterprise Income Tax

Our subsidiaries incorporated in the PRC are subject to PRC EIT on their taxable income as reported in the PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. Prior to the effectiveness of the new PRC Enterprise Income Tax Law, or the new EIT law, on January 1, 2008, domestic companies were generally subject to EIT at a statutory rate of 33%.

The new EIT law imposes a uniform EIT rate of 25% on all domestic enterprises and foreign invested enterprises unless they qualify under certain exceptions. The new EIT law and related regulations provide a five-year transition period for certain entities which were established before March 16, 2007 and enjoyed a preferential EIT rate of less than 25% under the old EIT law to gradually increase their rates to 25%. Enterprises that were entitled to tax holidays for a fixed term may continue to enjoy such treatment until the tax holidays expire.

As of December 31, 2010, we had 14 subsidiaries incorporated in the PRC that were subject to taxation in the PRC. Other than a newly-established subsidiary, for which the income tax rate is 25%, we have seven other subsidiaries in Shenzhen that are currently taxed at a preferential income tax rate of 24%. This preferential tax rate will expire in 2012 and will increase to the uniform EIT rate 25% at that time. Our other subsidiaries in the PRC are currently taxed at the uniform EIT rate of 25%. Our effective PRC tax rates were 30.3%, 26.5%, 37.2%, 32.8% and 39.7% in the fiscal years ended March 31, 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010, respectively. See “Risk Factors — Risks Relating to Our Business and Our Industry — Sales of our properties are subject to land appreciation tax and income tax.”

British Virgin Islands and Hong Kong

We are incorporated in Hong Kong, and we have five subsidiaries incorporated in the British Virgin Islands and four subsidiaries incorporated in Hong Kong as investment holding companies holding interests in our PRC operating entities. We are not subject to tax in the British Virgin Islands on income or capital gains, and dividend payments are not subject to withholding tax in the British Virgin Islands. Our subsidiaries incorporated in Hong Kong are not subject to Hong Kong corporate income tax because we have no assessable profits in Hong Kong.

Land Appreciation Tax

LAT in the amount of HK\$20.4 million, HK\$17.7 million, HK\$269.6 million, HK\$44.5 million and HK\$89.1 million for the fiscal years ended March 31, 2008, 2009 and 2010, and the six months periods ended September 30, 2009 and 2010, respectively, were charged to our consolidated income statements. See “— Factors Affecting Our Results of Operations — Land Appreciation Tax” and “— Critical Accounting Policies — Land Appreciation Tax.”

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in our financial statements and the corresponding tax basis. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences, carry-forward of unused tax credits and unused tax losses. Deferred tax assets and liabilities are determined at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. A reconciliation of deferred tax liabilities and tax assets to deferred PRC EIT is provided in the table below for the periods indicated.

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2008	2009	2010	2009	2010
	(HK\$ in thousands)				
Deferred PRC corporate income tax ⁽¹⁾	221,303	231,957	345,483	68,536	106,667
Deferred tax charged/(credited) to the income statement during the year/period ⁽²⁾					
Deferred tax liabilities	224,654	237,906	410,920	77,432	126,278
Deferred tax assets	(3,351)	(5,949)	(65,437)	(8,896)	(19,611)
	<u>221,303</u>	<u>231,957</u>	<u>345,483</u>	<u>68,536</u>	<u>106,667</u>

(1) For more information, please see note 9 to our audited consolidated financial statements and note 7 to our unaudited condensed consolidated interim financial statements included in this offering memorandum.

(2) For more information, please see note 32 to our audited consolidated financial statements included in this offering memorandum.

Non-controlling/Minority Interests

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

Consolidated Results of Operations

The following is a discussion of our consolidated results of operations for the fiscal years ended March 31, 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010.

Six Months Ended September 30, 2010 Compared with Six Months Ended September 30, 2009

Revenue

Revenues increased by HK\$341.0 million, or 136.6%, from HK\$249.6 million in the six month period ended September 30, 2009 to HK\$590.5 million in the six month period ended September 30, 2010. The increase was primarily due to an increase in sales at Trade Plaza One and Trade Plaza Two, our Phase Two trade center units at China South City Shenzhen, as well as finance lease income generated from our Global Logistic Center during the period.

Sale of properties. Revenue from sale of properties increased by HK\$208.3 million, or 120.2%, from HK\$173.3 million in the six month period ended September 30, 2009 to HK\$381.5 million in the six month period ended September 30, 2010. The increase was primarily due to increased sales of Phase Two trade center units at South China City Shenzhen, as well as an increase in average sales price per sq.m. for those units.

GFA sold increased by approximately 11,600 sq.m., or 89.2%, from approximately 13,000 sq.m. in the six month period ended September 30, 2009 to approximately 24,600 sq.m. in the six month period ended September 30, 2010. The increase in GFA sold was primarily due to the sale of approximately 24,600 sq.m. in our existing Phase Two trade centers, which, as a part of our strategy to take advantage of market increases in average sales prices, we had not previously promoted for sale. Average sales price per sq.m. of our Phase Two trade center units at China South City Shenzhen increased by HK\$2,100, or 15.0%, from HK\$14,000 per sq.m. in the six month period ended September 30, 2009 to HK\$16,100 per sq.m. in the six month period ended September 30, 2010.

Finance lease income. Finance lease income increased from HK\$3.9 million in the six month period ended September 30, 2009 to HK\$117.0 million in the six month period ended September 30, 2010. The increase was primarily due to the completion of the Global Logistic Center during the period. Approximately 12,600 sq.m. of GFA was allocated to tenants under the relevant finance lease arrangements. The average price for the finance lease arrangements was approximately HK\$9,000 per sq.m. for the six month period ended September 30, 2010, which primarily comprised finance lease income from the Global Logistic Center, compared to HK\$5,993 per sq.m. for the six month period ended September 30, 2009, which comprised finance lease income from West Garden units only, as the Global Logistic Center was still under construction. For more information on our finance lease arrangements, see “— Critical Accounting Policies — Revenue Recognition.”

Rental income. Rental income primarily represents revenue from the rental of our Phase One and Phase Two trade center units and supporting facilities at China South City Shenzhen. Rental income increased by HK\$15.9 million, or 32.4%, from HK\$49.2 million in the six month period ended September 30, 2009 to HK\$65.1 million in the six month period ended September 30, 2010. This increase was primarily due to an increase in GFA made available as rental space in the Phase Two trade center units, as well as increased occupancy rates and rental rates.

As of September 30, 2010, the total occupancy rate of our Phase One trade centers was 86%, compared to 82% as of September 30, 2009. As of September 30, 2010, the effective monthly rental rate for our Phase One trade center units was HK\$28.6 per sq.m., compared to HK\$27.1 per sq.m. as of September 30, 2009. As of September 30, 2010, the effective monthly rental rate for our Phase Two trade center units was HK\$33.8 per sq.m. compared to HK\$35.4 per sq.m. as of September 30, 2009.

Hotel income. Hotel income increased by HK\$0.1 million, or 0.7%, from HK\$10.9 million in the six month period ended September 30, 2009 to HK\$11.0 million in the six month period ended September 30, 2010.

Property management service income. Property management service income increased by HK\$3.6 million, or 29.4%, from HK\$12.2 million in the six month period ended September 30, 2009 to HK\$15.8 million in the six month period ended September 30, 2010. The increase was primarily due to the commencement of operations of Trade Plaza One, Trade Plaza Two and the Global Logistic Center in June 2009, October 2009 and April 2010, respectively.

Cost of Sales

Cost of sales increased by HK\$129.1 million, or 99.5%, from HK\$129.7 million in the six month period ended September 30, 2009 to HK\$258.8 million in the six month period ended September 30, 2010, primarily as a result of: (1) an increase in cost of properties sold, primarily due to the increase in the GFA of Phase Two trade centers sold; (2) an increase in cost of properties under finance leases, primarily due to an increase in new finance leases for our Global Logistic Center office units; and (3) an increase in cost of services provided, primarily due to the commencement of operations of Trade Plaza One and Trade Plaza Two, leading to greater demand for security, cleaning and maintenance services, as well as providing these services for these trade centers for the full period, as compared to a partial period for Trade Plaza Two in the six month period ended September 30, 2009.

Gross Profit

As a result of the foregoing, gross profit increased by HK\$211.9 million, or 176.8%, from HK\$119.9 million in the six month period ended September 30, 2009 to HK\$331.7 million in the six month period ended September 30, 2010. Gross profit margin, or gross profit as a percentage of total revenue, increased from 48.0% in the six month period ended September 30, 2009 to 56.2% in the six month period ended September 30, 2010. The increase in gross profit margin was primarily due to an increase in the share of revenue from our property development segment, including sales income and finance lease income, which enjoys a higher gross margin as compared to our other business segments.

Other Income and Gains

Other income and gains decreased by HK\$122.8 million, or 86.1%, from HK\$142.5 million in the six month period ended September 30, 2009 to HK\$19.8 million in the six month period ended September 30, 2010. The decrease in other income and gains was primarily due to the one-off gain of HK\$136.7 million due to the restructuring and buy back of the Convertible Notes in the six month period ended September 30, 2009 as compared to no such one-off gain in the six month period ended September 30, 2010.

Change in Fair Value of Investment Properties

The change in fair value of investment properties was HK\$253.0 million in the six month period ended September 30, 2009, compared to HK\$358.5 million in the six month period ended September 30, 2010. The increase was primarily due to the increase in property prices in Shenzhen during the six month period ended September 30, 2010.

Selling and Distribution Costs

Selling and distribution costs decreased by HK\$0.9 million, or 2.3%, from HK\$40.0 million in the six month period ended September 30, 2009 to HK\$39.1 million in the six month period ended September 30, 2010. The decrease in selling and distribution costs was primarily due to reduced promotion expenses in the six month period ended September 30, 2010 following media campaigns in the six month period ended September 30, 2009 to promote Trade Plaza One and Trade Plaza Two of China South City Shenzhen.

Administrative Expenses

Administrative expenses decreased by HK\$11.8 million, or 12.1%, from HK\$98.3 million in the six month period ended September 30, 2009 to HK\$86.4 million in the six month period ended September 30, 2010. Excluding one-off expenses relating to our initial public offering incurred in the corresponding period in the prior year, administration expenses increased in the six month period ended September 30, 2010 primarily due to an increase in business activities and expansion of our management team as we began to develop our projects in Heyuan, Nanchang, Nanning and Xi'an.

Other Expenses

Other expenses decreased by HK\$0.5 million, or 72.4%, from HK\$0.6 million in the six month period ended September 30, 2009 to HK\$0.2 million in the six month period ended September 30, 2010.

Finance Costs

Finance costs increased by HK\$5.0 million, or 41.9%, from HK\$11.8 million in the six month period ended September 30, 2009 to HK\$16.8 million in the six month period ended September 30, 2010, primarily due to an increase in new PRC bank and other borrowings for working capital purposes.

Share of Profits and Losses of a Jointly Controlled Entity

Share of profits of a jointly controlled entity was HK\$0.7 million in the six month period ended September 30, 2010, compared to HK\$0.6 million in the six month period ended September 30, 2009. This increase was primarily due to increased profits from China South NEL as a result of increased demand for China South NEL's warehouse management and operation services.

Share of Results of Associates

Share of losses of associates remained flat at HK\$0.2 million in the six month periods ended September 30, 2009 and 2010.

Profit Before Tax

As a result of the foregoing, profit before tax increased by HK\$202.8 million, or 55.5%, from HK\$365.2 million in the six month period ended September 30, 2009 to HK\$568.0 million in the six month period ended September 30, 2010.

Taxation

Income taxes increased by HK\$105.5 million, or 88.1%, from HK\$119.7 million in the six month period ended September 30, 2009 to HK\$225.3 million in the six month period ended September 30, 2010. This increase was due primarily to the increase in both current and deferred tax expenses during the period. As sales revenue increased, both EIT and provision for land appreciation tax increased. Deferred tax expenses also increased as a result of the fair value gains on our investment properties.

Profit for the Period

As a result of the foregoing, profit for the period increased by HK\$97.3 million, or 39.6%, from HK\$245.4 million in the six month period ended September 30, 2009 to HK\$342.7 million in the six month period ended September 30, 2010.

Non-controlling Interests

Losses attributable to non-controlling interests increased by HK\$4.2 million, from HK\$0.3 million in the six month period ended September 30, 2009 to HK\$4.5 million in the six month period ended September 30, 2010, primarily as a result of losses incurred by our non-wholly owned project company for our planned future development in Xi'an.

Profit Attributable to Equity Holders of the Parent

As a result of the forgoing, profit attributable to equity holders of the parent increased by HK\$101.5 million, or 41.3%, from HK\$245.7 million in the six month period ended September 30, 2009 to HK\$347.2 million in the six month period ended September 30, 2010.

Fiscal Year Ended March 31, 2010 Compared with Fiscal Year Ended March 31, 2009

Revenue

Revenues increased by HK\$1,345.8 million, or 599.8%, from HK\$224.4 million in the fiscal year ended March 31, 2009 to HK\$1,570.2 million in the fiscal year ended March 31, 2010. The increase was primarily due to an increase in sales of Trade Plaza One and Trade Plaza Two, our Phase Two trade centers at China South City Shenzhen, during the fiscal year ended March 31, 2010.

Sale of properties. Revenue from sale of properties increased by HK\$1,340.4 million, or 1,978.1%, from HK\$67.8 million in the fiscal year ended March 31, 2009 to HK\$1,408.1 million in the fiscal year ended March 31, 2010. The increase in GFA sold was primarily due to the sale of approximately 98,000 sq.m. in our existing Phase Two trade centers, which, as a part of our strategy to take advantage of market increases in average sales prices, we had not previously promoted for sale. In addition, we sold new GFA that resulted from the completion of Phase Two of Trade Plaza One during the year.

GFA sold increased by approximately 93,150 sq.m., or 1,920.6%, from approximately 4,850 sq.m. in the fiscal year ended March 31, 2009 to approximately 98,000 sq.m. in the fiscal year ended March 31, 2010. The increase in GFA sold was primarily due to the sale of approximately 98,000 sq.m. in Trade Plaza One and Trade Plaza Two, our Phase Two trade centers at China South City Shenzhen. Average sales price per sq.m. increased by HK\$300, or 2.0%, from HK\$14,700 per sq.m. in the fiscal year ended March 31, 2009 to HK\$15,000 per sq.m. in the fiscal year ended March 31, 2010.

Finance lease income. Finance lease income related to residential units in West Garden in Phase Two of China South City Shenzhen increased from HK\$9.9 million in the fiscal year ended March 31, 2009 to HK\$11.2 million in the fiscal year ended March 31, 2010, prior to the completion of our Global Logistic Center.

Rental income. Rental income remained flat at HK\$101.3 million in the fiscal year ended March 31, 2010, compared to HK\$100.2 million in the fiscal year ended March 31, 2009.

Hotel income. Hotel income decreased by HK\$2.6 million, or 10.1%, from HK\$25.5 million in the fiscal year ended March 31, 2009 to HK\$22.9 million in the fiscal year ended March 31, 2010.

Property management service income. Property management service income increased by HK\$4.1 million, or 20.1%, from HK\$20.4 million in the fiscal year ended March 31, 2009 to HK\$24.5 million in the fiscal year ended March 31, 2010. The increase was primarily due to the commencement of operations of Trade Plaza One and Trade Plaza Two, our Phase Two trade centers at China South City Shenzhen.

Other fee income. Other fee income increased by HK\$1.5 million, or 240.8%, from HK\$0.6 million in the fiscal year ended March 31, 2009 to HK\$2.1 million in the fiscal year ended March 31, 2010.

Cost of Sales

Cost of sales increased by HK\$433.9 million, or 282.4%, from HK\$153.6 million in the fiscal year ended March 31, 2009 to HK\$587.5 million in the fiscal year ended March 31, 2010, primarily as a result of: (1) an increase in properties sold, primarily due to the increase in the GFA of Phase Two trade centers sold; (2) an increase in cost of properties under finance leases, primarily due to an increase in new finance leases for residential units in West Garden; and (3) an increase in cost of services provided, primarily due to the commencement of operations of Trade Plaza One and Trade Plaza Two, our Phase Two trade centers at China South City Shenzhen, in June and October 2009, respectively, leading to greater demand for security, cleaning and maintenance services.

Gross Profit

As a result of the foregoing, gross profit increased by HK\$911.9 million, or 1288.8%, from HK\$70.8 million in the fiscal year ended March 31, 2009 to HK\$982.7 million in the fiscal year ended March 31, 2010. Gross profit margin, or gross profit as a percentage of total revenue, increased from 31.5% in the fiscal year ended March 31, 2009 to 62.6% in the fiscal year ended March 31, 2010. The increase in gross profit margin was primarily due to an increase in the share of revenue from our property development segment, including primarily revenue from sales of units at our Phase Two trade centers at China South City Shenzhen, which enjoys a higher gross margin as compared to our other business segments.

Other Income and Gains

Other income and gains increased by HK\$131.4 million, or 688.6%, from HK\$19.1 million in the fiscal year ended March 31, 2009 to HK\$150.4 million in the fiscal year ended March 31, 2010. The increase in other income and gains was primarily due to the restructuring and buy back of the Convertible Notes during the fiscal year ended March 31, 2010, which contributed HK\$136.7 million as other income and gains.

Change in Fair Value of Investment Properties

The change in fair value of investment properties was HK\$1,153.9 million in the fiscal year ended March 31, 2009 compared to HK\$1,308.5 million in the fiscal year ended March 31, 2010. The increase was mainly due to the recognition of the fair value of Trade Plaza One, our Phase Two trade center at China South City Shenzhen, following the completion of construction in October 2009.

Selling and Distribution Costs

Selling and distribution costs decreased by HK\$6.0 million, or 6.7%, from HK\$89.5 million in the fiscal year ended March 31, 2009 to HK\$83.6 million in the fiscal year ended March 31, 2010. The decrease in selling and distribution costs was primarily due to reduced promotion expenses in the fiscal year ended March 31, 2010 following media campaigns in the fiscal year ended March 31, 2009 to promote Trade Plaza One and Trade Plaza Two of China South City Shenzhen.

Administrative Expenses

Administrative expenses increased by HK\$78.4 million, or 71.8%, from HK\$109.2 million in the fiscal year ended March 31, 2009 to HK\$187.7 million in the fiscal year ended March 31, 2010. The increase in administrative expenses was primarily due to one-off expenses associated with our initial public offering in September 2009 as well as performance bonuses for our management personnel during fiscal year 2010. Additional administrative expenses related to the commencement of operations of Trade Plaza One and Trade Plaza Two, our Phase Two trade centers at China South City Shenzhen, as well as the commencement of operations of our project companies in Nanchang, Nanning, Heyuan and Xi'an.

Other Expenses

Other expenses increased by HK\$12.2 million, or 92.8%, from HK\$13.2 million in the fiscal year ended March 31, 2009 to HK\$25.4 million in the fiscal year ended March 31, 2010.

Finance Costs

Finance costs increased by HK\$26.2 million, or 383.3%, from HK\$6.8 million in the fiscal year ended March 31, 2009 to HK\$33.0 million in the fiscal year ended March 31, 2010, primarily due to increased interest on additional PRC bank and other borrowings that we obtained for general working capital purposes.

Share of Profits and Losses of a Jointly Controlled Entity

Share of profits of a jointly controlled entity was HK\$1.3 million in the fiscal year ended March 31, 2010 compared to HK\$1.1 million in the fiscal year ended March 31, 2009. This increase was primarily due to increased profits from China South NEL as a result of increased demand for China South NEL's warehouse management and operation services.

Share of Results of an Associate

Share of losses of an associate remained flat at HK\$0.3 million in the fiscal year ended March 31, 2010.

Profit Before Tax

As a result of the foregoing, profit before tax increased by HK\$1,087.3 million, or 106.0%, from HK\$1,025.7 million in the fiscal year ended March 31, 2009 to HK\$2,113.0 million in the fiscal year ended March 31, 2010.

Taxation

Income taxes increased by HK\$513.2 million, or 188.6%, from HK\$272.2 million in the fiscal year ended March 31, 2009 to HK\$785.3 million in the fiscal year ended March 31, 2010. This increase was primarily due to the increase in both current and deferred tax expenses during the year. As sales revenue increased, both EIT and provision for land appreciation tax increased. The increase in income taxes was also due to a deferred tax expense of HK\$345.5 million recorded in the fiscal year ended March 31, 2010, as a result of fair value gains on our investment properties.

Profit for the Year

As a result of the foregoing, profit for the year increased by HK\$574.1 million, or 76.2%, from HK\$753.6 million in the fiscal year ended March 31, 2009 to HK\$1,327.6 million in the fiscal year ended March 31, 2010.

Minority Interests

Losses attributable to minority interests increased by HK\$1.5 million, from HK\$0.5 million in the fiscal year ended March 31, 2009 to HK\$1.9 million in the fiscal year ended March 31, 2010, as a result of an increase in losses incurred by certain of our non-wholly owned subsidiaries.

Profit Attributable to Equity Holders of the Parent

As a result of the foregoing, profit attributable to equity holders of the parent increased by HK\$575.5 million, or 76.3%, from HK\$754.0 million in the fiscal year ended March 31, 2009 to HK\$1,329.6 million in the fiscal year ended March 31, 2010.

Fiscal Year Ended March 31, 2009 Compared with Fiscal Year Ended March 31, 2008

Revenue

Revenues decreased by HK\$338.5 million, or 60.1%, from HK\$562.9 million in the fiscal year ended March 31, 2008 to HK\$224.4 million in the fiscal year ended March 31, 2009. The decrease was primarily due to a decrease in finance lease income for residential units in West Garden.

Sale of properties. Revenue from sale of properties increased by HK\$21.0 million, or 44.9%, from HK\$46.8 million in the fiscal year ended March 31, 2008 to HK\$67.8 million in the fiscal year ended March 31, 2009. The increase was primarily due to revenue from the sales of Phase Two trade center units at Trade Plaza Two of China South City Shenzhen in the fiscal year ended March 31, 2009, as well as an increase in average sales price.

GFA sold increased by approximately 1,260 sq.m., or 35.1%, from approximately 3,590 sq.m. in the fiscal year ended March 31, 2008 to approximately 4,850 sq.m. in the fiscal year ended March 31, 2009. The increase in GFA sold was primarily due to the sale of 4,068 sq.m. in Trade Plaza Two of China South City Shenzhen. Average sales price per sq.m. for Trade Plaza Two increased by HK\$990, or 7.2%, from HK\$13,710 per sq.m. in the fiscal year ended March 31, 2008 to HK\$14,700 per sq.m. in the fiscal year ended March 31, 2009.

Finance lease income. Finance lease income related to residential units in West Garden of Phase Two of China South City Shenzhen decreased from HK\$403.2 million in the fiscal year ended March 31, 2008 to HK\$9.9 million in the fiscal year ended March 31, 2009. The decrease reflected the lease of 1,191 units, or 73.2% of all available units in terms of GFA, in the fiscal year ended March 31, 2008, compared to 20 units, or 1.2% of all available units in terms of GFA, in the fiscal year ended March 31, 2009. The average lease price for West Garden for the fiscal year ended March 31, 2009 was HK\$6,660 per sq.m. compared to HK\$5,320 per sq.m. for the fiscal year ended March 31, 2008.

Rental income. Rental income increased by HK\$22.7 million, or 29.3%, from HK\$77.5 million in the fiscal year ended March 31, 2008 to HK\$100.2 million in the fiscal year ended March 31, 2009. The increase was primarily due to increases in rental occupancy rate and effective rental rate of the Phase One trade centers of China South City Shenzhen for the fiscal year ended March 31, 2009 as compared to the fiscal year ended March 31, 2008. The rental occupancy rate of the Phase One trade centers of China South City Shenzhen increased by 1.7%, from 77.5% as of March 31, 2008 to 79.2% as of March 31, 2009.

Hotel income. Hotel income increased by HK\$5.9 million, or 30.2%, from HK\$19.6 million in the fiscal year ended March 31, 2008 to HK\$25.5 million in the fiscal year ended March 31, 2009. The increase was primarily due to receiving hotel income for a full fiscal year, compared to the fiscal year ended March 31, 2008, when hotel income was recognized for only eight months.

Property management service income. Property management service income increased by HK\$6.2 million, or 43.2%, from HK\$14.3 million in the fiscal year ended March 31, 2008 to HK\$20.4 million in the fiscal year ended March 31, 2009. The increase was primarily due to higher average occupancy rates for our Phase One trade centers and additional income following the completion of the West Garden residential facility in February 2008.

Other fee income. Other fee income decreased by HK\$1.0 million, or 61.3%, from HK\$1.6 million in the fiscal year ended March 31, 2008 to HK\$0.6 million in the fiscal year ended March 31, 2009, due to a decrease in revenues from our advertisement services and the lease of our exhibition facilities.

Cost of Sales

Cost of sales decreased by HK\$132.3 million, or 46.3%, from HK\$286.0 million in the fiscal year ended March 31, 2008 to HK\$153.6 million in the fiscal year ended March 31, 2009, primarily as a result of a decrease in cost of properties under finance leases, primarily due to a decrease in new finance leases for residential units in West Garden, and partially offset by: (1) an increase in cost of properties sold, primarily due to the higher per unit construction costs for Trade Plaza Two, our Phase Two trade center at China South City Shenzhen; and (2) an increase in cost of services provided, primarily due to an increase in rental expenses incurred for leasing trade center units pursuant to our leasing agreements with the purchasers of the trade center units, as well as an increase in the depreciation of fixed assets primarily due to the depreciation of hotel assets for a full year compared to eight months in the fiscal year ended March 31, 2008.

Gross Profit

As a result of the foregoing, gross profit decreased by HK\$206.1 million, or 74.4%, from HK\$276.9 million in the fiscal year ended March 31, 2008 to HK\$70.8 million in the fiscal year ended March 31, 2009. Gross profit margin, or gross profit as a percentage of total revenue, decreased from 49.2% in the fiscal year ended March 31, 2008 to 31.5% in the fiscal year ended March 31, 2009. The decrease in gross profit margin was primarily due to a decrease in property sales income resulting from higher costs associated with the construction of Trade Plaza Two, our Phase Two trade center at China South City Shenzhen, as well as a decrease in rental income due to an increase in rental expenses incurred for a full year in the fiscal year ended March 31, 2009, as compared to four months in the fiscal year ended March 31, 2008, for the lease of trade center units pursuant to leasing arrangements with purchasers of these units. This decrease was partially offset by an increase in finance lease income as a result of an increase in the price of our West Garden residential units.

Other Income

Other income decreased by HK\$2.6 million, or 12.1%, from HK\$21.7 million in the fiscal year ended March 31, 2008 to HK\$19.1 million in the fiscal year ended March 31, 2009.

Change in Fair Value of Investment Properties

The change in fair value of investment properties was HK\$670.9 million in the fiscal year ended March 31, 2008 compared to HK\$1.15 billion in the fiscal year ended March 31, 2009. The change in fair value of investment properties in the fiscal year ended March 31, 2009 related to the recognition of the fair value of Trade Plaza Two, our Phase Two trade center at China South City Shenzhen, as income of HK\$2.25 billion following the completion of its construction in March 2009. This change was partially offset by a decrease in the fair value of our China South City Shenzhen Phase One trade centers and business centers by 23.7% as compared to March 31, 2008. The fair value of our China South City Shenzhen Phase One trade centers and business centers decreased by HK\$1,055.3 million and HK\$39.6 million, respectively.

Selling and Distribution Costs

Selling and distribution costs increased by HK\$44.3 million, or 97.8%, from HK\$45.3 million in the fiscal year ended March 31, 2008 to HK\$89.5 million in the fiscal year ended March 31, 2009. The increase in selling and distribution costs was primarily due to an increase in advertising and promotional expenses of HK\$37.0 million, or 159.5%, from HK\$23.2 million in the fiscal year ended March 31, 2008 to HK\$60.2 million in the fiscal year ended March 31, 2009, primarily related to advertising and promotional activities for Phase Two of China South City Shenzhen.

Administrative Expenses

Administrative expenses decreased by HK\$8.3 million, or 7.0%, from HK\$117.5 million in the fiscal year ended March 31, 2008 to HK\$109.2 million in the fiscal year ended March 31, 2009. The decrease in administrative expenses was primarily due to a decrease in expenses related to employee share option benefits as a result of the extension of the amortization period for the share options. Expenses related to employee share option benefits decreased by HK\$32.9 million, or 83.3%, from HK\$39.5 million in the fiscal year ended March 31, 2008 to HK\$6.6 million in the fiscal year ended March 31, 2009. The decrease was partially offset by an increase in staff remuneration costs of HK\$6.2 million, primarily due to an increase in the number of personnel and the levy of property taxes and land use tax of HK\$5.8 million and HK\$4.5 million, respectively. The increase in property taxes was due to the expiration of a five-year exemption granted by the local tax authority in Shenzhen.

Fair Value Change in Embedded Derivative Financial Instruments

For the fiscal year ended March 31, 2009, as a result of entering into a note amendment agreement in March 2008 with the holders of our Convertible Notes to remove the conversion feature of our Convertible Notes, we did not record any expenses based on the fair value change of the embedded option of the Convertible Notes.

Other Expenses

Other expenses increased by HK\$5.3 million, or 66.7%, from HK\$7.9 million in the fiscal year ended March 31, 2008 to HK\$13.2 million in the fiscal year ended March 31, 2009.

Finance Costs

Finance costs increased by HK\$5.9 million, or 610.8%, from HK\$1.0 million in the fiscal year ended March 31, 2008 to HK\$6.8 million in the fiscal year ended March 31, 2009, primarily due to interest on PRC bank and other borrowings obtained for general working capital purposes.

Share of Profits and Losses of a Jointly Controlled Entity

Share of profits of a jointly controlled entity was HK\$1.1 million in the fiscal year ended March 31, 2009 compared to HK\$0.5 million in the fiscal year ended March 31, 2008. This increase was primarily due to increased profits from China South NEL as a result of increased demand and operation of a new warehouse in China South City Shenzhen.

Share of Results of an Associate

Share of losses of an associate remained flat at HK\$0.3 million in the fiscal year ended March 31, 2009.

Profit Before Tax

As a result of the foregoing, profit before tax increased by HK\$228.8 million, or 28.7%, from HK\$796.9 million in the fiscal year ended March 31, 2008 to HK\$1.03 billion in the fiscal year ended March 31, 2009.

Taxation

Income taxes increased by HK\$30.4 million, or 12.6%, from income taxes of HK\$241.7 million in the fiscal year ended March 31, 2008 to HK\$272.2 million in the fiscal year ended March 31, 2009. This increase was due primarily to the increase in the revaluation gain of our investment properties, which was partially offset by the decrease in deferred tax expense arising from profit generated by our West Garden finance lease arrangements of HK\$51.7 million and the utilization of operational expenses in 2009, which led to a deduction of current tax expense of HK\$29.2 million.

Profit for the Year

Profit for the year increased by HK\$198.5 million, or 35.7%, from HK\$555.1 million in the fiscal year ended March 31, 2008 to HK\$753.6 million in the fiscal year ended March 31, 2009, as a result of the cumulative effect of the factors discussed above.

Minority Interests

Losses attributable to minority interests decreased by HK\$0.5 million, from HK\$1.0 million in the fiscal year ended March 31, 2008 to HK\$0.5 million in the fiscal year ended March 31, 2009, as a result of a decrease in losses incurred by certain of our non-wholly owned subsidiaries.

Profit Attributable to Equity Holders of the Parent

Profit attributable to equity holders of the parent increased by HK\$198.0 million, or 35.6%, from HK\$556.1 million in the fiscal year ended March 31, 2008 to HK\$754.0 million in the fiscal year ended March 31, 2009, as a result of the cumulative effect of the factors discussed above.

Liquidity and Capital Resources

Our primary uses of cash are to pay for construction costs, land costs (principally the payment of land grant fees), infrastructure costs, and consulting fees paid to architects and designers, as well as to service our indebtedness and fund working capital and normal recurring expenses. For the fiscal years ended March 31, 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010, we financed our operations primarily through internally generated funds, bank borrowings, the offering of the Convertible Notes, loans from our shareholders and proceeds from our 2009 initial public offering.

As of September 30, 2010, we had HK\$3,352.6 million in cash and cash equivalents and had unused bank facilities available in the amount of HK\$2,388.4 million. We believe that our current levels of cash and cash equivalents, cash flows from operations and available bank facilities, combined with the net proceeds from this offering, will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, we may need additional resources in the future if we experience changed business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions, beyond our currently budgeted intentions with respect to the continued development of our projects. If we determine that our cash requirements exceed our amounts of cash and cash equivalents on hand, we may seek to issue debt or equity securities or obtain a bank facility. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all.

Cash Flows

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

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2008	2009	2010	2009	2010
	(HK\$ in thousands)				
Cash flows provided by operating activities	308,989	71,847	894,190	197,065	282,499
Cash flows used in investing activities	(524,794)	(1,087,445)	(2,223,078)	(558,489)	(574,007)
Cash flows provided by (used in) financing activities . . .	1,079,863	11,394	4,784,450	4,213,819	(106,821)
Net increase (decrease) in cash and cash equivalents .	864,058	(1,004,204)	3,455,562	3,852,395	(398,329)
Effect of foreign exchange rate changes on cash and cash equivalents	72,717	21,390	1,331	(5,271)	47,914
Cash and cash equivalents at beginning of year/period . .	292,123	1,228,898	246,084	246,084	3,702,977
Cash and cash equivalents at end of year/period	1,228,898	246,084	3,702,977	4,093,208	3,352,562

Restriction on Cash Transfers from our Subsidiaries

We conduct all of our business through our subsidiaries, as well as our jointly controlled entities and associates, incorporated in the PRC. We rely on dividends paid by our subsidiaries and our jointly controlled entities and associates for our liquidity requirements, including the funds necessary to service any debt we may incur, including the Convertible Notes, and to pay our operating expenses. PRC law restricts the ability of our subsidiaries, jointly controlled entities and associates to transfer funds to us in the form of cash dividends, loans or advances.

Certain of our loan agreements for our bank borrowings also restrict the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances. For more information on our bank borrowings, see “Description of Other Material Indebtedness.” For a discussion of legal restrictions on the ability of our subsidiaries, jointly controlled entities and associates to transfer funds to us in the form of cash dividends, loans or advances, see “Regulation — Regulation of Foreign Currency Exchange and Dividend Distribution” and “Description of Other Material Indebtedness.”

Furthermore, under regulations of the SAFE, the Renminbi is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investment outside of the PRC, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made. These restrictions have not historically had, and are not expected in the future to have, a material adverse impact on our ability to meet our financial requirements.

Cash Flows Provided By Operating Activities

We derive cash from operating activities principally from the sale of Phase One and Phase Two trade center units and rental income received from trade center units and residential properties retained as investment properties. We also receive rental income from the rental of warehouses and supporting commercial facilities. We use cash generated from operating activities principally for investments in properties under development.

In the six month period ended September 30, 2010, net cash provided by operating activities was HK\$282.5 million, which consisted of operating cash inflow before working capital of HK\$229.0 million and working capital cash inflow of HK\$53.5 million. Working capital improved due to a decrease in properties held for sale of HK\$107.4 million, a decrease in properties held for finance lease of HK\$63.6 million and a decrease in trade receivables of HK\$32.6 million, partially offset by a decrease in other payables, accruals and deposits received of HK\$93.1 million.

In the six month period ended September 30, 2009, net cash provided by operating activities was HK\$197.1 million, which consisted of operating cash inflow before working capital of HK\$6.0 million and working capital cash inflow of HK\$191.1 million. Working capital improved due to an increase in other payables, accruals and deposits received of HK\$246.8 million and a decrease in properties held for sale of HK\$52.4 million, partially offset by an increase in trade receivables of HK\$57.0 million and an increase in prepayments, deposits and other receivables of HK\$55.1 million.

In the fiscal year ended March 31, 2010, net cash provided by operating activities was HK\$894.2 million, which consisted of operating cash inflow before working capital of HK\$762.6 million and working capital cash inflow of HK\$131.6 million. Working capital improved due to a decrease in properties held for sale of HK\$311.0 million, an decrease in prepayments, deposits and other receivables of HK\$48.5 million and an increase in other payables, accruals and deposits received of HK\$31.3 million, partially offset by an increase in trade receivables of HK\$234.0 million.

In the fiscal year ended March 31, 2009, net cash provided by operating activities was HK\$71.8 million, which consisted of operating cash outflow before working capital of HK\$74.2 million, and working capital cash inflow of HK\$146.0 million. Working capital improved due to an increase in other payables, accruals and deposits received of HK\$127.6 million, a decrease in properties held for sale of HK\$20.9 million and a decrease in finance lease receivables of HK\$10.7 million, partially offset by an increase in trade receivables of HK\$18.6 million.

In the fiscal year ended March 31, 2008, net cash provided by operating activities was HK\$309.0 million, which consisted of operating profit before working capital changes of HK\$203.6 million, and working capital cash inflow of HK\$105.4 million. Working capital improved due to a decrease in properties held for finance lease of HK\$231.5 million, partially offset by an increase in finance lease receivables of HK\$75.0 million and an increase in prepayments, deposits and other receivables of HK\$56.8 million.

Cash Flow Used in Investing Activities

In the six month period ended September 30, 2010, net cash used in investing activities was HK\$574.0 million, which primarily consisted of a cash outflow of HK\$530.7 million for the development of Phase Three of China South City Shenzhen, and China South City Heyuan, Nanchang, Xi'an and Nanning.

In the six month period ended September 30, 2009, net cash used in investing activities was HK\$558.5 million, which primarily consisted of a cash outflow of HK\$560.7 million for the development of Phase Two of China South City Shenzhen.

In the fiscal year ended March 31, 2010, net cash used in investing activities was HK\$2.22 billion, which primarily consisted of a cash outflow of HK\$2.20 billion for the development of Phase Two of China South City Shenzhen, as well as Heyuan, Nanchang and Nanning.

In the fiscal year ended March 31, 2009, net cash used in investing activities was HK\$1.09 billion, which primarily consisted of a cash outflow of HK\$1.1 billion for the development of Phase Two of China South City Shenzhen.

In the fiscal year ended March 31, 2008, net cash used in investing activities was HK\$524.8 million, which primarily consisted of a cash outflow of HK\$600.4 million for the development of Phase Two of China South City Shenzhen, partially offset by cash inflows of HK\$36.2 million for net advances from jointly controlled entities and HK\$11.2 million from capital contributions to subsidiaries from minority shareholders.

Cash Flow From Financing Activities

Our cash from financing activities since April 1, 2007 have primarily consisted of the proceeds of our initial public offering, offerings of Convertible Notes and bank and other borrowings. Our cash used in financing activities has historically been used primarily for repayment of principal of and interest on our bank and other borrowings.

In the six month period ended September 30, 2010, net cash used in financing activities was HK\$106.8 million, which consisted of new banks loans of HK\$1.25 billion, primarily offset by repayment of bank loans of HK\$1.09 billion, interest paid of HK\$120.1 million and dividend distributions of HK\$119.6 million.

In the six month period ended September 30, 2009, net cash provided by financing activities was HK\$4.21 billion, which primarily consisted of proceeds from the issue of shares of HK\$3.00 billion and new bank loans of HK\$2.43 billion, partially offset by the buy back of Convertible Notes of HK\$851.7 million and repayment of bank loans of HK\$331.3 million.

In the fiscal year ended March 31, 2010, net cash provided by financing activities was HK\$4.78 billion, which consisted primarily of new bank loans of HK\$4.0 billion and proceeds from the issue of shares of HK\$3.00 billion, partially offset by repayment of bank loans of HK\$1.17 billion, the buy back of Convertible Notes of HK\$851.7 million and interest paid of HK\$189.0 million.

In the fiscal year ended March 31, 2009, net cash provided by financing activities was HK\$11.4 million, which consisted primarily of proceeds from new bank loans of HK\$713.3 million, partially offset by repayment of bank loans of HK\$541.5 million.

In the fiscal year ended March 31, 2008, net cash provided by financing activities was HK\$1.08 billion, which consisted primarily of proceeds from new bank loans of HK\$654.8 million and proceeds from the offerings of Convertible Notes of HK\$926.5 million, partially offset by repayment of bank loans of HK\$390.7 million.

Indebtedness and Contingent Liabilities

Overview

As of September 30, 2010, the outstanding balance of our total indebtedness amounted to HK\$4.44 billion, which consisted of interest-bearing bank and other borrowings.

We also have certain commitments and contingent liabilities, consisting of commitments in respect of properties under development, commitments to purchase land and guarantees provided to banks in respect of mortgage loans entered into by purchasers of our Phase One and Phase Two trade center units and bank loans entered into by tenants of our residential and commercial properties. The aggregate amount of these capital commitments and contingent liabilities was HK\$6,037.0 million as of September 30, 2010.

Bank and Other Borrowings

Bank and other borrowings are important sources of funding for our operations. As of September 30, 2010, we had aggregate loan facilities of HK\$6.83 billion, of which HK\$4.44 billion had been drawn down. These loan facilities included both short-term working capital loans and long-term project construction loans. The following table sets forth a breakdown of our short-term loans and long-term bank and other loans as of the dates indicated.

	As of March 31,			As of
	2008	2009	2010	September 30, 2010
	(HK\$ in thousands)			
Short-term bank and other borrowings . .	422,975	707,984	1,558,417	1,601,647
Long-term bank and other borrowings . .	749,183	898,774	2,644,308	2,839,435
Total	<u>1,172,158</u>	<u>1,606,758</u>	<u>4,202,725</u>	<u>4,441,082</u>

As of September 30, 2010, all of our bank and other borrowings bore interest at floating rates ranging from 4.78% to 5.94% per year.

As of March 31, 2008, 2009 and 2010 and September 30, 2010, the weighted average interest rate on our bank and other borrowings was 7.65%, 5.83%, 5.32% and 5.31%, respectively. As of each of these dates, our bank and other borrowings were all denominated in Renminbi.

The following table sets forth a breakdown of our secured and unsecured bank and other borrowings as of the dates indicated.

	As of March 31,			As of
	2008	2009	2010	September 30, 2010
	(HK\$ in thousands)			
Unsecured bank and other borrowings . .	59,483	8,506	1,370,687	1,597,653
Secured bank and other borrowings	1,112,675	1,598,252	2,832,038	2,843,429
Total	<u>1,172,158</u>	<u>1,606,758</u>	<u>4,202,725</u>	<u>4,441,082</u>

Most of our secured loans are project construction loans, which are generally secured by mortgages over a portion of our land use rights and a portion of our properties, primarily China South City Shenzhen.

The following table sets forth the maturity profile of our interest-bearing bank and other borrowings as of the dates indicated.

	As of March 31,			As of
	2008	2009	2010	September 30, 2010
	(HK\$ in thousands)			
Within one year	422,975	707,984	1,558,417	1,601,647
Between 1–5 years	749,183	898,774	2,160,871	2,462,630
Over 5 years	—	—	483,437	376,805
Total	<u>1,172,158</u>	<u>1,606,758</u>	<u>4,202,725</u>	<u>4,441,082</u>

The agreements under our banking facilities contain certain customary covenants, including to maintain certain financial ratios and to abide by certain restrictive and affirmative covenants. We were in compliance with all relevant covenants and financial ratios in our loan agreements as of September 30, 2010. Several of our loan agreements for our bank and other borrowings restrict the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances until the loans are repaid, or unless certain net income thresholds applicable to the subsidiary borrowers are satisfied, or, in certain cases, limit their ability to pay dividends to us if the amount of the dividends exceed 30% of their after-tax profits. For a description of our material indebtedness, see “Description of Other Material Indebtedness.”

Commitments and Contingent Liabilities

Capital Commitments

The following table sets forth our capital commitments as of the dates indicated.

	As of March 31,			As of September 30,
	2008	2009	2010	2010
	(HK\$ in thousands)			
Properties under development				
Authorized but not contracted for . . .	—	—	5,641,374	4,857,358
Contracted but not provided for	827,026	304,065	48,411	897,727
Purchases of land	25,353	28,541	—	—
Total	852,379	332,606	5,689,785	5,755,085

Capital commitments as of September 30, 2010 related to commitments for Phase Three of China South City Shenzhen as well as our properties under development in Nanchang, Nanning and Heyuan. We did not have any capital commitments for the purchase of land as of September 30, 2010.

Guarantees

We guarantee mortgage and bank loans entered into by certain of our purchasers, including purchasers of trade center units and purchasers under finance leases of residential and supporting commercial units. Although the mortgages we guarantee typically finance no more than one-half of the purchase price of our trade center units or the finance lease price of our residential and supporting commercial units, if a purchaser defaults on its mortgage or bank loan, we may be required to repay the outstanding amount together with accrued interest thereon and any penalty owed by the defaulting purchaser to the relevant bank. In the event of a purchaser default, we are entitled to take over the legal title and usage rights of the related properties. As of September 30, 2010, our outstanding guarantees in respect of mortgage and bank loans amounted to HK\$281.5 million.

In addition, we make entrusted loans in connection with the sales and finance leases of certain units by advancing an amount, typically no more than one-half of the purchase price or the finance lease price, to the purchaser’s lending bank. These advances appear as loan receivables and finance lease receivables on our consolidated balance sheet. In the event of a purchaser default, we write off the receivable and are entitled to take over the legal title and usage rights of the related properties.

In the fiscal years ended March 31, 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010, we provided guarantees for mortgage loans for purchasers of Phase One and Phase Two trade center units in the amount of HK\$3.1 million, HK\$1.3 million, HK\$139.5 million, HK\$2.3 million and HK\$204.8 million, respectively. As of March 31, 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010, we provided loan guarantees for tenants of the West Garden residential units in the amount of HK\$123.3 million, HK\$94.6 million, HK\$78.5 million, HK\$85.2 million and HK\$74.2 million, respectively.

For the West Garden residential units and Global Logistic Center office units, we provide guarantees for bank loans extended to tenants of these units because the tenants do not possess the necessary property certificates to pledge them as security for these loans. With respect to West Garden, the repayment terms for these bank loans range from five years to 10 years, and mature from 2012 to 2018. Under the agreements we entered into with the banks providing the loans, we expect the guarantees will not be released until two years after full repayment. As such, we expect our contingent liability related to the West Garden residential units to be released between the years 2014 to 2020. With respect to the Global Logistic Center, the repayment terms for the bank loans range from five years to eight years, and mature from 2014 to 2017. Under the agreements we entered into with the banks providing the loans, we expect the guarantees will not be released until two years after full repayment. As such, we expect our contingent liability related to the Global Logistic Center office units will be released between the years 2016 and 2019.

Capital Expenditures

In the fiscal years ended March 31, 2008, 2009 and 2010 and the six month periods ended September 30, 2009 and 2010, we incurred capital expenditures in the amounts of HK\$603.5 million, HK\$1.20 billion, HK\$2.21 billion, HK\$563.8 million and HK\$542.7 million, respectively. Our capital expenditures were mainly used for building improvements and expansion projects for Phase One of China South City Shenzhen and the construction and development of China South City Shenzhen's Phase Two buildings and facilities.

The following table sets forth our capital expenditures for the periods indicated.

	Year Ended March 31,			Six Months Ended September 30,	
	2008	2009	2010	2009	2010
	(HK\$ in thousands)				
Property, plant and equipment	3,155	4,922	8,736	3,168	11,984
Property under development	600,365	1,104,598	2,199,354	560,661	530,690
Total	603,520	1,109,520	2,208,090	563,829	542,674

We cannot assure you that our capital expenditures can be financed on commercially acceptable terms, or at all. Our ability to obtain adequate financing to satisfy our capital expenditures, contractual obligations and debt service requirements may be limited by our financial condition and results of operations and the liquidity of domestic and international financial markets.

Off-Balance Sheet Arrangements

As of September 30, 2010, we did not have any off-balance sheet arrangements with unconsolidated entities. However, from time to time we do guarantee mortgage and bank loans entered into by purchasers of our trade center, residential and supporting commercial units. For further information on these arrangements, see “— Indebtedness and Contingent Liabilities — Commitments and Contingent Liabilities.”

Qualitative and Quantitative Disclosures About Market Risk

We are exposed to various types of market risks in the normal course of business, including foreign exchange risk and interest rate risk. We have not in the past used derivatives to manage our exposure to interest rate risk or foreign exchange risk. The following discussion and analysis, which constitute “forward-looking statements” that involve risk and uncertainties, summarizes our exposure to different market risks.

Foreign Exchange Risk

We conduct our business primarily in Renminbi. In addition, our expenses are also primarily denominated in Renminbi, although a small portion of expenses are denominated in foreign currencies, such as salaries in Hong Kong dollars paid to staff in Hong Kong, advertising expenses for advertising in Hong Kong and overseas media, rental expenses for our office space in Hong Kong and other general office expenses. However, our reporting currency is the Hong Kong dollar because we are incorporated in Hong Kong and the reporting currency of our major shareholders is also the Hong Kong dollar. During the six month period ended September 30, 2010, substantially all of our revenues were denominated in Renminbi. During the same period, substantially all of our expenses were denominated in Renminbi. As of September 30, 2010, all of our indebtedness was denominated in Renminbi. After this offering, the Notes will be denominated in U.S. dollars. Our cash and bank balances are mainly held in bank deposits and primarily denominated in Renminbi and Hong Kong dollars. We believe the impact of foreign currency risk is not material to our operations and we have not hedged our foreign currency exposures or entered into any other derivative financial instruments.

Interest Rate Risk

We are exposed to interest rate risk due to fluctuations in interest rates on our debt and deposits. Our indebtedness consists primarily of bank and other borrowings. As of September 30, 2010, we had HK\$4.44 billion in bank and other borrowings that bore interest at floating rates ranging from 4.78% to 5.94%, with a weighted average interest rate at such date of 5.31%.

Increases in interest rates could potentially result in an increase in our cost of borrowing, which could negatively affect our business and results of operations. Increases in interest rates could also adversely affect the ability of prospective purchasers to obtain financing for the purchase of units in our trade centers. The PBOC regulates the interest rates of our Renminbi-denominated borrowings. The PBOC-published benchmark one-year lending rates in China as of March 31, 2008, 2009 and 2010 and September 30, 2010 were 7.47%, 5.31%, 5.31% and 5.31%, respectively.

We also make entrusted loans to purchasers of trade center, residential and office units. All of our entrusted loans bear interest at fixed rates, and are denominated in Renminbi. Our entrusted loans are long-term loans, which increases our interest rate risk exposure relating to these loans. Changes in market interest rates could affect the interest rates we charge and receive on our entrusted loans differently from the interest rates that we may be required to pay in relation to our external financings. Any adjustments to benchmark rates or changes in market interest rates may result in an increase in interest expense relative to interest income.

Inflation

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the change in Consumer Price Index in China was 4.8%, 5.9% and -0.7% in 2007, 2008 and 2009, respectively.

Non-GAAP Financial Measures

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

- interest income;
- income tax expense;
- depreciation and amortization; and
- finance costs.

EBITDA is not a standard measure under either U.S. GAAP or HKFRS. As our market sector 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 this type of financial measure may be useful to assess the operating performance of companies in our market sector.

As measure of our operating performance, we believe that the most directly comparable HKFRS and U.S. GAAP measure to EBITDA is profit for the year or period. We use EBITDA in addition to profit for the year or period 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 the 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 table below reconciles our profit for the year under HKFRS to our definition of EBITDA for the periods indicated.

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2008	2009	2010	2009	2010
	(HK\$ in thousands)				
Profit before taxation	796,850	1,025,740	2,112,991	365,151	567,973
Adjustments for					
Interest income	(59)	(2,860)	(1,049)	(307)	(5,346)
Depreciation and amortization	29,796	37,181	37,456	18,351	16,092
Finance costs	960	6,824	32,982	11,840	16,797
EBITDA	827,547	1,066,885	2,182,380	395,035	595,516
Adjustments for					
Fair value gains on investment properties	(670,871)	(1,153,903)	(1,308,543)	(253,038)	(358,464)
Gain on restructure and buying back of interest-bearing notes . . .	–	–	(136,709)	(136,709)	–
Fair value gains on held for trading investments at fair value through profit or loss	–	–	(2,630)	–	(7,557)
Equity settled share option expense.	39,524	6,587	3,294	3,294	–
Provision for impairment of trade receivables	699	4,321	25,468	–	–
Impairment of interests in jointly-controlled entities	5,587	2,037	(41)	199	172
Adjusted EBITDA	202,486	(74,073)	763,219	8,781	229,667

You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the year or period or any other standard measure under HKFRS or U.S. GAAP or as an indicator of operating performance. Our definition of EBITDA does not account for taxes, interest income, depreciation and amortization and finance costs. Our EBITDA measures may not be comparable to similarly titled measures used by other companies.

Recently Issued Accounting Pronouncements

On November 29, 2010, the Hong Kong Institute of Certified Public Accountants, or HKICPA, issued HK Interpretation 5: Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause, or HK Interpretation 5. HK Interpretation 5 addresses the issue of whether a term loan that contains a repayment on demand clause should be

classified as a current or non-current liability in the borrower's statement of financial position. HK Interpretation 5 also addresses the issue of whether a borrower should classify cash flows associated with such term loans based on the contractual repayment dates or the earliest date on which the lender could demand repayment. HK Interpretation 5 concludes that (i) the classification of a term loan as a current or non-current liability should be determined by reference to the rights and obligations of the lender and the borrower, as contractually agreed between the two parties and in force as of the reporting date, irrespective of the probability of the lender choosing to exercise its rights within the next twelve months after the reporting date; (ii) amounts repayable under a loan agreement which includes a clause that gives the lender the unconditional right to call the loan at any time should be classified by the borrower as current in its statement of financial position; and (iii) amounts repayable under a loan agreement that includes a clause that gives the lender the unconditional right to call the loan at any time should be classified in the earliest time bracket. HK Interpretation 5 is a clarification of Hong Kong Accounting Standard 1: Presentation of Financial Statements and is effective as of the date of issue. The HKICPA considers the conclusions set forth in HK Interpretation 5 to be consistent with IFRS.

Based on HK Interpretation 5, where the application of HK Interpretation 5 constitutes a change in accounting policy, it should be accounted for retrospectively. Under HK Interpretation 5, amounts repayable under loan agreements which contain a repayment on demand clause and are recorded under non-current liabilities should be classified as current liabilities in a borrower's statement of financial position. We have not made adjustments to reclassify amounts repayable under such loan agreements as current liabilities in our unaudited condensed consolidated interim financial statements for the six months ended September 30, 2009 and 2010 or our audited consolidated financial statements for the years ended March 31, 2008, 2009 and 2010 because HK Interpretation 5 was issued after the issuance of these financial statements. As of September 30, 2010, we had term loans in the amount of HK\$251.2 million which contained a repayment on demand clause and were recorded under non-current liabilities in our unaudited condensed consolidated interim financial statements as of September 30, 2010. We have not received any indication from our lenders that they will demand early repayment pursuant to the on demand clause in any of these term loans. Furthermore, we do not believe HK Interpretation 5 will materially affect our business, results of operations or liquidity position.

INDUSTRY OVERVIEW

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

Overview of the PRC Economy

Over the last decade, China has experienced significant economic growth, largely as a result of the government's post-1978 economic reforms. China's accession to the World Trade Organization, or the WTO, in 2001 has further accelerated the reform of the PRC economy. In the past five years, China's GDP has increased from approximately RMB18,493.7 billion in 2005 to approximately RMB34,050.7 billion in 2009 at a compound average growth rate, or CAGR, of approximately 16.5%. In 2009, China's real GDP grew by 9.1% as compared to a growth rate of 9.6% in 2008.

The table below sets forth selected annual data relating to the PRC economy for the years indicated.

	2005	2006	2007	2008	2009
Nominal GDP (RMB in billions)	18,493.7	21,631.4	26,581.0	31,404.5	34,050.7
Real GDP growth rate	11.3%	12.7%	14.2%	9.6%	9.1%
Per capita GDP (RMB)	14,185	16,500	20,169	23,708	25,575
Foreign direct investment (US\$ in billions)	60.3	63.0	74.8	92.4	90.0
Fixed asset investment (RMB in billions)	8,877.4	10,999.8	13,732.4	17,282.8	22,459.9
Consumer price index	101.8	101.5	104.8	105.9	99.3
Unemployment rate	4.2%	4.1%	4.0%	4.2%	4.3%

Source: China Statistical Yearbook, National Bureau of Statistics of China.

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

Regional Growth in the PRC Economy

Guangdong Province

Guangdong Province is located in the heart of the Pearl River Delta, adjacent to Hong Kong to its south. It covers a total area of approximately 179,813 sq.km., and had a population of approximately 96.4 million as of December 31, 2009. The Pearl River Delta has been an important economic region in China with significant development and growth over the past decades. In line with the economic growth in Guangdong Province, the purchasing power of Guangdong residents has increased significantly over the

years, which has supported the growth of the real estate market in Guangdong Province. In 2009, the per capita GDP growth rate of Guangdong Province increased by approximately 6.2% as compared to 2008. The table below sets forth selected economic statistics for Guangdong Province for the years indicated.

	2005	2006	2007	2008	2009
Nominal GDP (RMB in billions)	2,255.7	2,658.8	3,177.7	3,679.7	3,948.3
As % of PRC GDP	12.2	12.3	12.5	11.9	11.6
Per capita GDP (RMB)	24,647	28,747	33,890	38,748	41,166
Per capita GDP growth rate . .	18.1%	16.6%	17.9%	14.3%	6.2%
Consumer price index	102.3	101.8	103.7	105.6	97.7
Unemployment rate	2.6%	2.6%	2.5%	2.6%	2.6%

Source: Guangdong Statistical Yearbook, Statistics Bureau of Guangdong Province.

Jiangxi Province

Jiangxi Province, located in the southern part of China with the Yangtze River as its northern border, comprises approximately 166,900 sq.km. in area. According to the China Statistical Yearbook, as of December 31, 2009, Jiangxi Province had a population of approximately 44.3 million. In 2009, the per capita GDP growth rate of Jiangxi Province increased by approximately 9.0% as compared to 2008. The table below sets forth selected economic statistics of Jiangxi Province for the years indicated.

	2005	2006	2007	2008	2009
Nominal GDP (RMB in billions)	405.7	482.1	580.0	697.1	765.5
As % of PRC GDP	2.2	2.2	2.2	2.2	2.3
Per capita GDP (RMB)	9,440	11,145	13,322	15,900	17,335
Per capita GDP growth rate . .	16.6%	18.1%	19.5%	19.4%	9.0%
Consumer price index	101.7	101.2	104.8	106.0	99.3
Unemployment rate	3.5%	3.6%	3.4%	3.4%	3.4%

Source: China Statistical Yearbook, Statistics Bureau of Jiangxi Province, CEIC.

Guangxi Zhuang Autonomous Region

Guangxi Zhuang Autonomous Region, located in Southwest China, comprises approximately 236,700 sq.km. in area. Because of its shared border with Vietnam and its proximity to Guangzhou and Hong Kong, Guangxi Zhuang Autonomous Region is an important commercial center that provides China strategic access to Southeast Asia. According to the Statistics Bureau of Guangxi Zhuang Autonomous Region, as of December 31, 2009, Guangxi Zhuang Autonomous Region had a population of approximately 50.9 million. In 2009, the per capita GDP growth rate of Guangxi Zhuang Autonomous Region increased by approximately 9.5%. The table below sets forth selected economic statistics of Guangxi Zhuang Autonomous Region for the years indicated.

	2005	2006	2007	2008	2009
Nominal GDP (RMB in billions)	398.4	474.6	582.3	702.1	775.9
As % of PRC GDP	2.2	2.2	2.2	2.2	2.3
Per capita GDP (RMB)	8,590	10,121	12,277	14,652	16,045
Per capita GDP growth rate . .	15.1%	17.8%	21.3%	19.3%	9.5%
Consumer price index	102.4	101.3	106.1	107.8	97.9
Unemployment rate	4.2%	4.2%	3.8%	3.8%	3.7%

Source: China Statistical Yearbook, Statistics Bureau of Guangxi Province.

Shaanxi Province

Shaanxi Province, located at the east side of Northwest China, comprises approximately 205,800 sq.km. in area. According to the China Statistical Yearbook, as of December 31, 2009, Shaanxi Province had a population of approximately 37.7 million. In 2009, the per capita GDP growth rate of Shaanxi Province increased by approximately 11.3% as compared to 2008. The table below sets forth selected economic statistics of Shaanxi Province for the years indicated.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Nominal GDP (RMB in billions)	393.4	474.4	575.7	731.5	817.0
As % of PRC GDP	2.1	2.2	2.2	2.3	2.4
Per capita GDP (RMB)	10,594	12,274	15,386	19,480	21,688
Per capita GDP growth rate . .	23.4%	20.1%	20.9%	26.6%	11.3%
Consumer price index	101.2	101.5	105.1	106.4	100.5
Unemployment rate	4.2%	4.0%	4.0%	3.9%	3.9%

Source: China Statistical Yearbook, Statistics Bureau of Shaanxi Province.

The Trade Center Market in the PRC

Overview

Trade centers are wholesale markets in which groups of merchants can display and sell their goods. The trade center market within China is highly fragmented, with a large number of trade centers that vary widely in GFA and on industry focus. Many trade centers in China tend to specialize in one industry sector, such as textile and clothing, leather and accessories, electronics, printing and metals products and hardware. There are a limited number of trade centers in China with a GFA in excess of 400,000 sq.m. that offer products in more than one industry sector and have a comprehensive range of supporting services and facilities. In the last five years, many wholesale trade centers have been built in China. Most of these trade centers are clustered in industrial centers such as the Pearl River Delta, the Yangtze River Delta and the Bohai-Ring surrounding the Beijing region, as well as in regional transportation hubs throughout the country, for easy access to transportation systems. As a developer and operator of large integrated logistics and trade centers, we sell and lease units in our trade centers, which is consistent with the industry practice of other trade center developers and operators.

According to Colliers International, there is growing demand in China for trade centers that are owned and operated by a single entity and are well-managed, integrated, large-scale and specialize in a certain industry or industries. Due to reduced efficiencies and competition that could arise in trade centers operated by several operators, trade centers with one operator tend to achieve relatively better operational results and higher occupancy rates, leading to higher rental rates in the market. Trade centers in China are also expected to increase in size and scope and may expand to include upstream and/or downstream facilities and supporting services. In addition, due to increased competition in the market with many trade centers planned for development in the near future, small, randomly scattered specialized markets in downtown areas are combining and moving to suburban areas with good transportation networks and opportunities for expansion. Specialized trade centers, or trade centers focused on a particular industry or limited industries, play an important role in driving economic growth as many city governments are increasingly developing urban planning schemes for the development of retail facilities, which include specialized trade centers. Moreover, the growth in large-scale specialized trade centers, in conjunction with China's increasing presence as a global manufacturing and export center, has increased the demand for trade centers with logistics services, as logistics services increase efficiency in, and decrease transportation and logistical costs for, business transactions.

The table below sets forth the total output and annual growth in output in 2009 compared to 2008 for selected industries in China.

Type of Industry	Total Output of Industry in 2009	Growth in Total Output of Industry from 2008 to 2009
	(RMB in billions)	(%)
Electronics ⁽¹⁾	4,456.3	1.5
Chemicals ⁽²⁾	4,073.7	7.4
Textile and clothing ⁽³⁾	3,341.6	8.4
Metal products	1,608.3	7.0
Printing and paper products ⁽⁴⁾	1,123.7	6.4
Plastics	1,096.9	10.8
Leather and accessories	642.6	9.4
Transport equipment.	4,173.0	25.0
Construction and decoration products ⁽⁵⁾	919.1	16.7
Manufacture of food and agricultural products ⁽⁶⁾	3,718.0	17.5
Total	25,153.2	10.8

Source: China Statistical Yearbook.

- (1) Includes communication equipment, computers and other electronic equipment.
- (2) Includes raw chemical materials, chemical products and chemical fibers.
- (3) Includes textiles and apparel, footwear and headgear.
- (4) Includes paper and paper products and printing, reproduction of recording media.
- (5) Includes timber, manufacture of wood, bamboo, rattan, palm and straw products, and furniture.
- (6) Includes manufacture of food and processing of food from agricultural products.

Trade centers are organized in a variety of configurations, generally according to industry sector. This often depends on local market demands and proximity to certain manufacturing industries. The table below sets forth some of the major trade centers in China that operate in the same industries covered by our existing trade centers in the regions where we operate.

Trade Center	Province	Commencement Date	Industry	Approximate GFA (in sq.m.)
Huaqiangbei	Guangdong	1988	Electronics	280,000
Keqiao Textile Cities	Zhejiang	1993	Textile	800,000
Shishi Clothing Base	Fujian	1995	Textile	550,000
Zhongda Textile Market	Guangdong	1982	Textile	500,000
Humen Clothing Market	Guangdong	1995	Textile	450,000
Qianqing Light Textile Raw Material Market	Zhejiang	1993	Textile	300,000
Zhanqian Road Clothing Wholesale Center	Guangdong	1985	Textile	260,000
Shenyang International Textile and Clothing City (ITCC)	Liaoning	2010	Textile	640,000
Guangdong Hardware City	Guangdong	2003	Metal	900,000
Yongkang Hardware City Zhejiang	Zhejiang	1992	Metal	600,000
Zhongshan Hardware and Electrical Center	Guangdong	2006	Metal	200,000
Guangdong International Packaging & Printing City	Guangdong	2005	Printing	200,000
China Printing City	Zhejiang	2002	Printing	200,000
Huadu Shiling	Guangdong	1983	Leather	500,000
Zhejiang Haining Leather Clothing Center	Zhejiang	1993	Leather	160,000
Wuxi Dongfang International Leather City	Jiangsu	2008	Leather	300,000
Tongerbao Haining Leather Center	Liaoning	2010	Leather	170,000

Source: Colliers International.

The Trade Center Industry in Guangdong Province

Guangdong Province has become a major center of manufacturing in China. According to China Statistical Yearbook, in 2009, Guangdong Province had a GDP of approximately RMB3,948.3 billion and exports with a value of US\$359.0 billion, which accounted for 11.6% and 1.1%, respectively, of China's total GDP and exports.

Many industries, including the textile and clothing, leather manufacturing, hardware and construction materials, home appliances, electronics and furniture industries are located in the Greater Pearl River Delta. Within Guangdong Province, Dongguan, Shenzhen and Huizhou are centers of electronics and telecommunications equipment manufacturing. Zhuhai, Zhongshan, Shunde and Jiangmen are centers for home appliances and other household consumer durables, non-durable products and hardware products. Guangzhou, Foshan, Nanhai and Zhaoqing are centers for electricity, machinery, steel, shipbuilding, textiles and construction materials. In addition, Guangzhou is an emerging area for automobile manufacturing, software development and chemical manufacturing.

The table below sets forth the total output in 2009 and annual growth in output in 2009 compared to 2008 for selected industries in Guangdong Province covered by our existing trade centers.

Type of Industry	Total Output of Industry in 2009	Growth in Total Output of Industry from 2008 to 2009
	(RMB in billions)	(%)
Electronics ⁽¹⁾	1,572.2	2.3
Textiles and clothing ⁽²⁾	386.6	11.4
Chemicals ⁽³⁾	334.6	2.1
Metal products	325.6	5.2
Plastics	264.0	9.0
Printing and paper products ⁽⁴⁾	197.6	-0.1
Leather and accessories	122.7	4.5
Total	3,203.3	4.0

Source: China City Statistical Yearbook.

- (1) Includes communication equipment, computers and other electronic equipment.
- (2) Includes textiles and apparel, footwear and headgear.
- (3) Includes raw chemical materials, chemical products and chemical fibers.
- (4) Includes paper, paper products, printing and reproduction of recording media.

In Shenzhen, there are several trade centers, each of which cater to a specific industry, such as electronics, clothing, furniture, leather or hardware.

According to Colliers International, there are six trade center projects in Shenzhen, each of which specialize in one industry sector, and with GFA ranging from 45,000 sq.m. to over 300,000 sq.m. The majority of these trade center projects had rental occupancy rates of over 90% as of October 2010.

The Trade Center Industry in Jiangxi Province

In 2009, Jiangxi Province had a GDP of RMB765.5 billion, which accounted for approximately 2.3% of China's total GDP.

The table below sets forth the total output in 2009 and annual growth in output in 2009 compared to 2008 for selected industries in Jiangxi Province that we may focus on in our planned trade center project in Nanchang.

Type of Industry	Total Output of Industry in 2009	Growth in Total Output of Industry from 2008 to 2009
	(RMB in billions)	(%)
Processing of metals and minerals ⁽¹⁾	305.2	1.7
Chemicals ⁽²⁾	73.9	43.8
Textile and clothing ⁽³⁾	58.8	31.1
Manufacture of food and agricultural products ⁽⁴⁾	65.5	35.7
Electrical machinery and equipment	66.8	33.0
Medical and pharmaceutical products.	34.9	22.9
Leather	13.4	41.4
Plastics.	12.8	40.8
Construction and decoration products ⁽⁵⁾	20.3	37.1
Total	651.5	17.1

Source: China City Statistical Yearbook.

- (1) Includes smelting and pressing of ferrous and non-ferrous metals and manufacture of non-metallic mineral products.
- (2) Includes raw chemical materials, chemical products and chemical fibers.
- (3) Includes textiles and apparel, footwear and headgear.
- (4) Includes manufacture of food and processing of food from agricultural products.
- (5) Includes timbers, manufacture of wood, bamboo, rattan, palm and straw products, and furniture.

There are a variety of small trade centers located in Nanchang, the capital city of Jiangxi Province. Currently, the majority of trade centers in Nanchang are specialized, rather than comprehensive, in their industry focus, and most of the trade centers focus on selling finished goods. According to the Nanchang Municipal Statistical Bureau, as of the end of 2009, there were 32 centers in Nanchang with a total annual transaction volume of RMB100 million.

The Nanchang trade center market is fragmented, with numerous small trade centers and, as of October 2010, approximately seven larger trade centers with total GFA of over 100,000 sq.m. and a rental occupancy rate of approximately 90%. Several trade centers also provide logistics services. Many of the trade centers in Nanchang are often limited to one industry sector. There are currently no large-scale integrated trade centers in Nanchang.

The Trade Center Industry in Guangxi Zhuang Autonomous Region

Guangxi Zhuang Autonomous Region is developing into a regional trade center due to its proximity to ASEAN countries, such as Vietnam, Laos and Myanmar. In 2009, Guangxi Zhuang Autonomous Region had a GDP of RMB775.9 billion and exports with a value of US\$8.4 billion, which accounted for 2.3% and 0.7%, respectively, of China's total GDP and exports.

According to Colliers International, the manufacturing industries in Guangxi are focused on light finished goods, such as clothing, footwear, furniture, and household appliances while the heavy manufacturing and raw materials industries are less developed in the region. The automobile parts and the decoration materials industries in Guangxi are also growing due to increased rates of real estate development and urbanization.

The table below sets forth the total output in 2009 and annual growth in output in 2009 compared to 2008 for selected industries in Guangxi that we may focus on in our planned trade center project in Nanning.

Type of Industry	Total Output of Industry in 2009	Growth in Total Output of Industry from 2008 to 2009
	(RMB in billions)	(%)
Automobile and transport equipment	197.3	52.9
Plastics and chemicals ⁽¹⁾	46.9	26.2
Electrical machinery and equipment	20.1	65.4
Medical and pharmaceutical products	13.2	34.8
Textile and clothing ⁽²⁾	10.2	15.7
Electronics	11.7	61.3
Leather	4.8	15.9
Metal products	8.0	64.6
Construction and decoration products ⁽³⁾	21.2	29.4
Total	333.4	56.4

Source: Guangxi Statistical Yearbook.

(1) Includes raw chemical materials, chemical products, chemical fibers, plastics and rubber.

(2) Includes textiles and garments, shoes and accessories.

(3) Includes timbers, manufacture of wood, bamboo, rattan, palm and straw products, and furniture.

Nanning, the capital of Guangxi Zhuang Autonomous Region, has traditionally not been a manufacturing center but has instead focused on the service industry as a result of the rapid economic development of the region. Although other industries are also present, they are limited in scope and are relatively small in scale.

The existing trade centers in Nanning mostly cover the souvenirs, construction materials and automobile markets. However, as the permanent host of the annual China-ASEAN Expo, the city is exposed to greater economic opportunities, and has started to develop and promote other industry sectors such as textiles and Chinese medicine, according to Colliers International.

The Nanning trade center market is currently fragmented with a range of trade centers varying in size and type of industries represented. The 26 largest trade centers with a total transaction volume of RMB100 million each have total GFA of over 10,000 sq.m. According to Colliers International, of the seven more established trade centers in Nanning, the average occupancy rate was approximately 90% as of October 30, 2010 and total GFA of the trade centers range from 18,200 sq.m. to over 100,000 sq.m. Logistics services are also available on-site at many of the trade centers. Most of the trade centers in Nanning are focused on one industry, with a lack of integrated, multi-industry trade centers with supporting logistics and auxiliary services.

The Trade Center Industry in Shaanxi Province

In 2009, Shaanxi Province had a GDP of RMB818.7 billion, which accounted for approximately 2.4% of China's total GDP.

The table below sets forth the total output in 2009 and annual growth in output in 2009 compared to 2008 for selected industries in Shaanxi Province that we may focus on in our planned trade center project in Xi'an.

Type of Industry	Total Output of Industry in 2009	Growth in Total Output of Industry from 2008 to 2009
	(RMB in billions)	(%)
Metal products	7.3	42.1
Construction materials ⁽¹⁾	10.5	73.8
Textile and clothing ⁽²⁾	10.9	16.6
Beverage	17.3	15.6
Processing of food from Agricultural Products	31.2	34.4
Automobile and transport equipment	94.9	32.9
Electrical machinery and equipment	34.7	27.3
Total	206.8	31.4

Source: China City Statistical Yearbook.

(1) Include bricks, stone, other construction materials; glass and glass related products; pottery products; processing of timbers; manufacture of wood, bamboo, rattan, palm and straw products and furniture; and ink material; and related products.

(2) Includes textiles and apparel, footwear and headgear.

There are approximately five trade centers located in Xi'an, the capital city of Shaanxi Province. Currently, most of the trade centers focus on selling finished goods.

The Xi'an trade center market is fragmented, with numerous small trade centers and, as of October 2010, approximately five larger trade centers with total GFA of over 100,000 sq.m. and a rental occupancy rate of approximately 90%. Several trade centers also provide logistics services. Many of the trade centers in Xi'an are often limited to one industry sector. There are currently no large-scale integrated trade centers in Xi'an.

The Logistics Industry in China

Overview

The logistics industry comprises the procurement, purchasing, inventory, warehousing, distribution and transportation of goods and services from point of origin to point of consumption by the ultimate consumer. Third-party logistics is a relatively new industry in China. Traditionally, independent trucking companies, warehouse operators, railway agencies, freight forwarders and carriers have provided logistics services to enterprises in China. Of the enterprises registered as logistics services providers in China in 2006, the majority were confined to a segment of the supply chain, such as warehousing or point-to-point transportation, without the capability of providing comprehensive logistics services encompassing all segments of their customers' supply chain.

As foreign trade is more concentrated in China's coastal regions, the main locations in China for transportation and logistics services, including warehousing and distribution of goods, have traditionally been the Greater Pearl River Delta and the Yangtze River Delta. These regions are in proximity to the primary ports in China of Hong Kong, Shenzhen and Shanghai. However, as domestic trade in China continues to grow and the number of trade centers increase at regional hubs of transportation to cater to local markets, the need for transportation and logistics services will also increase in areas away from China's coastal regions.

Since its accession to the WTO in 2001, the PRC has adopted new liberalization policies in the logistics industry, which is expected to have a significant positive impact on China's transportation and logistics industry. Foreign logistics providers are now permitted to operate transportation and logistics services in China without geographic restrictions. The activities in China permitted of foreign logistics providers include: (1) freight forwarding operations; (2) storage and warehousing operations; (3) road freight transportation; (4) maritime transportation (subject to a limitation of 49% foreign equity ownership for certain types of activities); (5) air transportation (subject to a maximum 35% foreign equity ownership); and (6) wholesale and retail distribution of general goods.

Drivers for Growth

The major factors contributing to the growth in the logistics industry in China have been China's growing importance as a manufacturing and export center, as well as the overall growth in global trade, which has been driven by growth in both domestic and foreign trade of the PRC.

China has taken advantage of its lower production costs and a plentiful supply of inexpensive labor compared with more developed countries, and an increasingly sophisticated transportation infrastructure, to become a manufacturing and export center. As exports from China grow as a result of increased outsourcing of manufacturing to China, the number of manufacturing facilities in China and the amount of foreign direct investment, particularly in the manufacturing industry, in China will continue to grow. In 2009, the PRC was one of the major foreign trading nations in terms of trade volume, with total foreign trade volume of approximately US\$2,207.5 billion, representing a 13.9% decrease compared to 2008. According to China Statistical Yearbook 2009, in 2008, China ranked third in the world in terms of the aggregate amount of exports and imports, after the United States and Germany. Between 2005 and 2009, China's exports and imports volumes grew at compounded annual growth rates of 16.1% and 11.1%, respectively. China's exports and imports in 2009 fell to US\$1,201.6 billion and US\$1,005.9 billion, respectively, representing decreases of 16.0% and 11.2% compared to 2008. As exports and imports from and into China continue to grow, we expect logistics throughput in China to increase.

The table below presents information relating to China's foreign trade for the years indicated.

	2005	2006	2007	2008	2009
	(in billions of US\$, except for percentages)				
Exports	762.0	968.9	1,217.8	1,430.7	1,201.6
Imports	660.0	791.5	956.0	1,132.6	1,005.9
Balance of trade	102.0	177.5	261.8	298.1	195.7
Exports as percentage of imports	115.5%	122.4%	127.4%	126.3%	119.5%
Exports as percentage of GDP	27.6%	30.0%	30.7%	30.5%	23.6%

Source: China Statistical Yearbook, National Bureau of Statistics of China.

The trend towards outsourcing logistics is another growth factor in the logistics industry in China. The major factor for increased outsourced logistics activity is a desire to reduce logistics costs. Although labor costs are low in China, processes are not streamlined, and information systems and automated processes are undeveloped. The PRC government is taking steps to improve the logistics infrastructure. Since 2007, the PRC spent a substantial amount on logistics assets and infrastructure. A substantial portion of the expenses was for transportation improvements, particularly for the rail and roadway infrastructure.

Furthermore, the recent WTO accession agreement has allowed the logistics industry in the PRC to be fully opened to foreign companies, which should increase demand for warehouses and logistics facilities throughout China. Also driving demand for warehouses and logistics facilities is the increase in trade and exports between China and Hong Kong resulting from the Closer Economic Partnership Arrangement, or CEPA, signed in 2003. Under CEPA, all goods made in Hong Kong (except certain prohibited articles) can be exported to China and enjoy zero tariffs, and all goods made in China can be exported to Hong Kong and enjoy zero tariffs. According to the China Statistical Yearbook, exports from Hong Kong to China decreased 32.6% in 2009 compared to 2008, and exports from China to Hong Kong decreased 13.8% in 2009 compared to 2008.

Real Estate Market in the PRC

Overview

In 1990, the State Council issued the Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State Land in Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例), or the Urban Land Regulations. These rules, together with other land regulations and general economic growth in the PRC, have contributed to the significant growth experienced by the PRC property market since 1995.

The PRC property market continues to grow as evidenced by the increase in prices for property in China from 2005 to 2009. The average price per sq.m. for the overall property market, including residential and commercial property, was approximately RMB4,681 in 2009, compared to approximately RMB3,168 in 2005. The increase in land prices in the PRC is due to a number of factors, including the limited supply of land in favorable locations and competition among developers for the land. The transaction price indices of land decreased from 109.1 in 2005 to 105.8 in 2006 as more land outside the center of major cities were sold, which were usually lower in price compared with land in the center of major cities. The transaction price indices of land decreased slightly in 2008 because of the macroeconomic measures introduced by the PRC government to control perceived overinvestment in the property market. In response to the recent global economic downturn, the PRC government has adopted increasingly flexible macroeconomic policies to ease the economic downturn pressure. According to Colliers International, the prices of property and land are expected to continue to increase in the mid to long term.

The table below sets forth selected data relating to the PRC real estate market for the years indicated.

Supply indicators:	2005	2006	2007	2008	2009
Investment in real estate (RMB in billions)	1,590.9	1,942.3	2,528.9	3,120.3	3,624.2
GFA of commercial properties sold (sq.m. in millions)	554.9	618.6	773.5	659.7	947.6
GFA of properties under construction (sq.m. in millions)	1,660.5	1,947.9	2,363.2	2,832.7	3,203.7
GFA of new developments (sq.m. in millions)	680.6	792.5	954.0	1,025.5	1,164.2
Demand indicators:					
Average sales price of residential commodity properties (RMB per sq.m.)	2,937	3,119	3,645	3,576	4,459
Average sales price of all properties, including residential, commercial, office and other properties (RMB per sq.m.)	3,168	3,367	3,864	3,800	4,681
Transaction price indices of land	109.1	105.8	112.3	109.5	105.4

Source: China Statistical Yearbook, National Bureau of Statistics of China.

The PRC government has implemented a series of measures to tighten control of the property market since 2003. In March 2005, the PRC government instituted eight measures to rein in speculation in the residential property market, slow the growth of residential property prices and regulate the real estate industry. These measures included increasing the minimum required down payment to 30% of the total purchase price, eliminating the preferential mortgage interest rate for residential housing, imposing a business tax of 5% for sales within two years of purchase, and prohibiting reselling unfinished properties before they are completed. In 2006, the PRC government implemented additional land supply, bank financing and other measures to curtail fast increases in property prices, to encourage the development of middle- to low-end housing and promote healthy development of the PRC real estate industry. In 2007, the PRC government continued to institute measures to manage the rapid growth of the property market and provide a further regulatory framework to the property market. These measures included limiting access to capital by foreign-invested enterprises in various aspects, such as, limitations on the ability of foreign-invested enterprises to raise funds offshore and restrictions on the conversion and sale of foreign exchange into the capital account. In addition, the PRC government also imposed new requirements which must be satisfied prior to commencing the development of real estate investment projects and created further restrictions on obtaining loans from commercial banks. For further information on these measures, see “Regulation — Regulations on Foreign-Invested Real Estate Enterprises.”

During 2007 to 2008, in response to the current global economic downturn and corresponding decline in the rate of growth of the PRC economy, the PRC government reversed certain policies with respect to the domestic property market, including the announcement and adoption of new measures specifically designed to encourage development of the domestic property market.

From 2009 to 2010, on the basis of global economic recovery and steady increase in the rate of growth of the PRC economy, the PRC government instituted several policies in attempt to curb overheating land and housing prices. Policies and measures instituted include adjustments to the rate of the savings deposit reserve fund, interest rate, taxes related to real estate, land supply and affordable housing construction. Furthermore, several first-tier cities in China have promulgated policies to further curb increasing housing prices and restrain speculation in the real estate market.

Real Estate Market in Guangdong Province and Shenzhen

Guangdong Province

According to the Statistics Bureau of Guangdong Province, a total GFA of approximately 50.6 million sq.m. of commercial properties was completed in Guangdong Province in 2009, representing an increase of approximately 16.1% compared to 2008, and a total GFA of approximately 70.6 million sq.m. of commercial properties was sold in Guangdong Province in 2009, an increase of approximately 46.5% from 48.2 million sq.m. sold in 2008. In 2009, the average price of commercial property in Guangdong Province was RMB6,518 per sq.m., compared to RMB5,953 in 2008, and total sales revenue from commercial properties was RMB459.9 billion in 2009, compared to RMB288.0 billion in 2008. The table below sets forth certain information relating to the property market in Guangdong Province for the years indicated.

	2005	2006	2007	2008	2009
GFA completed (sq.m. in millions)	43.9	43.1	42.6	43.6	50.6
GFA sold (sq.m. in millions)	50.4	51.8	61.7	48.2	70.6
% of total GFA sold in the PRC	9.1	8.4	8.0	7.8	7.5

Source: China Statistical Yearbook, Statistics Bureau of Guangdong Province, Colliers International.

Shenzhen

Shenzhen, which is the second largest city in Guangdong Province by developed land area, is located in the southern region of Guangdong Province. Highways, railways and waterways connect Shenzhen to nearby Hong Kong and Macau. According to the Statistics Bureau of Shenzhen, as of December 31, 2009, Shenzhen had a population of approximately 8.9 million. In 2009, Shenzhen's GDP reached approximately RMB820.1 billion, representing a per capita GDP of approximately RMB92,772. The table below sets forth selected economic statistics of Shenzhen for the years indicated.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Nominal GDP (RMB in billions)	495.1	581.4	680.2	778.7	820.1
Per capita GDP (in RMB) . . .	60,801	69,450	79,645	89,587	92,772
Consumer price index	101.6	102.2	104.1	105.9	98.7
Unemployment rate	2.4%	2.3%	2.3%	2.3%	2.6%

Source: Guangdong Statistical Yearbook, Statistics Bureau of Shenzhen.

According to Colliers International, as of December 31, 2007, there was a GFA of approximately 102.0 million sq.m. of industrial factories and a GFA of approximately 2.1 million sq.m. of warehouses under management in Shenzhen. Demand for land from manufacturing enterprises, trade enterprises and other exporters have resulted in a shortage of available supply of land for industrial factories and warehouses. According to Colliers International, rental rates are expected to continue to remain at current levels in the short-term and to increase in the medium- to long-term for both factories and warehouses in the near future.

The table below sets forth certain information relating to the property market in Shenzhen for the years indicated.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Investment in real estate (RMB in billions)	42.4	46.2	46.1	44.0	43.7
GFA of new developments (sq.m. in millions)	10.5	8.0	8.8	7.5	4.9
Average sales price of commercial properties (RMB per sq.m.)	7,582	9,385	14,050	12,665	15,214

Source: China Real Estate Statistics Yearbook, Guangdong Statistical Yearbook, CEIC, Colliers International, Statistics Bureau of Shenzhen.

Real Estate Market in Other Provinces

Jiangxi Province

According to China Statistical Yearbook, a total GFA of approximately 16.5 million sq.m. of commercial properties was completed in Jiangxi Province in 2009, and a total GFA of approximately 22.8 million sq.m. of commercial properties was sold in Jiangxi Province in 2009, an increase of approximately 32.0% from 17.3 million sq.m. sold in 2008. The table below sets forth certain information relating to the property market in Jiangxi Province for the years indicated.

	2005	2006	2007	2008	2009
GFA completed (sq.m. in millions)	15.6	16.2	16.3	15.8	16.5
GFA sold (sq.m. in millions)	16.5	17.8	21.8	17.3	22.8
% of total GFA sold in the PRC	3.0	2.9	2.8	2.6	2.4

Source: China Statistical Yearbook, CEIC.

Nanchang

Nanchang, the capital of Jiangxi Province, is located in the northern region of Jiangxi Province. Located on the Gan River and near the intersection of the Jingjiu and Zhegan Railways, Nanchang serves as an important transportation hub for Southern China. According to the Jiangxi Statistical Yearbook 2010, as of December 31, 2009, Nanchang had a population of approximately 4.6 million. In 2009, Nanchang's GDP reached approximately RMB183.8 billion, representing a per capita GDP of approximately RMB39,669. The table below sets forth selected economic statistics of Nanchang for the years indicated.

	2005	2006	2007	2008	2009
Nominal GDP (RMB in billions)	100.7	118.4	139.0	166.1	183.8
Per capita (in RMB)	22,390	26,131	30,464	36,117	39,669
Consumer price index	101.0	101.9	104.4	106.1	99.7
Unemployment rate	3.4%	3.0%	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾

Source: China City Statistical Yearbook, CEIC, The People's Government of Nanchang City, Nanchang, China.

(1) Not available.

The table below sets forth certain information relating to the property market in Nanchang for the years indicated.

	2005	2006	2007	2008	2009
Investment in real estate (RMB in billions)	11.0	11.1	12.6	16.3	19.8
GFA of new developments (sq.m. in millions)	5.3	6.2	6.4	5.2	3.6
Average sales price of commercial properties (RMB per sq.m.)	2,587	3,126	3,558	3,461	3,775

Source: China Real Estate Statistics Yearbook, Jiangxi Statistical Yearbook, CEIC, Colliers International, The People's Government of Nanchang City, Nanchang, China.

Guangxi Zhuang Autonomous Region

According to the China Statistical Yearbook, a total GFA of approximately 14.4 million sq.m. of commercial properties was completed in Guangxi Zhuang Autonomous Region in 2009, and a total GFA of approximately 23.8 million sq.m. of commercial properties was sold in Guangxi Zhuang Autonomous Region in 2009, an increase of approximately 34.5% from 17.7 million sq.m. sold in 2008. The table below sets forth certain information relating to the property market in Guangxi Zhuang Autonomous Region for the years indicated.

	2005	2006	2007	2008	2009
GFA completed (sq.m. in millions)	13.3	11.3	13.1	12.5	14.4
GFA sold (sq.m. in millions)	14.4	15.0	20.2	17.7	23.8
% of total GFA sold in the PRC	2.6	2.4	2.6	2.7	2.5

Source: China Statistical Yearbook, CEIC, Colliers International.

Nanning

Nanning, the capital of Guangxi Zhuang Autonomous Region, is located in the southern region of Guangxi Zhuang Autonomous Region. According to the Guangxi Statistical Yearbook, as of December 31, 2008, Nanning had a population of approximately 7.0 million. In 2009, Nanning's GDP reached approximately RMB152.5 billion, representing a per capita GDP of RMB21,829. The table below sets forth selected economic statistics of Nanning for the years indicated.

	2005	2006	2007	2008	2009
Nominal GDP (RMB in billions)	72.3	87.0	106.9	131.6	152.5
Per capita (in RMB)	11,057	13,071	15,774	19,142	21,829
Consumer price index	101.1	102.5	104.4	108.4	98.2
Unemployment rate	3.9%	4.0%	3.7%	3.6%	3.9%

Source: China City Statistical Yearbook, CEIC, Nanning Statistical Yearbook.

The table below sets forth certain information relating to the property market in Nanning for the years indicated.

	2005	2006	2007	2008	2009
Investment in real estate (RMB in billions)	10.5	13.9	18.7	20.2	22.7
GFA of new developments (sq.m. in millions)	6.7	6.5	6.7	5.6	N/A ⁽¹⁾
Average sales price of commercial properties (RMB per sq.m.)	2,605	2,872	3,404	3,952	4,557

Source: China Real Estate Statistics Yearbook, Guangxi Statistical Yearbook, CEIC, Colliers International.

(1) Not available.

Shaanxi Province

According to China Statistical Yearbook, a total GFA of approximately 9.2 million sq.m. of commercial properties was completed in Shaanxi Province in 2009, and a total GFA of approximately 20.9 million sq.m. of commercial properties was sold in Shaanxi Province in 2009, an increase of approximately 38.4% from 15.1 million sq.m. sold in 2008. The table below sets forth certain information relating to the property market in Jiangxi Province for the periods indicated.

	2005	2006	2007	2008	2009
GFA completed (sq.m. in millions)	7.6	7.9	8.9	8.8	9.2
GFA sold (sq.m.in millions)	8.9	11.2	14.6	15.1	20.9
% of total GFA sold in the PRC	1.6	1.8	1.9	2.3	2.2

Source: China Statistical Yearbook, CEIC.

Xi'an

Xi'an, the capital of Shaanxi Province, is located in the central region of Shaanxi Province. Located in the center of Northwest China, Xi'an is the key area of the West Development and the key stop for Eurasia Land Bridge with a long history. According to the Shaanxi Statistics Yearbook 2010, as of December 31, 2009, Xi'an had a population of approximately 7.8 million. In 2009, Xi'an's GDP reached approximately RMB272.4 billion, representing a per capita GDP of approximately RMB32,411. The table below sets forth selected economic statistics of Nanchang for the periods indicated.

	2005	2006	2007	2008	2009
Nominal GDP (RMB in billions)	131.4	153.9	185.7	231.8	272.4
Per capita (in RMB)	16,406	18,890	22,463	27,794	32,411
Consumer price index	100.3	101.6	104.7	106.0	99.7
Unemployment rate	4.3%	4.3%	4.3%	4.2%	4.2%

Source: China City Statistical Yearbook, CEIC.

The table below sets forth certain information relating to the property market in Xi'an for the periods indicated.

	2005	2006	2007	2008	2009
Investment in real estate (RMB in billions)	21.2	28.6	38.7	54.6	69.6
GFA of new developments (sq.m. in millions)	6.0	5.5	7.3	10.8	N/A ⁽¹⁾
Average sales price of commercial properties (RMB per sq.m.)	2,851	3,317	3,379	3,906	3,890

Source: China Real Estate Statistics Yearbook, Shaanxi Statistical Yearbook, CEIC, Colliers International.

(1) Not available.

HISTORY AND CORPORATE STRUCTURE

History

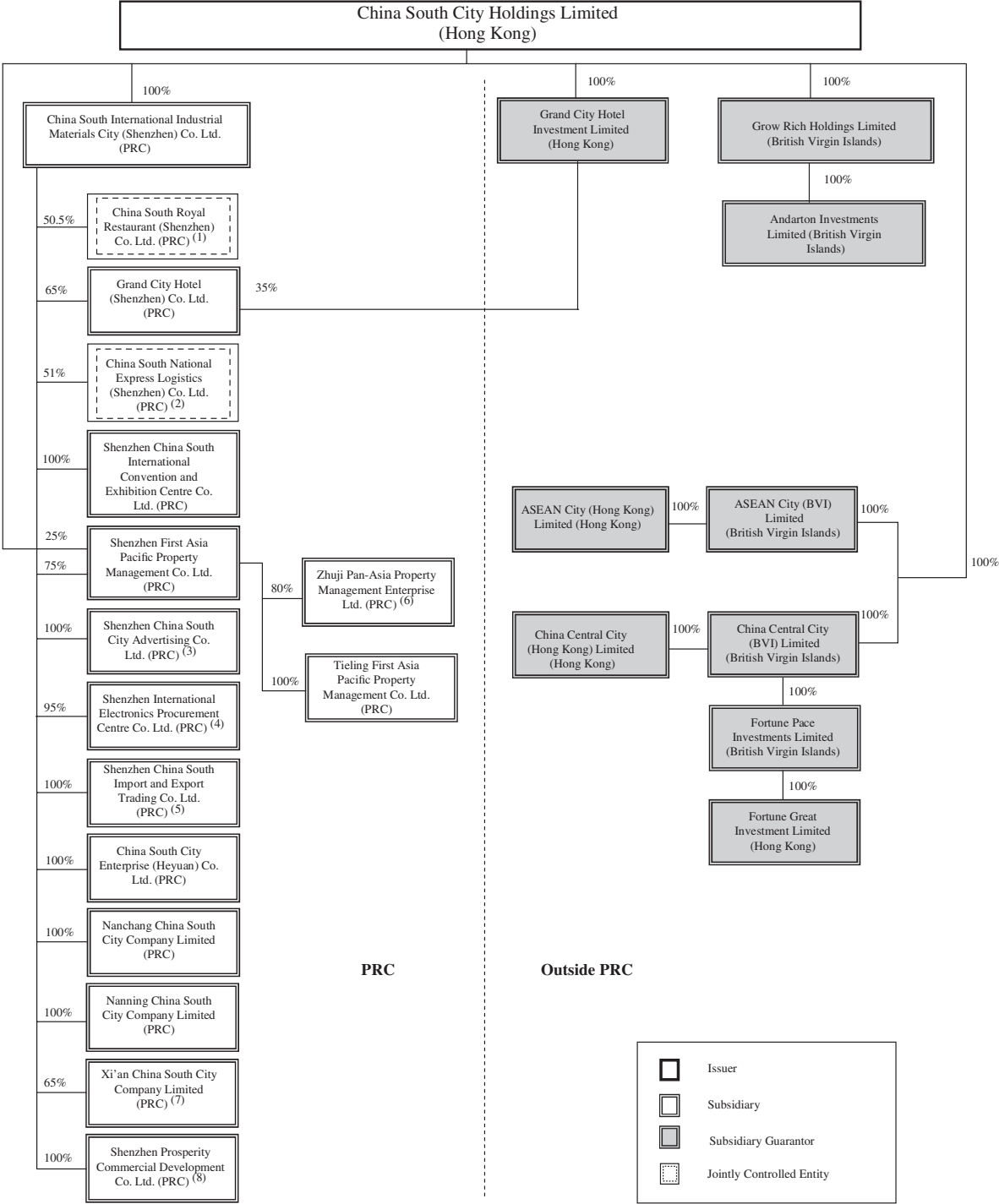
Our business model and concept was initially developed by Cheng Chung Hing and Leung Moon Lam. Following various discussions among Cheng Chung Hing, Ma Kai Cheung, Leung Moon Lam, Sun Kai Lit, Cliff and Ma Wai Mo (who we collectively refer to as our founding shareholders), our founding shareholders formalized and carried out our business plan. Our five founding shareholders are either chairmen or executive directors of leading manufacturing and industrial companies based in Hong Kong with operations in the Greater China Pearl River Delta region, and have extensive experience and a well-developed network of contacts in their respective industries.

Our Company was incorporated on May 8, 2002. We listed on the Hong Kong Stock Exchange and completed our initial public offering in September 2009.

We conduct our business primarily through China South International and its subsidiaries, jointly controlled entities and associated entities established in the PRC.

Corporate Structure

The following chart sets forth our corporate structure for each subsidiary and jointly controlled entity, with the jurisdiction of each entity in parenthesis, as of the date of this offering memorandum:



(1) The remaining 49.5% interest is held by Globe Honest International Ltd., which is an independent third party. The primary business operations of China South Royal Restaurant (Shenzhen) include the operation of the China South Royal Restaurant in Shenzhen.

(2) The remaining 10% interest and 39% interest are held by independent third parties, namely National Express Group Co. Ltd. and Xu Yan, respectively. The primary business operations of China South National Express Logistics (Shenzhen) Co. Ltd include the leasing of warehouses at China South City Shenzhen.

- (3) The primary business operations of Shenzhen China South Advertising include the provision of advertising services, through an agent, Shenzhen Xiangbo Digital Technology Company Limited, to trade center tenants, pursuant to a cooperation agreement made between this agent and China South International dated March 24, 2008.
- (4) The remaining 5% interest is held by Shenzhen Electronics Chamber of Commerce, which is an independent third party. Shenzhen International Electronics Procurement Centre Co. Ltd. is currently a dormant company.
- (5) Shenzhen China South Import and Export Trading Co. Ltd. is currently a dormant company.
- (6) The remaining 20% interest is held by China Pearls and Jewellery PRC, which is wholly owned by China Pearls and Jewellery HK, which in turn is a 55% owned subsidiary of Man Sang International. The primary business operations of China Pearls and Jewellery PRC is to develop trade centers for trading of pearls and jewelry.
- (7) The remaining 35% interest is held by Xin Hao Da (Hong Kong) Holding Co. Ltd.
- (8) The primary business operations of Shenzhen Prosperity Commercial Development Co. Ltd. include investing in enterprises, leasing and managing properties, and trading different products.

BUSINESS

Overview

We are one of the leading developers and operators of large-scale, integrated logistics and trade centers in the PRC, based on GFA, industry coverage and range of supporting services and facilities offered, according to Colliers International. Leveraging our experience and brand reputation, as of September 30, 2010, we had five projects in different stages of development located in regional economic hubs in southern and central China.

Our business model is built on a premise of “One Body with Two Wings,” with the “One Body” represented by our large-scale integrated logistics and trade centers, designed to serve as key commercial hubs to satisfy the economic and industrial needs of the regions in which we operate, and the “Two Wings” represented by the supporting residential and commercial facilities, designed to facilitate the operations of our trade center tenants and their customers. We complement our trade center operations by providing comprehensive supporting facilities including hotel, office, warehouse, exhibition and conference facilities. Our residential facilities further complement our trade center operations by providing convenient, high-quality accommodations for our trade center tenants, as well as providing cash flows to cover a portion of project-related capital expenditures. Our business model is further augmented by the on-site presence of PRC government agencies, which offer a diverse range of services to trade center tenants and other customers.

We currently have one integrated logistics and trade center project in operation, China South City Shenzhen. Phase One of China South City Shenzhen serves five complementary light manufacturing industries: (1) textile and clothing; (2) leather and accessories; (3) electronic accessories; (4) printing, paper and packaging; and (5) metals, chemicals and plastics. Phase Two of China South City Shenzhen primarily houses manufacturers and distributors of related finished goods and small commodities, as well as themed products, regional goods including branded undergarments, and goods originating in Hong Kong and Taiwan. Phase Three of China South City Shenzhen, for which we commenced construction in December 2010, will consist of three trade centers for finished goods in the furniture, motor vehicle and electronics industries.

As of September 30, 2010, approximately 1.5 million sq.m. of trade center units and ancillary facilities in Phase One and Phase Two of China South City Shenzhen were in operation. Upon completion of Phase Three, currently planned for 2015, we expect that China South City Shenzhen will have a total GFA of 1.5 million sq.m. of trade centers as well as more than 1.1 million sq.m. of supporting facilities.

We sell and lease trade center units at China South City Shenzhen to domestic and international suppliers, manufacturers and distributors of raw materials and finished goods, providing superior facilities and an integrated platform from which to display and sell their products to buyers. We focus on developing our trade centers by providing effective project planning and managing completed trade centers with quality services. We intend to achieve an optimal mix between trade center units for sale and trade center units held as investment properties. As of September 30, 2010, 46.8% of our Phase One trade center units in terms of GFA were sold, 6.7% were held for sale and 46.5% were held as investment properties. As of September 30, 2010, 22.7% of our Phase Two trade center units in terms of GFA were sold, 14.3% were held for sale and 63.0% were held as investment properties and for exhibition centers.

Our first project, China South City Shenzhen, is strategically located in the Pearl River Delta, one of the largest manufacturing and export regions in China, according to Colliers International. This project is centered within an extensive transportation network of airports, railways, port facilities and highways that facilitate trade in the region. Phase One trade centers of China South City Shenzhen commenced construction in October 2003 and commenced operations in December 2004. Phase Two trade centers of China South City Shenzhen commenced construction in December 2007 and commenced operations in June 2009. China South City Shenzhen currently has two completed Phase Two trade centers, Trade Plaza One and Trade Plaza Two. Phase Two of China South City Shenzhen, including all trade centers and

supporting commercial, warehouse and residential facilities, covers a GFA of approximately 1.0 million sq.m. Phase Three of China South City, which commenced construction in December 2010, will consist of three new trade centers. Phase Three of China South City Shenzhen, including trade centers and supporting commercial, warehouse and residential facilities, is expected to cover a GFA of approximately 1.1 million sq.m. upon expected completion by 2015.

We have two integrated logistics and trade center properties under development in Nanchang, Jiangxi Province and Nanning, Guangxi Zhuang Autonomous Region. China South City Nanchang is currently under development in Nanchang, the provincial capital of Jiangxi, which is located in close proximity to the Yangtze River Delta. As of September 30, 2010, we had acquired a site area of approximately 1.1 million sq.m., representing 67.7% of the total intended construction area of approximately 1.6 million sq.m. of the project. As it is strategically located to serve both the Pearl River delta and Yangtze River delta regions, we believe that China South City Nanchang is well situated to develop along with increasing trade within and among these regions. China South City Nanning is currently under development in Nanning, the capital of Guangxi Zhuang Autonomous Region. As of September 30, 2010, we had acquired a site area of approximately 890,000 sq.m., representing 48.6% of the total intended construction area of approximately 1.8 million sq.m. of the project. Strategically located in close proximity to Southeast Asia, we believe China South City Nanning will serve as a key hub for large-scale finished and unfinished goods and commodity trade with Southeast Asia. Both China South City Nanchang and China South City Nanning will be strategically located within an extensive transportation network.

In addition to our integrated logistics and trade center projects, we have a project under development in Heyuan City, Guangdong Province, which we expect to consist primarily of a farm-style resort community and is intended to cater to domestic and international executives, including those with operations at China South City Shenzhen. We also have a property planned for future development in Xi'an, the capital city of Shaanxi Province, for the development of a large-scale integrated logistics center in the Xi'an International Trade and Logistics Park.

As of September 30, 2010, China South City Shenzhen, including completed properties (Phase One and Phase Two) and properties planned for future development (Phase Three), had a planned aggregate GFA of approximately 2.6 million sq.m. China South City Nanchang, including properties under development (Phase One) and properties planned for future development (Phases Two), had a planned aggregate GFA of approximately 4.3 million sq.m. China South City Nanning, including properties under development (Phase One) and properties planned for future development (Phase Two), had a planned aggregate GFA of approximately 4.9 million sq.m. Our Heyuan project, including properties under development (Phase One) and properties planned for future development (Phase Two), had a planned aggregate GFA of approximately 2.3 million sq.m. China South City Xi'an, all of which is planned for future development, had a planned aggregate GFA of approximately 17.5 million sq.m. We expect the aggregate GFA of these five projects to be approximately 31.6 million sq.m. upon completion.

Our Competitive Strengths

We believe that we are well-positioned to take advantage of continuing strong growth in the trade of finished and unfinished goods as a result of China's growing position as a global manufacturing and export center and China's increasing domestic consumption. We believe that we have the following competitive strengths:

Our unique "One Body with Two Wings" business model provides an integrated platform for our trade center tenants and their customers to receive a comprehensive range of trade, logistics and supporting services

Our business model is built on a premise of "One Body with Two Wings," with the "One Body" represented by our large-scale integrated logistics and trade centers, designed to serve as key commercial hubs to satisfy the economic and industrial needs of the regions in which we operate, and the "Two Wings" represented by the supporting residential and commercial facilities, designed to facilitate the

operations and accommodation of our trade center tenants and their customers. The scale and scope of China South City Shenzhen, which serves five complementary light manufacturing industries and related markets for finished goods and small commodities, attracts buyers and sellers seeking to take advantage of the synergies present within our integrated logistics and trade centers. Buyers are able to meet their purchasing needs for a wide range of finished and unfinished goods as well as effectively diversify and tailor their sourcing needs. Sellers are able to streamline their business operations by taking advantage of the full range of on-site logistics and trade solutions available at our integrated logistics and trade centers.

We believe the comprehensive range of trade, logistics and supporting residential and commercial services offered at our trade center projects provides us with diverse revenue streams and differentiates our business model from that of traditional property developers. Furthermore, we expect sales of our residential properties to provide us with an effective means to generate cash flows to cover a portion of the capital expenditures of our projects. We believe that we can replicate the success of our business model as we expand into other markets in China, including in Nanchang and Nanning, where we have commenced construction.

Our land costs are significantly lower than other property developers, allowing us to minimize downside risk and providing us with high potential for appreciation in our targeted markets

Our trade center projects are strategically located in fast growing manufacturing and economic regions. Due to the nature of our business, whereby we build our trade center projects to become primary hubs for trade of raw materials and finished goods, we are able to acquire large parcels of land for relatively low cost. The low cost of land provides us with significant potential for profitability, allows us to minimize downside risk, helps increase the appreciation potential of our land reserves and allows us to offer more attractive sales and leasing terms than those offered by our competitors.

We enjoy strong municipal and regional government support in the locations in which we currently operate and plan to operate

In selecting new sites for our projects, we strategically seek out locations in which local and regional governments have actively expressed a desire to develop integrated logistics and trade centers in their long-term plans. In so doing, we are able to better align our business operations with the long-term economic development plans of the regions in which we develop and operate our projects. With respect to China South City Shenzhen and our trade center projects in Nanchang and Nanning, with local administrative support, we have been able to secure large plots of land efficiently and in accordance with relevant master agreements and the corresponding supplementary agreements. Pursuant to the terms of our master agreement and corresponding supplementary agreements, representatives of the Shenzhen local government undertook responsibility for relocating all prior occupants of the land as well as improving roads and infrastructure within China South City Shenzhen. In addition, as part of a broader effort to improve local transportation infrastructure, government authorities have also undertaken construction of new roads and other supporting infrastructure surrounding China South City Shenzhen. Several PRC government agencies also maintain an on-site presence at China South City Shenzhen to assist trade center tenants and other visitors to China South City Shenzhen.

We continue to cooperate with the China Council for Promotion of International Trade, China Chamber of International Commerce and Shenzhen Municipal People's Government to hold the China (Shenzhen) International Industrial Fair, most recently in October and November 2010. In addition, we recently cooperated with the Nanning Municipal Bureau of Commerce and Nanning Jiangnan District People's Government to hold the 2010 China-ASEAN Light Industrial Products Fair in October 2010.

With respect to our projects in Nanchang and Nanning, we believe that the local government officials will relocate the original residents on the land designated for these projects. In addition, local government officials have agreed to actively assist us in completing government administrative application and approval procedures necessary to commence operations.

Our current and planned integrated logistics and trade centers are strategically located in fast growing manufacturing and economic centers near well-developed transportation networks

Our current and planned integrated logistics and trade centers are situated at prime locations in fast-growing manufacturing and economic centers near well-developed transportation networks. The Pearl River Delta, where China South City Shenzhen is located, represents one of the largest manufacturing and export regions in China. Within the Pearl River Delta, China South City Shenzhen is situated within 35 to 180 kilometers of four international airports as well as five container ports, including Kwai Chung Container Terminal in Hong Kong and Yantian Port in Shenzhen. In addition, China South City Shenzhen is connected to each of the major railway arteries in Southern China as well as at least 10 major highways linking each of the major cities in the Greater Pearl River Delta region. China South City Nanchang, which is currently under development, will be located in Nanchang, which is one of China's important transportation hubs, and is situated at the intersection of two of China's major railway arteries, the Jingjiu and Zhegan Railways, with ready access to major highways, airports and the largest port on the Gan River. China South City Nanning, which is also under development, will be located in Nanning. Nanning is located in close proximity to the Fangchenggang heavy port facility as well as other Southern Chinese sea ports and is emerging as a core regional trade center between Southeast and Southwest China and neighboring countries in Southeast Asia.

Our track record demonstrates our development and operational abilities and has helped us to achieve brand name recognition

From October 2003 to December 2004, we developed China South City Shenzhen from an undeveloped land site to a large-scale integrated logistics and trade center. As of September 30, 2010, we had achieved a total occupancy rate of approximately 86% for our five trade centers in Phase One of China South City Shenzhen. Our rental revenues increased from HK\$40.0 million in fiscal year 2007 to HK\$101.3 million in fiscal year 2010. Meanwhile, the average sales price per sq.m. at our trade centers has increased by approximately HK\$9,500, or 143.9%, from approximately HK\$6,600 per sq.m. for our Phase One trade centers in fiscal year 2007 to approximately HK\$16,100 per sq.m. for our Phase Two trade centers in the six month period ended September 30, 2010. We emphasize the design and quality of construction of our trade centers by adopting international practices and applying stringent quality procedures for our integrated logistics and trade center projects. We believe our track record for high-quality design and construction has allowed us to secure a strong position in the development of integrated logistics and trade centers. As a result, we believe we have achieved a high degree of brand name recognition that has helped us to obtain the support of local governments as well as leverage in negotiating the key contractual terms applicable to our projects. We believe that our participation in the Third China (Shenzhen) International Industrial Fair, most recently in October and November 2010, as well as the 2010 China-ASEAN Light Industrial Products Fair in October 2010, has helped us in our efforts to solidify our brand as the leading developer and operator of large-scale, integrated logistics and trade centers in the PRC. We have been invited by local governments in other PRC markets to develop and operate additional trade center properties. For example, we were initially invited by the Xi'an International Trade and Logistics Park Management Committee to develop our large-scale integrated logistics center in Xi'an.

We have a strong, experienced management team with a demonstrated record of success

We consider the strength of our senior management team to be fundamental to the success of our integrated logistics and trade center development projects. We rely on our senior management's experience and insight on important factors that contribute to the success of our projects, such as careful site selection, detailed project management, stringent cost control and effective quality control. Our senior management team also has extensive experience in operational and financial management, which we believe provides us with a key competitive advantage. Our team of executive directors has extensive experience in the wholesale and manufacturing management business as well as having a strong representative presence in various Hong Kong and PRC industrial and commercial associations and PRC consultative bodies, including both national and local Committees of the Chinese People's Political Consultative Conference. The members of our financial team are all qualified accountants with

experience in financial management, mergers and acquisitions, capital markets financing and corporate restructuring. Furthermore, we have developed a strong construction and sales team with specialized experience in each of the different trade and logistics services industries represented at China South City Shenzhen. We believe our management team's comprehensive industry background has helped us to achieve our past success and will enable us to successfully implement our growth strategies in the future.

Our founding shareholders possess in-depth experience and extensive networks of contacts within their respective industries

Our five founding shareholders, each of whom are either chairmen or executive directors of leading manufacturing and industrial companies based in Hong Kong with operations in the Greater Pearl River Delta region, have extensive experience and a well-developed network of contacts in their respective industries and have provided a firm foundation for our operations and future development. Industries represented by our founding shareholders include the textile and clothing, metals and plastics and paper and printing industries, corresponding to three of the five industrial trade centers found at Phase One of China South City Shenzhen. Two of our founding shareholders are our executive directors and three of our founding shareholders are our non-executive directors. Furthermore, our founding shareholders have worked together successfully for over six years and each has between 20 and 40 years of experience in their respective industries.

Our Strategies

Our objective is to become the leading developer and operator of large-scale, integrated logistics and trade centers in the PRC. We intend to implement the following strategies:

Replicate the success of our existing business model in other cities in China

We intend to leverage our experience with China South City Shenzhen to develop similar integrated logistics and trade centers in other regions. We have and will continue to focus our expansion on cities meeting our strategic criteria, including: (1) demonstrated public demand for large-scale trade centers; (2) prime locations close to well-developed transportation networks; (3) promising local and regional economic growth potential, particularly with respect to those industries represented at our trade centers; and (4) strong government support for the development of integrated logistics and trade centers.

We intend to replicate the business model we have developed at China South City Shenzhen as we expand into other markets in China, including in Nanchang and Nanning, where we have commenced construction. We will continue to focus on maintaining diverse revenue streams by offering a comprehensive range of trade, logistics and supporting residential and commercial services at our new trade center projects. We intend to generate cash flows to cover a portion of the capital expenditures of our projects from sales of residential properties. In addition, we will continue to implement our strategy of acquiring large parcels of land for relatively low cost, offering protection against downside risk, providing us with significant potential for profitability and appreciation of our land reserves and allowing us to offer more attractive sales and leasing terms than these offered by our competitors.

We intend to achieve an optimal mix of properties generating long-term recurring income and capital appreciation with properties generating profit from sales. We intend to strategically balance the amount of GFA for sale and for investment in our properties to enhance our working capital position and to finance a portion of our project development costs. We intend to retain not less than 50% of the aggregate GFA of our trade centers for investment purposes. We intend to sell substantially all of the residential units and retain or partner with strategic partners with respect to the supporting commercial facilities of these projects.

Maximize occupancy rates, rental rates and traffic flow in our existing and planned trade centers

We plan on maximizing occupancy rates, rental rates and traffic flow in our existing and planned integrated logistics and trade centers by implementing the following initiatives:

- *Provide preferential rental terms to maximize occupancy rates and increase rental rates as occupancy rates increase.* Our operating strategy at our integrated logistics and trade centers is to achieve high occupancy rates and attract a high-quality tenant base first and then increase rental rates steadily as occupancy rates increase. We attract quality tenants to our trade centers by offering preferential rental rates and other more attractive leasing terms than those offered by our competitors, such as rent-free periods based on advance rental payments made by tenants. We generally increase rental rates after the expiration of the initial lease agreement, by which time we believe our tenants who have established their business in our trade centers and are benefiting from the full range of integrated logistics, trade and supporting facilities will have strong incentives to renew their leases. We anticipate favorable upward trends in rental rates and sales prices for our trade center units, driven by (1) continuing growth in the manufacturing and export industries in China, which we expect to generate additional demand for space in integrated logistics and trade centers and (2) higher quality features in our trade centers.
- *Continue to offer integrated logistics services to increase customers' access to the global supply chain.* We intend to optimize our offerings of integrated logistics services, including warehouse, liaison and on-site logistics services and transportation providers, in order to facilitate the individual needs and order requirements of trade center tenants and their customers. By integrating logistics and trade functions and providing ready access to necessary services for trade center tenants and their customers, we believe we are able to outperform our competitors in advancing and expediting the business interests of trade center tenants.
- *Attract and secure high quality long-term tenants.* We plan to continue to use our strong relationships with industry trade associations and manufacturers, as well as our own in-depth knowledge of the industries represented at our trade centers, to secure high-quality, domestic and international suppliers of finished and unfinished goods as part of our tenant base. We believe that securing such high-quality tenants will increase the stability of our tenant base and help raise the profile and reputation of our trade centers, as well as increase the flow of trade within these centers, thereby enhancing our projects' status as centers of trade and ultimately allowing us to augment rental rates and sales prices for our trade center units.
- *Leverage and improve supporting infrastructure and services.* We will seek to enhance the market demand for our trade center units by leveraging and improving the auxiliary services available to our trade center tenants and their customers. In developing supporting infrastructure and services at China South City Shenzhen, we have entered into strategic alliances and arrangements with a variety of third-party service providers, including leading banks, providers of integrated logistics services and telecommunications companies. In addition, we offer conference and exhibition facilities, which are frequently utilized by industry participants for industry exhibitions and seminars. We offer residential, hotel and office facilities for the convenience of trade center tenants and their customers. Under the terms of our master agreement and the corresponding supplementary agreements for the development of China South City Shenzhen, the Shenzhen Longgang Pinghu Logistics Base Development Services Center has committed to assist in the development of the transportation infrastructure surrounding China South City Shenzhen. We will continue to request that the local government improve the transportation infrastructure surrounding China South City Shenzhen. Local governments have agreed to arrange for the improvement of similar supporting infrastructure and services at our properties planned for development in Nanchang and Nanning.

Continue to expand our operations to increase the vertical integration of our trade centers

We have expanded our operations in China South City Shenzhen beyond the wholesale trade of unfinished goods to include the wholesale trade of finished and branded goods in the industries represented at our trade centers. In addition, we are in the process of developing regionally themed and other themed trade centers to further enhance the scope and diversity of trade represented at our trade centers. By expanding our operations in this way, we believe that we have further expanded the scope and elevated the quality of our services beyond those offered by our competitors. We completed China South City Shenzhen's Phase Two Trade Plaza Two and Trade Plaza One in March and October 2009, respectively, and expect to complete the expansion of our Phase Three trade centers in the next two to three years. We believe Phase Two and Phase Three trade center units dedicated to the sale of finished goods will appeal to individual consumers seeking to purchase both raw materials and finished products in a single location, as well as complementing our operations by providing a new market for Phase One trade center tenants. With respect to our new trade center projects in Nanchang, Nanning and Xi'an, we will continue to offer a wide range of manufactured goods and products to meet regional demand.

Build our market position and enhance our brand recognition

We intend to augment our sales and marketing program to further strengthen our market position and enhance brand recognition by using a variety of promotional, advertising, public relations and customer service campaigns, both in China and Hong Kong. In our marketing efforts, we will emphasize the competitive strengths of our trade centers, including strategic location, integration into the global logistics supply chain, strong supporting infrastructure and services and high-quality management. Our marketing promotions and advertising campaigns target domestic and multinational companies active in the industries represented at our trade centers. We believe that our marketing activities will better enable us to promote our trade centers, attract quality trade center tenants and enhance our brand recognition among domestic and international buyers and suppliers of finished and unfinished goods, allowing us to realize higher demand for our trade center units.

Our Projects

We currently have three large-scale integrated logistics and trade center projects in various stages of development located in Shenzhen, Nanchang and Nanning, as well as our other properties under development and planned for future development in Heyuan and Xi'an.

Our projects are classified into three categories:

- completed properties, representing properties for which construction of all constituent buildings has been completed and which are available for lease or sale. Our completed properties include Phase One and Phase Two of China South City Shenzhen;
- properties under development, representing properties for which we have obtained land use rights certificates and have planned or commenced construction. Our properties under development include Phase Three of China South City Shenzhen and Phase One of China South City Nanchang, Phase One of China South City Nanning and Phase One of our Heyuan project; and
- properties planned for future development, representing properties with respect to which we have entered into a master agreement or similar agreement with relevant regulatory authorities and which have been approved in accordance with our internal procedures. These projects are still in the planning stage. As a result, we have not received the land use rights with respect to these projects. Our properties planned for future development include Phase Two of China South City Nanchang, Phase Two of China South City Nanning, Phase Two of our Heyuan project and China South City Xi'an.

The following table summarizes GFA information for our projects as a whole, including trade center, residential and other supporting facilities.

	Completed Properties ⁽¹⁾		Properties Under Development ⁽²⁾	Properties Planned for Future Development ⁽³⁾	Total Land Bank ⁽⁴⁾
	Sold	Unsold	Total	Estimated	
	(in sq.m.)	(in sq.m.)	(in sq.m.)	(in sq.m.)	(in sq.m.)
China South City Shenzhen	393,200	1,073,800	500,000	626,000	2,199,800
China South City Nanchang	—	—	920,000	3,360,000	4,280,000
China South City Nanning	—	—	1,330,000	3,550,000	4,880,000
China South City Heyuan Project.	—	—	260,000	1,993,000	2,253,000
China South City Xi'an	—	—	—	17,500,000 ⁽⁵⁾	17,500,000
Total	<u>393,200</u>	<u>1,073,800</u>	<u>3,010,000</u>	<u>27,029,000</u>	<u>31,112,800</u>

- (1) Represents properties for which construction of all constituent buildings has been completed and which have been sold, leased, or are available for lease or sale.
- (2) Represents properties for which we have obtained land use rights certificates and have planned or commenced construction.
- (3) Represents properties with respect to which we have entered into a master agreement or similar agreement with, or have been awarded a competitive bid by, relevant regulatory authorities and which have been approved in accordance with our internal procedures.
- (4) Constitutes the sum of unsold properties, properties under development and properties planned for future development.
- (5) Based on management estimates subject to the terms of land grant certificates upon acquisition of the land.

China South City Shenzhen

China South City Shenzhen is a large-scale, integrated logistics and trade center for domestic and international suppliers, manufacturers and distributors in a comprehensive range of manufacturing industries. China South City Shenzhen is located in the Longgang District, approximately 20 kilometers outside of the city center of Shenzhen in Guangdong Province. When fully completed, China South City Shenzhen is expected to occupy approximately 1.06 million sq.m. of land, comprising a GFA of approximately 2.6 million sq.m.

The following table sets forth the mix of the properties of Phase One and Phase Two properties of China South City Shenzhen as of September 30, 2010, the expected mix of the properties of Phase Three of China South City Shenzhen upon its completion, and the expected mix of the properties of China South City Shenzhen as a whole when fully completed.

Facility	Phase One Approximate Completed GFA		Phase Two Approximate Completed GFA		Phase Three Estimated GFA to be Completed		Total Estimated GFA of Project	
	(sq.m.)	(%)	(sq.m.)	(%)	(sq.m.)	(%)	(sq.m.)	(%)
Trade centers	359,500	77.5	560,400	55.8	595,400	51.2	1,515,300	58.4
Other commercial facilities ⁽¹⁾	44,900 ⁽²⁾	9.7	258,000 ⁽⁴⁾	25.7	463,600 ⁽⁷⁾	39.9	757,200	29.2
Residential facilities . .	—	—	141,200 ⁽⁵⁾	14.1	—	—	141,200	5.4
Warehouse facilities . .	26,500 ⁽³⁾	5.7	43,900 ⁽⁶⁾	4.4	103,100	8.9	147,000	5.7
Hotel facilities	32,700	7.1	—	—	—	—	32,700	1.3
Total	<u>463,600</u>	<u>100.0</u>	<u>1,003,500</u>	<u>100.0</u>	<u>1,162,100</u>	<u>100.0</u>	<u>2,593,400</u>	<u>100.0</u>

- (1) Other commercial facilities include (a) offices, shops and other commercial facilities for third-party service providers; (b) restaurant facilities; (c) sales and leasing and administrative facilities; (d) exhibition and conference facilities; and (e) underground car parking.
- (2) A portion of the Phase One exhibition facilities, representing a GFA of approximately 9,300 square meters, will be demolished during Phase Three construction.
- (3) Phase One warehouse facilities will be demolished upon construction of Phase Three warehouse facilities.
- (4) Comprises leasable GFA of approximately 68,000 sq.m. and underground car parking and ancillary GFA of approximately 190,000 sq.m.
- (5) Comprises leaseable GFA of approximately 114,700 sq.m. and underground car parking and ancillary GFA of approximately 26,500 sq.m.
- (6) Comprises leaseable GFA of approximately 43,200 sq.m. and underground GFA of approximately 700 sq.m.
- (7) Comprises offices of approximately 206,200 sq.m. and underground car parking and ancillary GFA of approximately 257,400 sq.m.

Completed Property Developments at China South City Shenzhen

The following projects represent completed property developments at China South City Shenzhen for which construction of all constituent buildings has been completed and which are available for lease or sale.

China South City Shenzhen Phase One

Phase One of China South City Shenzhen commenced operations in December 2004. Phase One of China South City Shenzhen primarily serves five complementary light manufacturing industries: (1) textile and clothing; (2) leather and accessories; (3) electronic accessories; (4) printing, paper and packaging; and (5) metals, chemicals and plastics. As of September 30, 2010, Phase One of China South City Shenzhen had five trade centers covering a total GFA of approximately 359,500 sq.m.

As of September 30, 2010, we had sold Phase One trade center units representing a GFA of approximately 168,400 sq.m. Pursuant to separate agreements with purchasers of these units, we have the right to lease units representing a GFA of approximately 126,400 sq.m. to third parties. Accordingly, our Phase One leaseable area consists of Phase One trade center units retained by us for rental income and capital appreciation and Phase One trade center units that have been sold subject to separate lease agreements with the purchasers of these units. Including Phase One trade center units sold to purchasers and leaseable by us to third parties (126,400 sq.m.) and Phase One trade center units retained by us for rental income, capital appreciation and for sale (191,100 sq.m.), as of September 30, 2010, the total leaseable GFA of China South City Shenzhen's Phase One trade center units was approximately 317,400 sq.m., representing 88.3% of the total GFA of approximately 359,500 sq.m. of China South City Shenzhen's Phase One trade center units.

As of September 30, 2010, pursuant to land grant contracts entered into with and pre-sale permits issued by the Shenzhen Municipal Bureau of Land Resources and Housing Management, we had allocated approximately 192,300 sq.m. of our Phase One trade centers for sale, of which we had sold Phase One trade center units representing a GFA of approximately 168,400 sq.m.

Phase One trade centers are focused on unfinished goods. However, in an effort to further expand our scope of services and enhance the comprehensiveness of our trade centers, we intend to extend the scope of products represented in Phase One to include finished goods and small commodities, themed and regional goods, as well as entertainment facilities. This strategy is designed to meet the demands of our customers and increase public awareness of the China South City brand.

Occupant Mix

Phase One occupants include an array of domestic and international manufacturers, suppliers and dealers seeking to display, trade and promote their raw material products in our Phase One trade centers. Phase One trade center occupants include both domestic companies with long-term experience in China's industrial trade market and new market entrants, including international companies seeking to gain a share of the domestic industrial trade market. As of September 30, 2010, our five largest Phase One trade center occupants in terms of GFA together occupied approximately 3.8% of the leasable GFA of China South City Shenzhen's Phase One trade centers.

Occupancy Rates

Total occupancy rates in the Phase One trade centers increased to 86% as of September 30, 2010 compared to 82% as of September 30, 2009. We believe the increase was due to the continued enhancement of our brand recognition as a result of the successful implementation of our promotional and marketing strategies and an increase in market demand for the comprehensive range of trade, logistics and supporting services offered at China South City Shenzhen.

Rental Rates

The monthly average effective rent per sq.m. for our Phase One trade centers increased to HK\$28.6 as of September 30, 2010, as compared to HK\$27.1 as of September 30, 2009.

Lease Expirations

The following table sets forth information with respect to lease expirations of the Phase One trade center units as of September 30, 2010 that are scheduled to take place during the calendar years indicated.

Year of Expiry	GFA⁽¹⁾	Percentage of Current Leased Area	Monthly Rental Income⁽²⁾	Percentage of Current Total Rental Income⁽³⁾
	(in sq.m.)	(%)	(RMB)	(%)
2010	114,600	45.2	3,099,000	48.7
2011	75,200	29.6	1,909,000	30.0
2012	47,600	18.8	983,000	15.4
2013	1,100	0.4	40,000	0.6
2014 and beyond	15,300	6.0	335,000	5.3
Total	253,800	100.0	6,366,000	100.0

(1) Excludes tenants occupying trade center units on a rent-free basis and tenants who have entered into rental commitments but whose lease terms have not yet commenced.

(2) Rental income in respect of expiring leases for the respective periods is calculated on the basis of effective rental income payable under the expiring leases for the month ended September 30, 2010.

(3) Calculated as a percentage of the total effective rental income for Phase One trade center units for the month ended September 30, 2010.

Property Sales

Pursuant to land grant contracts entered into between the Shenzhen Municipal Bureau of Land Resources and Housing Management and China South International, the combined saleable GFA of our Phase One, Phase Two and Phase Three trade center units is limited to 528,000 sq.m. We had allocated approximately 192,300 sq.m. of this saleable area to our Phase One trade centers, of which we had sold Phase One trade center units representing a GFA of approximately 168,400 sq.m. as of September 30, 2010.

China South City Shenzhen Phase Two

Trade Plaza Two and Trade Plaza One of Phase Two of China South City Shenzhen commenced operations in the third quarter and fourth quarter of 2009, respectively. Phase Two of China South City Shenzhen primarily houses or is expected to house manufacturers and distributors of finished goods and small commodities, themed products, regional goods including branded undergarments and goods originating in Hong Kong and Taiwan.

As of September 30, 2010, Phase Two of China South City Shenzhen had two trade centers, Trade Plaza One and Trade Plaza Two, covering a total GFA of approximately 560,400 sq.m. As of September 30, 2010, we had sold Phase Two trade center units representing a GFA of approximately 127,400 sq.m. Pursuant to our agreements with purchasers of these units, we have the right to lease units representing a GFA of approximately 124,500 sq.m. to third parties allowing us to receive rental income with respect to these sold units. Accordingly, our Phase Two leaseable area consists of Phase Two trade center units retained by us for rental income and capital appreciation and Phase Two trade center units that have been sold but which we are still able to lease pursuant to sales agreements. As of September 30, 2010, we retained a GFA in Phase Two trade centers of approximately 433,000 sq.m. for rental income, capital appreciation and for use as exhibition facilities. Including Phase Two trade center units sold to purchasers for which we have the right to lease to third parties and Phase Two trade center units retained by us for rental income, capital appreciation and for use as exhibition facilities, the total leaseable GFA of China South City Shenzhen's Phase Two trade center units was approximately 557,500 sq.m. of which 212,600 sq.m. have been made available for sale and lease. As of September 30, 2010, 55,900 sq.m. of our Phase Two trade centers were occupied, representing an occupancy rate of approximately 26% with respect to GFA launched for sale and lease.

To further enhance the leasing uptake of trade center units at Phase Two of China South City Shenzhen and strengthen our leading position in the region, we are in talks with various commercial chambers and organizations for large area leasing uptakes. An outlet center for Hong Kong goods is planned, as well as various efforts underway or in planning to establish regional goods or themed trade centers for products such as branded underwear (CSC SIUF International Brand Underwear Trade Center), watches and clocks, Taiwanese goods and Korean goods.

Occupant Mix

Phase Two of China South City Shenzhen occupants include an array of domestic and international manufacturers, suppliers and dealers seeking to display, trade and promote their raw material and finished good products in our Phase Two trade centers. As of September 30, 2010, our five largest Phase Two trade center occupants in terms of GFA together occupied approximately 4.4% of the leasable GFA of China South City Shenzhen's Phase Two trade centers.

Occupancy Rates

Total occupancy rates in the Phase Two trade centers was approximately 26% of the GFA launched for lease and sale as of September 30, 2010. We continue to promote our unleased Phase Two trade center units and target high-quality tenants to maximize our occupancy rates. We are currently in negotiations with various commercial chambers and other organizations for the lease of large portions of our Phase Two trade centers.

Rental Rates

The monthly average effective rent per sq.m. for our Phase Two trade centers was approximately HK\$33.8 per sq.m. as of September 30, 2010, as compared to HK\$35.4 per sq.m. as of September 30, 2009.

Lease Expirations

The following table sets forth information as of September 30, 2010 with respect to lease expirations of the Phase Two trade center units that are scheduled to take place during the calendar years indicated.

<u>Year of Expiry</u>	<u>GFA⁽¹⁾</u>	<u>Percentage of Current Leased Area</u>	<u>Monthly Rental Income⁽²⁾</u>	<u>Percentage of Current Total Rental Income⁽³⁾</u>
	<u>(in sq.m.)</u>	<u>(%)</u>	<u>(RMB)</u>	<u>(%)</u>
2010	–	–	–	–
2011	–	–	–	–
2012	33,000	79.5	947,900	77.2
2013	4,900	11.8	135,300	11.0
2014 and beyond	3,600	8.7	145,100	11.8
Total	<u>41,500</u>	<u>100.0</u>	<u>1,228,300</u>	<u>100.0</u>

(1) Excludes tenants occupying trade center units on a rent-free basis and tenants who have entered into rental commitments but whose lease terms have not yet commenced.

(2) Rental income in respect of expiring leases for the respective periods is calculated on the basis of effective rental income payable under the expiring leases for the month ended September 30, 2010.

(3) Calculated as a percentage of the total effective rental income for Phase Two trade center units for the month ended September 30, 2010.

Property Sales

Pursuant to land grant contracts entered into between the Shenzhen Municipal Bureau of Land Resources and Housing Management and China South International, the combined saleable GFA of our Phase One, Phase Two and Phase Three trade center units is limited to 528,000 sq.m. We have allocated approximately 208,000 sq.m. of this saleable area to our Phase Two trade centers, of which we had sold Phase Two trade center units representing a GFA of approximately 127,400 sq.m. as of September 30, 2010.

Property Under Development at China South City Shenzhen

Phase Three of China South City, which commenced construction in December 2010, will consist of three new trade centers, which are expected to focus on furniture, motor vehicle and electronics industries as well as housing entertainment facilities. Phase Three of China South City Shenzhen as a whole, including all trade centers, offices, warehouse and other supporting facilities, is expected to cover a GFA of approximately 1.1 million sq.m. upon expected completion by 2015.

Supporting Facilities and Services

Overview

China South City Shenzhen has a comprehensive range of supporting infrastructure and services, including on-site warehouse and logistics services as well as liaison services with third-party logistics providers, in order to facilitate access and integration into the global supply chain. Although much of this supporting infrastructure is already in place for the benefit of tenants of Phase One and Phase Two of China South City Shenzhen, we plan to expand the supporting infrastructure to further support the needs of our tenants.

Logistics Services and Facilities

China South City Shenzhen logistics services and facilities consist of a network of warehouses and one-stop integrated inbound and outbound logistics facilities. There are three types of warehouses, including bonded, unbonded and export supervised warehouses. These warehouses are utilized by trade center tenants and other customers prior to delivering their goods to international or domestic customers. China South NEL, our jointly controlled entity, manages and operates the unbonded warehouses, while China South International manages and operates the export supervised warehouses and bonded warehouses. Customs officials are located on-site at the bonded warehouse to complete the required customs procedures. China South NEL also provides logistics liaison services to our trade center tenants and customers of the five industries represented at China South City Shenzhen, assisting them to liaise with third-party logistics services providers located on-site.

As of September 30, 2010, we had two warehouse facilities with a GFA of approximately 70,400 sq.m. We expect to complete construction of additional warehouse facilities with a GFA of approximately 103,100 sq.m. following the demolition of Phase One warehouse facilities of approximately 26,500 sq.m.

Exhibition and Conference Facilities

China South City Shenzhen has two temporary exhibition centers, comprising a GFA of approximately 9,300 sq.m., along with exhibition facilities in our Phase Two trade centers which we, along with third-party event organizers and planners, utilize for industry exhibitions, conferences, conventions, meetings and banquets. Third-party event organizers and planners include trade associations for those industries represented within our trade centers. These exhibition centers are used to showcase the products offered for sale by trade center tenants to potential customers and to attract potential tenants and customers of tenants to visit China South City Shenzhen. We organize exhibitions through our subsidiary, Shenzhen China South City Convention and Exhibition.

Hotel Services

We own and operate a four-star hotel in China South City Shenzhen offering accommodation, food and beverage and general recreational services. The hotel, named the "Grand City Hotel," consists of two buildings, each 10 stories, and has a total of 367 guest rooms covering a GFA of approximately 32,700 sq.m. The Grand City Hotel has two western restaurants and one Chinese restaurant, and also has entertainment facilities.

Commercial Facilities for Third-Party Services

China South City Shenzhen also features: (1) other logistics services, which are provided by third-party logistics companies and other transportation providers located primarily in our warehouse facilities; (2) office and other commercial facilities for third-party service providers, consisting of government agencies, restaurants, banks, telecommunications companies, a quality control services center for the textile industry, industry associations and other providers of professional services, such as tax consultants and insurance companies and (3) advertising services provided by third-party advertising companies. Construction of the Global Logistic Center, our Phase Two office tower at China South City

Shenzhen, was completed in April 2010. The Global Logistic Center is a modern, integrated office tower comprising office, retail and underground car park facilities. As of September 30, 2010, the total occupancy rate with respect to the office area of approximately 37,700 sq.m. was 93%.

Residential Services

The West Garden residential facility is located near the Pinghu Ecotypic Garden, an area of natural greenery and natural reservoir, on a site area of approximately 40,000 sq.m. The West Garden is a 1,628-unit residential apartment complex consisting of three residential towers and covering a leaseable GFA of approximately 114,700 sq.m. and underground car parking and ancillary area of approximately 26,500 sq.m. As of September 30, 2010, we had entered into lease agreements with tenants for units in West Garden having a GFA of approximately 84,800 sq.m., or 75.0% of the total leaseable GFA.

Pursuant to land grant contracts entered into between the Shenzhen Municipal Bureau of Land Resources and Housing Management and China South International, the building ownership certificate granted to us for West Garden is a green-cover building ownership certificate which: (1) restricts the transfer of West Garden units; and (2) requires approval by the relevant authority of mortgages of the underlying property. Due to restrictions on the transfer of units in the building ownership certificates of West Garden, we are unable to sell the residential units and instead have entered into lease agreements with tenants of West Garden. All West Garden lease agreements consist of two 20-year terms, which are automatically renewed unless both parties agree otherwise. Upon the expiration of the second 20-year term, the agreement is automatically extended again to May 15, 2055, which is when our land use rights certificate for West Garden expires.

Our agreements with some tenants require them to pay approximately 50% of the total consideration for the West Garden units upon execution of the agreement, with the balance generally payable within one to two months thereafter. Our agreements with other tenants require them to pay the total consideration to us upon execution of the agreement. To facilitate the bank loan application process for certain tenants, we provide guarantees to bank lenders on behalf of the tenants. We also extend entrusted loans with interest through intermediary banks to certain tenants who are unable to obtain mortgage loans on their own. For further information with respect to guarantees and entrusted loans extended to our tenants, see “— Purchaser and Tenant Financing.”

Transportation Network

China South City Shenzhen is located within the Greater Pearl River Delta’s integrated and extensive transportation network of airports, railways, port facilities for ocean shipping and highways.

Airports. There are four airports in the Greater Pearl River Delta, including the Hong Kong International Airport, the Guangzhou Baiyun International Airport, which serves as the center for domestic freight in the PRC, the Shenzhen Baoan International Airport and the Zhuhai International Airport. China South City Shenzhen is located within 35 kilometers of the nearest of these airports and no more than 180 kilometers from the farthest of these airports.

Railways. There are several railway lines in the Greater Pearl River Delta that connect to key railway arteries in China, including the Beijing-Guangzhou Railway and the Beijing-Kowloon Railway. There are also railways that connect cities within the Greater Pearl River Delta, including the Ping Nan Railway, which connects Pinghu and Nanshan, and the Ping Yan Railway, which connects Pinghu and Yantian. China South City Shenzhen is located within 20 kilometers of the Pinghu Railway Station, which connects to each of these railway lines.

Ocean Shipping Facilities. Some of the world’s largest, busiest and most efficient container ports are located in the Greater Pearl River Delta, including the Kwai Chung Container Terminal in Hong Kong, which is the second busiest port in the world in terms of volume, the Yantian Port in Shenzhen, the Shekou Port in Shenzhen, the Huangpu Port in Guangzhou and the Nansha Port in Guangzhou. China South City Shenzhen is located within 30 kilometers of these ports.

Highways. All major cities in the Greater Pearl River Delta are linked by major highways, and the highway network is rapidly expanding. Projects in progress, such as the Shenzhen Bay Bridge, a 5.5 kilometer bridge between Shekou and Hong Kong, the Hong Kong-Zhuhai-Macau Link, a 35 kilometer bridge connecting Hong Kong, Zhuhai and Macau, and the Pearl River Bridge project, a 29 kilometer bridge between Hong Kong and Macau, should further connect Hong Kong, Macau, Zhuhai and Shenzhen. In addition, construction of a new exit of the Jihe expressway within 800 meters of China South City Shenzhen was completed in 2009 with the support of the Shenzhen municipal government.

Future Developments. We have made requests to the Shenzhen Metro Company and local government authorities in Shenzhen to further improve surrounding transportation infrastructure, including extending the local subway network to reach China South City Shenzhen. In addition, the Shenzhen Longgang Pinghu Government has approved a five-year plan, beginning in 2008, to either construct or expand 12 roads, or sections of roads and/or highways, to improve traffic to and from Pinghu, where China South City Shenzhen is located.

China South City Nanchang

We entered into a master agreement with the municipality of Nanchang in Jiangxi Province in February 2007 and several supplementary agreements thereto to develop integrated logistics and trade centers in that region. China South City Nanchang will be located in the Honggutan New District, Nanchang, Jiangxi. Located at the intersection of the Jingjiu and Zhegan Railways, Nanchang is easily accessible via highway and airport and maintains the largest port on the Gan River. As a result of its location, Nanchang today represents one of China's important transportation hubs.

The following table sets forth the intended mix of the properties of China South City Nanchang upon its completion.

Facility	Total Estimated GFA⁽¹⁾	
	(sq.m.)	(%)
Trade centers	1,430,000	33.4
Other commercial facilities	531,000	12.4
Residential facilities	1,419,000	33.2
Warehouse facilities	900,000	21.0
Total	<u>4,280,000</u>	<u>100.0</u>

(1) Represents current management estimates, subject to change.

We expect China South City Nanchang to be completed in three phases, with Phase One currently under development and Phase Two and Three planned for future development.

The following table sets forth the intended mix of the properties of China South City Nanchang through fiscal year 2012.

Facility	Total Estimated GFA	
	(sq.m.)	(%)
Trade centers	430,000	46.7
Other commercial facilities	190,000	20.7
Residential facilities	300,000	32.6
Warehouse facilities	—	—
Total	<u>920,000</u>	<u>100.0</u>

We plan on financing the development costs for the project (including land grant costs, construction costs and capitalized finance costs) from the proceeds of the Notes, internally generated funds and bank borrowings. Pursuant to land grant contracts governing the use of land at China South City Nanchang, our sales of trade centers and warehouse facilities is limited to 60% of the GFA of the properties located on the parcels of land on which these trade centers and warehouse facilities are located. We intend to retain not less than 50% of the aggregate GFA of our trade centers for investment purposes. We intend to sell substantially all of the residential units and retain, sell or partner with strategic partners with respect to the supporting commercial facilities of these projects.

Transportation Network

China South City Nanchang is expected to be located within Nanchang's Honggutan New District, with access to a network of airports, railways, port facilities for ocean shipping and highways.

Airports. The Changbei Airport, which provides access to over 25 destinations including Beijing, Hong Kong, and Guangzhou, is located approximately 30 minutes from the expected site of China South City Nanchang.

Railways. Nanchang is located at the vital intersection of the Jingjiu and Zhegan Railways. Currently, Nanchang is the only capital city situated on the Jingjiu Railway line.

Ocean shipping facilities. Nanchang is the largest port on the Gan River. With access to the Gan River, Fu River, Xiang Lake, Qingshan Lake and Aixi Lake, Nanchang is also connected to areas such as Poyang, Duchang, Ruihong, Zhouxi, and Lianhu.

Highways. China South City Nanchang is expected to be easily accessible via highway and to be located next to the Waihuan Way, Changzhang Express Way and 320 National Road.

China South City Nanning

We entered into a master agreement and several supplementary agreements thereto with the Nanning City Jiangnan District People's Government in Guangxi Zhuang Autonomous Region in December 2007 to develop integrated logistics and trade centers in that region. Located in Nanning, Guangxi Zhuang Autonomous Region, we expect China South City Nanning to offer a comprehensive trade center project for various industries of daily life of the region, an exhibition center, offices and a hotel upon completion. The trade center will have easy access to railway, highway, marine transportation, and air transportation. Nanning is situated in the south of Guangxi Zhuang Autonomous Region, adjacent to Guangdong Province and Macau, facing Southwest China and Southeast Asia. Nanning's position as a coastal city located between Southeast and Southwest China has fueled its development as a core trade center in the region and its proximity to the Vietnam border has allowed Nanning to develop strong business networks with the Southeast Asian markets.

The following table sets forth the intended mix of the properties of China South City Nanning upon its completion.

Facility	Total Estimated GFA⁽¹⁾	
	(sq.m.)	(%)
Trade centers	3,030,000	62.1
Other commercial facilities	940,000	19.3
Residential facilities	910,000	18.6
Warehouse facilities	—	—
Total	4,880,000	100.0

(1) Represents current management estimates, subject to change.

We expect China South City Nanning to be completed in two phases, with Phase One currently under development and Phase Two planned for future development.

China South City Nanning will be located on part of the site area of approximately 890,000 sq.m. As currently planned, China South City Nanning will serve as a hub for large-scale finished and unfinished goods and commodity trade with Southeast Asia.

The following table sets forth the intended mix of the properties of China South City Nanning through fiscal year 2012.

Facility	Total Estimated GFA	
	(sq.m.)	(%)
Trade centers	470,000	35.3
Other commercial facilities	520,000	39.1
Residential facilities	340,000	25.6
Warehouse facilities	—	—
Total	1,330,000	100.0

We plan on financing the development costs for the project (including land grant costs, construction costs and capitalized finance costs) from the proceeds of the Notes, internally generated funds and bank borrowings. Pursuant to land grant contracts governing the use of land at China South City Nanning, our sales of trade centers and warehouse facilities is limited to 60% of the GFA of the properties located on the parcels of land on which these trade centers and warehouse facilities are located. We intend to retain not less than 50% of the aggregate GFA of our trade centers for investment purposes. We intend to sell substantially all of the residential units and retain, sell or partner with strategic partners with respect to the supporting commercial facilities of these projects.

Transportation Network

China South City Nanning is expected to be located within the Beibu Gulf Economic Cooperation Zone, with access to a network of airports, railways, port facilities for ocean shipping and highways.

Airports. The Nanning Wu Xu International Airport, with flights from more than 30 local and international airlines, is located approximately 20 kilometers away from the expected site of China South City Nanning.

Railways. Nanning is connected by several railways, including the Nakun Line, the Xianggui Line and the Qiangui Line and serves as an important hub for access to international railways connecting Vietnam, Cambodia, Malaysia and Singapore. In addition, the Nanning Railway Station is among the largest railway distribution stations in Southwest China and is approximately two kilometers south of the expected site of China South City Nanning.

Ocean shipping facilities. Nanning is located next to the ports of Xijiang, Tingzi and Jinji from which goods are shipped regularly to and from Guangzhou, Zhuhai, Macau and Hong Kong.

Highways. The network of highways and other thorough fares within Nanning are linked to the major highways of Southeast China, and also connect to Guangzhou and Hong Kong. In addition, Jiangnan County is the starting point of a number of national roads, including National Roads 320, 105 and 316, as well as major highways, including the Changjiu, Changgan and Xiweiwan Highways.

Other Projects

Heyuan Project

On December 25, 2005, the Guangdong Province Heyuan City Zijin County People’s Government entered into a master agreement and several supplementary agreements thereto with China Metro-Rural Exchange Limited to develop a farm-style travel and resort community located in Zijin County, catering to domestic and international executives, primarily including those with operations at China South City Shenzhen. A supplemental agreement was signed on June 4, 2006, transferring all rights and obligations of China Metro-Rural Exchange Limited to China South City Enterprise. A second supplemental agreement, which was signed on April 21, 2009, provides that a portion of the land is to be used for integrated logistics purposes. On September 10, 2010, China South Enterprise became a wholly-owned subsidiary of China South International.

On June 6, 2009, we entered into a land grant contract with the Zijin County Bureau of Land Resources for approximately 487,000 sq.m. of land which were granted to us by way of auction. We received the land use rights for this land after paying a land grant fee of approximately RMB73 million. In August 2010, we obtained another plot of land of approximately 651,000 sq.m. for consideration of RMB97.7 million.

The following table sets forth the intended mix of the properties of our Heyuan project upon its completion.

Facility	Total Estimated GFA ⁽¹⁾	
	(sq.m.)	(%)
Residential properties and supporting facilities	2,253,000	100.0

(1) Represents current management estimates, subject to change.

We expect our Heyuan project to be completed in two phases, with Phase One currently under development and Phase Two planned for future development. The following table sets forth the intended mix of the properties of our Heyuan project through fiscal year 2012.

Facility	Total Estimated GFA	
	(sq.m.)	(%)
Residential properties	260,000	100.0

China South City Xi’an

We intend to develop and position China South City Xi’an as a major integrated logistics and trade center in northwest China.

In June 2009, we entered into a non-binding memorandum of understanding with the Xi’an International Trade and Logistics Park Management Committee for the development of a large-scale integrated logistics center in the Xi’an International Trade and Logistics Park. Pursuant to the memorandum of understanding, the Xi’an International Trade and Logistics Park Management Committee has agreed to promote this project as one of Xi’an’s major projects.

In November 2009, the Xi'an International Trade and Logistics Park Management Committee, China South International, Xin Hao Da and Xi'an Government entered into a project agreement for the Xi'an project. Pursuant to the project agreement, China South International and Xin Hao Da have formed a joint venture company, owned 65% and 35% by them, respectively. According to the signed project agreement, China South City Xi'an will cover a planned total site area of approximately 10 million sq.m. We plan to undertake the construction in phases. The construction of an integrated logistics and trade center is expected to cover approximately 5.0 million sq.m., while the remaining 5.0 million sq.m. is expected to be used for the construction of residential and commercial complexes as well as ancillary facilities. As of September 30, 2010, we had not yet received the land use rights with respect to this project.

Master Agreements

We have signed master agreements and corresponding supplementary agreements with local government agencies in Shenzhen, Nanchang, Nanning, Heyuan and Xi'an that set out each party's commitments and expectations and a proposed framework for the development of our projects. Under these master agreements and corresponding supplementary agreements, our primary obligations generally include purchasing land and developing certain infrastructure in the amount and manner set forth in the master agreements and commencing and completing project-related construction according to the timeframe set forth in the master agreements and corresponding supplementary agreements. The primary obligations of the local government agencies with whom we enter into master agreements and corresponding supplementary agreements generally include improving the infrastructure surrounding the project development site, obtaining land to be granted under the master agreements and corresponding supplementary agreements as well as relocating the existing residents on the land, compensating us for certain infrastructure costs assumed by us in construction of our projects, bearing certain costs for basic facilities associated with our projects, including facilities for the discharge of pollutants, water and electricity supply, communications lines and piping, and assisting us to obtain favorable treatment and necessary approvals from government authorities.

Master Agreement for the Development of China South City Shenzhen

On December 24, 2002, the Shenzhen Longgang Pinghu Logistics Base Development Services Center, an administrative entity representing the Shenzhen Longgang District Government to attract investment and carry out planning, management and development of the Shenzhen Longgang Pinghu Logistics Base, entered into a master agreement with China South International, a subsidiary of our Company, outlining the understanding of both parties in relation to the development of China South City Shenzhen, a specialized wholesale market for industrial raw materials.

The agreement was supplemented by an agreement dated the same date as the master agreement and another agreement dated September 25, 2003 and several supplementary agreements thereto among the same parties as in the master agreement.

Under the master agreement, as supplemented, the Shenzhen Longgang Pinghu Logistics Base Development Services Center agreed in principle to provide parcels of land having an aggregate area of 1.5 million sq.m. (including roads having an area of 107,000 sq.m.) within the Pinghu logistics base for a logistics development project, subject to final determination under land use contracts entered into with the local land bureau.

The master agreement provides that China South City Shenzhen will be divided into the following four functional zones, of which an area of not less than 1.06 million sq.m. should be used for the trade center, warehouse and commercial zones, and an area of approximately 300,000 sq.m. should be used for the supporting living and residential zone:

- trade center zone, including trade centers dedicated to (1) textile and clothing, (2) leather and accessories, (3) electronic accessories, (4) printing, paper and packaging and (5) metals, chemicals and plastics;

- warehouse zone, for the provision of warehouse services in support of trade center operations;
- commercial zone, for the provision of supporting commercial service, including, but not limited to, office facilities, shops, exhibition and meeting facilities, hotel facilities and restaurant facilities; and
- supporting living and residential zone, including dormitories, apartments, a canteen, and other supporting facilities.

Under the master agreement and corresponding supplementary agreements, the land granted to us is for integrated logistics use and the land grant fee to be paid by us was RMB300 per sq.m. of the actual usable land area (excluding roads). Under the supplemental agreement, in consideration of us bearing the expenses of leveling the land, constructing supporting facilities and building two main roads in China South City Shenzhen, the land grant fee payable to the Shenzhen Municipal Bureau of Land Resources and Housing Management was reduced by RMB120 per sq.m. As a result, the land grant fee paid by us to the Shenzhen Municipal Bureau of Land Resources and Housing Management was RMB180 per sq.m. of the actual usable land area (excluding roads).

Master Agreement for the Development of China South City Nanchang

On February 11, 2007, the Nanchang City Honggutan New District Administrative Committee, an administrative agency engaged by the People's Government of Honggutan New District, Nanchang to plan and manage the development of the Honggutan New District, entered into a master agreement with China Metro-Rural Exchange Limited (formerly known as China South City Group Limited) in relation to the development of China South City Nanchang. Cheng Chung Hing (a director and one of our controlling shareholders) and Leung Moon Lam (a director but not our controlling shareholder) together control 65% of the equity interests of China Metro-Rural Exchange Limited. The remaining equity interests of China Metro-Rural Exchange Limited are controlled by independent third parties. The agreement was supplemented by an initial supplemental agreement dated the same date as the master agreement among the same parties as in the master agreement, and a second supplement on March 21, 2008. The initial supplemental agreement clarified the terms of the original master agreement and the second supplemental agreement transferred all rights and obligations of China Metro-Rural Exchange Limited to us without consideration. When the master agreement was signed on February 11, 2007, we had not decided whether or not to pursue the opportunity to develop this project, which was identified by our directors, Cheng Chung Hing and Leung Moon Lam. Accordingly, the master agreement with the Nanchang City Honggutan New District Administrative Committee was first entered into with China Metro-Rural Exchange Limited. When the development of China South City Nanchang project was approved by our board of directors in October 2007, China Metro-Rural Exchange Limited transferred all of its rights and obligations under the master agreement to us.

Under the master agreement, as supplemented, the Jiangxi Nanchang Honggutan New District Administrative Committee agreed in principle to provide parcels of land having an aggregate area of 2.0 million sq.m. in the Honggutan New District for the construction of an integrated logistics and trade center, subject to final determination under land use contracts entered into with the local land bureau. The master agreement provides for an area of approximately 750,000 sq.m. to be used for the development of an integrated trade center project; an area of approximately 500,000 sq.m. to be used for logistics and warehouse purposes; and an area of approximately 750,000 sq.m. to be used for ancillary commercial purposes. Under the master agreement, as supplemented, the proposed site area is to be transferred by public tender, auction or listing for sale in three phases in equally sized parcels, by December 2007, December 2008 and June 2009, respectively. Due to a delay in relocating existing residents, the transfer of the initial parcel of land was postponed until December 2009. The final price of each parcel of land, to be paid within 60 days of entering into land use contracts with the local land bureau for such land, must be determined by way of public tender, auction or listing for sale and includes all costs associated with

completion of the land transfer, including land acquisition costs, relocation costs and other compensation owed to previous holders of the land.

Under the master agreement, as supplemented, the Jiangxi Nanchang Honggutan New District Administrative Committee is responsible to relocate, at its own expense, the original residents on the land. In addition, the Jiangxi Nanchang Honggutan New District Administrative Committee has agreed to assist us in completing government administrative application and approval procedures as necessary. In return, we have agreed to commence construction and begin China South City Nanchang's Phase One and Phase Two operations within six months and two years, respectively, after signing the land use rights transfer contract.

Master Agreement for the Development of China South City Nanning

On December 29, 2007, the Nanning City Jiangnan District People's Government, on the authority and with the approval of the Nanning City People's Government, entered into a master agreement with us in relation to the development of China South City Nanning. Under the master agreement, the Nanning City Jiangnan District People's Government agreed in principle to provide parcels of land with an aggregate area of approximately 1.7 million sq.m. in the Jiangnan District for the construction of an integrated logistics and trade center, subject to final determination under land use contracts entered into with the local land bureau. The master agreement provides that an area of approximately 997,000 sq.m. shall be used for the development of trade centers and exhibition facilities; approximately 400,000 sq.m. shall be used for the development of integrated logistics, commercial and warehouse facilities; and an area of approximately 333,000 sq.m. shall be used for ancillary living and commercial purposes.

Under the master agreement, the proposed site area is to be transferred by public tender, auction or listing for sale in two phases. The first transfer, representing a site area of approximately 840,000 sq.m., took place in the fourth quarter of 2009. The second transfer, representing a site area of approximately 890,000 sq.m. is expected to take place in the second half of 2011. Pursuant to the terms of the master agreement, the price of each parcel of land is determined in accordance with the value ascribed in the land use rights grant contract entered into with the Nanning Land Bureau, inclusive of all costs, other than relevant taxes, associated with completion of the land transfer, including but not limited to land acquisition costs, demolition costs, land development funds, as well as compensation, relocation and welfare costs owed to previous holders of the land.

Master Agreement for the Development of the Heyuan Project

On December 25, 2005, Guangdong Province Heyuan City Zijin County People's Government entered into an agreement with our subsidiary, China Metro-Rural Exchange Limited, outlining an understanding among the parties in relation to develop the Heyuan Project, a farm-style travel and resort community located in Zijin County, catering to domestic and international executives, primarily including those with operations at China South City Shenzhen.

A supplemental agreement was signed on June 4, 2006, transferring all rights and obligations of China Metro-Rural Exchange Limited to China South City Enterprise, our project company in Heyuan. A second supplemental agreement, which was signed on April 21, 2009, provides that a portion of the land is to be used for integrated logistics and trade purposes.

On December 13, 2010, Guangdong Province Heyuan City Zijin County People's Government entered into an agreement with China South International in connection with the proposed development of the integrated logistics and trade centers in Heyuan. The agreement outlines the proposed framework for the development of the integrated logistics and trade centers, the scope and area of the project land and each party's commitments and expectations for the proposed project. The Guangdong Province Heyuan City Zijin County People's Government agreed in principle to provide parcels of land area of approximately 1.2 million sq.m. for the proposed integrated logistics and trade centers, subject to final determination under land use contracts to be entered into with the local land bureau.

Agreement for the Development of China South City Xi'an

On November 3, 2009, the Xi'an International Port Zone Committee, an administrative entity representing the Xi'an Municipal People's Government to attract investment and carry out planning, management and development of the Xi'an International Port Zone, entered into an agreement with our subsidiary, China South International Industrial Materials City (Shenzhen), and Xinhaode (Hongkong) Holdings Ltd., outlining an understanding among the parties in relation to the development of China South City Xi'an, a large, modern, and integrated commercial logistics base.

Under the agreement, the Xi'an International Port Zone Committee agreed in principle to provide parcels of land having an aggregate area of 10 million sq.m. within the Xi'an International Port Zone for a logistics development project, subject to final determination under land use contracts entered into with the local land bureau.

The master agreement provides that China South City Shenzhen will be divided into two functional zones, including an area of approximately five million sq.m. to be used as an integrated commercial logistics zone, and an area of approximately five million sq.m. to be used for supporting commercial and residential facilities.

Property Management Services

We provide property management services to tenants of China South City Shenzhen through our subsidiary, Shenzhen First Asia Pacific. Our property management services include security, cleaning, repair and maintenance of equipment and facilities, management of parking lots and transportation within China South City Shenzhen. We engage a professional cleaning company and other service providers to perform the cleaning and major repair and maintenance services. Our own employees provide the security, repair and maintenance, management of parking lots and transportation services.

We charge tenants of China South City Shenzhen a monthly management fee for our property management services. As of September 30, 2010, the monthly management fee for our trade center units ranged from RMB3.8 per sq.m. for Phase One in trade center units to RMB15 per sq.m. for Phase Two trade center units. As of September 30, 2010, the monthly management fee for our West Garden residential facilities was RMB2.5 per sq.m. The monthly management fee for our Global Logistic Center office facility was RMB8.0 per sq.m. for office facilities and RMB10.0 per sq.m. for retail facilities. In fiscal years 2008, 2009, and 2010 and the six month period ended September 30, 2010, our revenues from management fees were approximately HK\$14.3 million, HK\$20.4 million, HK\$24.5 million and HK\$15.8 million, respectively.

We intend to provide similar property management services and to adopt a similar model for the payment of property management fees upon commencing operations at China South City Nanchang and China South City Nanning.

Land Use Rights And Building Ownership Rights

There are two types of title registrations in the PRC: land registration and building registration. Land registration is evidenced by the issue of a land use rights certificate by the relevant authority. A land use rights certificate is the evidentiary legal document demonstrating that the registered land user has the lawful right to use the land during the term stated therein, including the right to assign, mortgage or lease the land. Building registration is evidenced by the issue of a building ownership certificate. The holder of a land use rights certificate who is issued a building ownership certificate holds land use rights and owns the building erected on the land. All holders of land use rights, and other rights in respect of the land, such as the right to buildings erected on the land, must register their lawful state-owned land use rights, as well as ownership rights to the buildings. Under PRC law, land use rights and building ownership rights which are duly registered are protected by law.

PRC law prescribes different maximum periods for the grant of a land use right by the PRC government to the land user, subject to the payment of the land grant fee by the land user. The maximum period depends upon the use of the land, and varies from 40 years for commercial, tourism and entertainment uses to 70 years for residential uses. The most common term is 50 years, such as for industrial, warehouse, office and other uses. For further information, see “Regulation.”

China South City Shenzhen

We have received land use rights with respect to approximately 1.1 million sq.m. planned for development for China South City Shenzhen. We have obtained all necessary land title and building ownership certificates to conduct our operations at China South City Shenzhen. The land use rights for Phase One, Phase Two and Phase Three facilities for China South City Shenzhen are for a period of 50 years commencing from the respective dates as specified in the land use rights certificates.

The following table sets forth the commencement dates of the land use rights certificates and the effective dates of land grant contracts relating to the underlying land:

Facility	Commencement Date of Land Use Rights Certificates ⁽¹⁾	Effective Date of Land Grant Contracts ⁽²⁾
Trade centers	July 2003 to May 2007	July 2003 to March 2008
Residential facilities	May 2005	May 2005
Warehouse facilities	August 1992	September 2004
Supporting commercial facilities	July 2003	November 2005 to March 2008

- (1) The commencement date of a land use rights certificate granted by the land bureau to the initial holder of the land use rights for the underlying parcel of land marks the commencement of the term of land use rights for the initial holder of the rights certificate granted by the land bureau.
- (2) The effective date of the land grant contract marks the date on which we entered into a land grant contract for the underlying parcel of land. Where we are not the initial holder of the initial land use rights certificate, the effective date of the land grant contract will be subsequent to the commencement date of the land use rights certificate.

China South City Nanchang

We have received land use rights with respect to approximately 1.1 million sq.m. of a total area of approximately 1.6 million sq.m. planned for development for China South City Nanchang. The land use rights for China South City Nanchang are for a periods of 40 years for trade center use, 50 years for warehouse use and 70 years for residential use, commencing from the respective dates as specified in the land use rights certificates.

The following table sets forth the commencement dates of the land use rights certificates and the effective dates of land grant contracts relating to the underlying land:

Facility	Commencement Date of Land Use Rights Certificates ⁽¹⁾	Effective Date of Land Grant Contracts ⁽²⁾
Trade centers	June 2010	January 2010
Residential facilities	June 2010	January 2010
Warehouse facilities	June 2010	January 2010
Supporting commercial facilities	June 2010	January 2010

- (1) The commencement date of a land use rights certificate granted by the land bureau to the initial holder of the land use rights for the underlying parcel of land marks the commencement of the term of land use rights for the initial holder of the rights certificate granted by the land bureau.
- (2) The effective date of the land grant contract marks the date on which we entered into a land grant contract for the underlying parcel of land. Where we are not the initial holder of the initial land use rights certificate, the effective date of the land grant contract will be subsequent to the commencement date of the land use rights certificate.

China South City Nanning

We have received land use rights with respect to approximately 890,000 sq.m. of a total area of approximately 1.8 million sq.m. planned for development for China South City Nanning. The land use rights for China South City Nanning are for a period of 50 years commencing from the respective dates as specified in the land use rights certificates.

The following table sets forth the commencement dates of the land use rights certificates and the effective dates of land grant contracts relating to the underlying land:

Facility	Commencement Date of Land Use Rights Certificates ⁽¹⁾	Effective Date of Land Grant Contracts ⁽²⁾
Warehouse facilities ⁽³⁾	June 2010	April 2010

- (1) The commencement date of a land use rights certificate granted by the land bureau to the initial holder of the land use rights for the underlying parcel of land marks the commencement of the term of land use rights for the initial holder of the rights certificate granted by the land bureau.
- (2) The effective date of the land grant contract marks the date on which we entered into a land grant contract for the underlying parcel of land. Where we are not the initial holder of the initial land use rights certificate, the effective date of the land grant contract will be subsequent to the commencement date of the land use rights certificate.
- (3) We are in the process of changing the status of a portion of this land to residential use.

Heyuan Project

We have received land use rights with respect to an area of approximately 1.1 million sq.m. for our Heyuan project. The land use rights for our Heyuan project are for periods of 50 years for commercial use and 70 years for residential use, commencing from the respective dates as specified in the land use rights certificates.

The following table sets forth the commencement dates of the land use rights certificates and the effective dates of land grant contracts relating to the underlying land:

Facility	Commencement Date of Land Use Rights Certificates ⁽¹⁾	Effective Date of Land Grant Contracts ⁽²⁾
Residential properties	July 2009 and November 2010	June 2009 and October 2010
Supporting commercial facilities . . .	July 2009	June 2009

- (1) The commencement date of a land use rights certificate granted by the land bureau to the initial holder of the land use rights for the underlying parcel of land marks the commencement of the term of land use rights for the initial holder of the rights certificate granted by the land bureau.
- (2) The effective date of the land grant contract marks the date on which we entered into a land grant contract for the underlying parcel of land. Where we are not the initial holder of the initial land use rights certificate, the effective date of the land grant contract will be subsequent to the commencement date of the land use rights certificate.

Sales And Marketing

As of September 30, 2010, we had a team of approximately 183 sales and marketing and customer services personnel located in Shenzhen who are responsible for the sales, leasing and marketing of the store units in the trade centers and the other properties in China South City Shenzhen. Once a project is completed, our sales and marketing staff will also develop advertising and rental plans for the properties held for rental, and sales plans for the store units sold to purchasers of the properties. We also engage other independent professionals in the PRC to prepare marketing studies to assist us in developing our advertising and sales and rental plans. This process also includes a determination of target customers, as well as strategies to maximize usage and revenues from the property.

We also have promotion consultation committees for each trade center consisting of approximately 20 tenant representatives whom we have appointed based on their commitment and participation in

promotional and community activities within China South City Shenzhen. These committees are for consultation only and do not have legal power over the decision making on advertising and promoting the trade centers.

We conduct marketing of China South City Shenzhen through a variety of channels, including the network of our founding shareholders, advertising media, events and exhibitions and activities of trade associations. To further enhance the leasing of trade center units at Phase Two of China South City Shenzhen and strengthen our leading position in the region, we are in talks with various commercial chambers and organizations to lease large areas of our trade centers. An outlet center for Hong Kong goods is planned, as well as various efforts underway or in planning to establish regional goods or themed trade centers for products such as branded underwear (CSC SIUF International Brand Underwear Trade Center), watches and clocks, Taiwanese goods and Korean goods.

We have leveraged on our sales and marketing experience with China South City Shenzhen to develop similar sales and marketing strategies with respect to our properties planned for development in Nanchang and Nanning.

Network of Our Founding Shareholders

Our founding shareholders, each of whom are specialists in their respective industries, have a large network of manufacturers, distributors, trade associations, customers and suppliers within their area of industry expertise. We use this network for contacting potential tenants of our trade centers. We keep in contact with these potential tenants through a variety of methods, including telephone calls, periodic visits, e-mails and distribution of trade magazines. We believe this network provides us a competitive advantage in attracting tenants to our trade centers.

Advertising Media

We use various advertising media, including newspapers, airline magazine, television, direct mail, advertising in buses and trains, and outdoor billboards to market our trade center and residential properties. We also have our own website which provides a platform for promoting our projects.

Events and Exhibitions

As part of our general marketing efforts, we periodically sponsor and participate in events throughout China, such as trade seminars and exhibitions, in order to enhance our brand name and promote our business. Typically, the events and exhibitions we sponsor have been located in the Shenzhen and Nanning areas. In a joint effort with the Shenzhen and Nanning governments, respectively, we organized the China (Shenzhen) International Industrial Fair and the China-ASEAN Light Industrial Products Fair, which have been held since October 2009 and October 2010, respectively.

From October 29 to November 1, 2010, we continued to cooperate with the China Council for Promotion of International Trade, China Chamber of International Commerce and Shenzhen Municipal People's Government to hold the 3rd China (Shenzhen) International Industrial Fair. The four-day fair was one of our premier events, occupying an exhibition area of over 90,000 sq.m. and attracting over 1,300 exhibitors from China and overseas. This year, the fair attracted approximately 128,000 visitors, increasing the traffic and business flow at China South City Shenzhen, as well as helping us in our efforts to solidify our brand as a leading developer and operator of large-scale, integrated logistics and trade centers in the PRC.

In Nanning, we recently completed a new exhibition center which housed the 2010 China-ASEAN Light Industrial Products Fair, co-organized by us and the Nanning Municipal Bureau of Commerce and Nanning Jiangnan District People's Government in October 2010. We believe the fair received a positive response from participating exhibitors and visitors, and will help to attract customers with an interest in leasing or purchasing trade center and residential units in the future.

By raising our profile among domestic and international trade and industry associations, chambers of commerce, academic institutions, manufacturers and trading companies, we believe that we enhance our brand recognition, display the strengths and advantages of China South City Shenzhen, assist our existing tenants in attracting customers and expand our network with domestic and international businesses and communities.

Trade Associations

As of September 30, 2010, approximately four trade associations from Shenzhen and other locations in Guangdong Province had set up their offices at China South City Shenzhen on a rent-free basis. The trade associations help to promote our image and services by introducing our services to their members and organizing events at China South City Shenzhen, including seminars, training courses, new product launches and exchange of technical knowledge. They also participate from time to time in our exhibitions and invite visitors and purchasers to China South City Shenzhen.

Lease Agreements

China South City Shenzhen Phase One

As of September 30, 2010, we had a total GFA of approximately 317,400 sq.m. in our trade center units and 61,400 sq.m. in our commercial facility units for lease at Phase One of China South City Shenzhen. Leasing of trade center units and commercial facilities at China South City Shenzhen is conducted by our sales and marketing department.

We generally offer rent-free periods of one to three months to new tenants of our Phase One trade center units. We do not offer rent-free periods to existing tenants who renew their leases.

We currently offer preferential rental rates to all of our Phase One trade center tenants. The discounts offered to tenants depend on a variety of factors, including the duration of the lease, the type and location of the trade center for the unit to be leased, and the credit of the tenant. As of September 30, 2010, taking into account the above preferential terms, the average effective monthly rental rate for our Phase One and Phase Two trade center units was HK\$28.6 per sq.m. and HK\$33.8 per sq.m., respectively.

As of September 30, 2010, the majority of existing lease agreements (in terms of GFA) for Phase One trade center units of China South City Shenzhen were set to expire in less than two years. The remaining lease agreements for these trade center units are for terms of two to ten years.

Tenants are generally required to pay their monthly rent in advance either on a monthly, quarterly, or yearly basis, or in advance of their lease term. In some cases, we offer to decrease the overall lease payment amount if a tenant prepays the amount due for the remainder of the lease term. Rental rates are subject to review and renegotiation upon renewal of leases.

In addition to making rental payments, tenants of China South City Shenzhen Phase One trade center units are also required to provide a security deposit upon entering into a tenancy. We have the right to terminate tenancies upon the occurrence of certain events, such as non-payment of rent, carrying on of business other than the allowed purpose or breach of covenants by the tenants.

China South City Shenzhen Phase Two

In order to promote occupancy rates in our Phase Two trade centers, we have provided early tenants of these trade centers with preferential rental rates and rent-free periods. As of September 30, 2010, approximately 55,900 sq.m. of our Phase Two trade centers was occupied, which represented approximately 26% of the total leaseable area that we had launched in our Phase Two trade centers. Taking the above preferential terms into account, the average effective monthly rental rate for these trade centers was HK\$33.8 per sq.m.

Currently, the lease terms we offer to tenants of our Phase Two trade centers are generally from three to six years. Tenants may either make the whole amount of their rental payments in advance or make rental payments in phases during the lease term, depending on the terms of their lease agreements. All other material terms of our Phase Two trade center lease agreements are similar to the terms of our Phase One trade center lease agreements. For further information, see “— Lease Agreements — China South City Shenzhen Phase One.”

Purchaser and Tenant Financing

In order to facilitate the sales of Phase One trade center units and the finance lease of units in West Garden, we provide entrusted loans through intermediary banks in the PRC to the purchasers and tenants and guarantees of loans made to the purchasers and tenants by PRC banks. These entrusted loans, which are generally approximately 50% of the value of the property, are settled through monthly payments according to the terms of the entrusted loan agreements. As of September 30, 2010, the amount of entrusted loan receivables was HK\$59.4 million. We also provide guarantees for mortgage loans to purchasers of trade center units in China South City Shenzhen as well as for bank loans extended to West Garden tenants for their West Garden residential units. For further information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness and Contingent Liabilities — Guarantees.” The amount of guarantees as of September 30, 2010 was HK\$281.5 million.

Suppliers and Customers

Our principal customers are tenants and purchasers of our trade center units. Our five largest tenants together accounted for approximately 3.2% of the leaseable GFA of China South City’s Phase One and Phase Two trade centers, and together accounted for approximately 1.7% of our total revenues in the six month period ended September 30, 2010.

Our principal suppliers are contractors. As of September 30, 2010, our five largest suppliers, in terms of contract value, accounted for approximately 47% of our total purchases, excluding land costs primarily attributable to the principal contractors for our properties under development in Nanchang, Nanning and Heyuan.

Lease Arrangements with Certain Purchasers of Trade Center Units

A purchaser of a Phase Two trade center unit may enter into one of two types of purchase agreement, one that provides for self-use or one that provides for a leasing arrangement with us. Under the purchase agreements that provide for self-use, the purchasers agree to open their units for business at least 300 days per year and are required to pay a deposit to secure their compliance with this provision. Under the purchase agreements that provide for leasing arrangements, purchasers grant us the right to lease their trade center units to third parties for a period of one to three years and to receive all rental income from these leases. In return, we agree to offer these purchasers a discount on the purchase price of the Phase Two trade center units.

Project Development, Design and Financing Policies and Procedures

Project Identification

The first stage of our development process involves identifying new opportunities or accepting invitations from government officials to review development prospects in their respective cities. We conduct in-depth research and analysis to determine the development potential of a site and seek factors such as: (1) public demand for large trade centers in the area; (2) well-developed transportation infrastructure; (3) promising economic growth potential in the region; and (4) strong government support for the development of the trade center project. Our analysis will typically include an assessment of the economic environment, market investigation, feasibility studies, cost and profit forecasts and a positioning analysis for the site.

Project Development and Management Procedures

Once a site is proposed for development, our construction department recommends the appointment of architects and other necessary design consultants, formulates the design brief and controls the design program in consultation with the appointed architects and other consultants. The completed development and construction plan will be submitted to the relevant government authorities for approval. This approval process generally takes approximately three weeks.

During the construction phase, a construction team, headed by a project manager, is typically appointed for each development site. These teams, under the direction of our construction department, manage the project development process, seek to ensure the quality and timely completion of each project and control the costs according to the approved budget. Government officials from the relevant construction bureau will generally monitor the quality and safety of the project. We also have our own internal quality surveyors, site engineers and procurement staff to work on the project.

Project Design

All detailed project and interior design work for our projects are contracted out to PRC and international architectural and interior design firms, which plan the architectural, landscape and interior designs in accordance with our specifications.

The construction department is also responsible for overseeing the various aspects of design and interior design and for selecting the architects and interior design firms responsible for the project. At times we use a tender process in selecting these architects and interior design firms, while at other times we select architects and interior design firms without using a tender process based on our knowledge of the quality of their services and our previous experience working with them. The construction department and our senior management continually monitors the progress and quality of the appointed design firms to ensure that they are meeting our specifications.

Construction Work

We contract with independent third-party construction contractors to perform the construction work for our projects. Our relationship with each contractor lasts until the completion of their contracted stage of work. However, certain of our contractors have worked with us on several stages of our construction projects. As of September 30, 2010, we did not engage any related parties for the construction of development projects or supply materials to our development projects. We use a tender process in selecting contractors, material suppliers and consultants, while at other times we select contractors, material suppliers and consultants without using a tender process based on our knowledge of the quality of their services and our previous experiences working with them. Our contracts with construction companies typically contain warranties for quality and requirement for timely completion of the construction process. Although the agreements with our contractors vary due to the scope of contracted work, the majority of our agreements are generally for a six-month to 24-month period, depending on the scope of construction work involved.

Our construction agreements typically provide for payments based on construction progress until a specified maximum percentage of the total contract price is paid. We typically do not make any prepayments, but instead make payments according to the progress on a monthly basis. We assign project teams consisting of our own internal quality surveyors, site engineers and procurement staff to closely monitor the work of the independent construction companies, including quality and construction progress. In the event a contractor fails to perform its contractual obligations or is otherwise deficient in the performance of its contractual obligations, we may require the contractor to remedy the non-compliance or non-conformity of the performance, or otherwise pay damages or a penalty. Since the beginning of fiscal year 2007, we have not had any material disputes with any of our contractors and suppliers. In addition, neither we nor any of our contractors have terminated a major contractor agreement.

Monitoring and Supervision

To monitor the progress of construction, our construction department has a project management team, consisting of qualified engineers led by project managers, that monitors the construction progress of contractors in accordance with our construction agreements and the construction plan progress. To ensure the quality of construction, our project management team monitors the quality of work of construction contractors in accordance with our construction agreements and the construction plan. As required by PRC laws and regulations, we also engage qualified independent quality supervisory companies to conduct quality and safety control checks on building materials and workmanship.

Financing Policies

To date, we have financed our projects through loans from our shareholders, bank borrowings, the proceeds of the Convertible Notes, the proceeds of our initial public offering and our working capital. We intend to finance our properties under development and planned for future development with bank borrowings, internally generated funds and a portion of the net proceeds of the Notes.

Quality Control

We place a strong emphasis on quality control to ensure that our properties comply with relevant laws and regulations and meets market standards. In addition, quality control is crucial to the successful development of our integrated trade center developments and to meet the requirements of our target tenants and customers. We establish and maintain approved registers of design consultants, other consultants, contractors and material suppliers to ensure that only those that are competent are permitted to participate in the tender process. The quality control of our projects is headed by the general manager of the construction department and performed in accordance with our internal procedures and systems as well as the specifications of our projects. We monitor and assess the performance of the design consultants, contractors and material suppliers to ensure that they meet the specified requirements. Appropriate follow-up action and penalties are taken against those that do not meet the required standards. In addition, we also have a project management team consisting of qualified engineers that performs regular quality audits of the project site and reports irregularities or poor workmanship to the general manager of the construction department and to the project managers responsible for the projects. The responsible project construction teams are required to rectify the problem immediately.

Legal and Compliance

The daily responsibilities for the implementation of internal control procedures have been placed on the senior management of our business departments and subsidiaries, and our legal, administration and company secretarial departments, who have responsibility to oversee our compliance with applicable laws, rules and regulations. Our legal department is responsible for upholding our compliance function. Our administration department is responsible for obtaining the licenses, authorizations and other certificates required for our business. Our company secretarial department is responsible for overseeing our compliance with the Listing Rules and Companies Ordinance. Our internal audit department reviews and monitors the implementation of internal control procedures by our various departments and subsidiaries and identifies areas of non-compliance and potential risks to us.

We have also prepared a compliance manual which codifies our corporate governance policies and procedures and expectations with respect to legal and regulatory compliance. As we continue to develop our business, we will continue to review our internal control mechanisms and the adequacy of relevant human resources to ensure compliance with statutory requirements and regulations relevant to our business.

Environmental Matters

As an operator and developer of trade center projects in the PRC, we are subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on project design and construction, air and noise pollution and discharge of waste and water into the environment.

As required by PRC law, we must, depending on the impact of the project on the environment, submit an environmental impact assessment report, an environmental impact analysis table or environmental impact registration form before the relevant authorities will grant approval for the commencement of construction of the project. All of our projects currently under development have received such approval.

See “Risk Factors — Risks Relating to Our Business and Our Industry — Potential liability for environmental problems could result in substantial costs” for a discussion of the risks that environmental laws and regulations may pose to our operations.

Health and Safety Matters



Under PRC laws and regulations, most of the potential liabilities to the workers on and visitors to our construction sites rest with our contractors. To our knowledge, there have been no material incidents of non-compliance with the relevant health and safety laws and regulations by our main contractors or their subcontractors during the course of their business dealings with us.

Competition

We face competition from other trade centers in China, particularly in Guangdong Province with regard to China South City Shenzhen. The trade center industry in China is fragmented, and consists of a large number of trade centers of varying sizes. The greatest concentrations of similar trade centers in China are in the Greater Pearl River Delta, the Yangtze River Delta and the Bohai-Ring region near Beijing. Many trade centers in China tend to specialize in one industry sector. There are a limited number of trade centers in China with a GFA in excess of 400,000 sq.m. that offer products in more than one industry sector and have a comprehensive range of supporting services and facilities. Our existing and potential competitors include trade centers managed by private domestic operators, trade centers that may have some affiliation with local government entities in China, and to a lesser extent, trade centers jointly developed or managed with international operators. In addition, there may be an increase in supply of trade centers in the Greater Pearl River Delta and elsewhere in China, such as Nanchang, Nanning and Xi’an, in the future. Each of Guangxi Zhuang Autonomous Region, Jiangxi Province and Shaanxi Province also has numerous trade centers varying in size and type of industries represented. A number of our competitors have broader name recognition, a longer track record and more established relationships in certain markets.

In addition, we expect to increase the proportion of residential properties in our properties under development and planned for future development in Nanchang, Nanning, Heyuan and Xi’an. As a result, we will face increasing competition in the future from residential and other property developers. We expect competition among property developers for land reserves that are suitable for property development to remain intense. In addition, PRC governmental land supply policies and implementation measures may further intensify competition for land in China among property developers.

Intellectual Property Rights

We have registered the trademark  “华南城” (China South City) and its logo  with the Trade Marks Registry in Hong Kong and the PRC Trademark Office under various categories relating to metals, textiles, machines, electronics and many other categories. We also have registration pending in the Trade Marks Registry in Hong Kong with respect to the trademarks of “China South City” and “华南城” under some additional categories. We are also the owner of the domain name of “www.chinasouthcity.com.”

Insurance

We maintain insurance policies with insurance companies in the PRC, which cover property damage due to natural hazards, including lightening, typhoons and other natural phenomena, and accidents, including fire and explosion, and general liability under property all risk insurance, construction all risk insurance and public liability insurance. There are, however, certain types of risks that are not covered by our insurance policies, including losses resulting from war, nuclear contamination, tsunami, pollution and acts of terrorism. As of September 30, 2010, we had not experienced any significant loss or damage to our properties. In addition, we maintain employer's liability insurance covering bodily injury, medical treatment and litigation expenses for our employees. We also carry automobile insurance covering collision damage and various types of liability for our vehicles. According to PRC laws, under certain circumstances, the owner or manager of properties under construction may bear civil liability for personal injuries arising out of construction work unless the owner or manager can prove that it is not at fault. We take steps to prevent construction accidents and personal injuries, and as a result, we believe that we will generally be able to demonstrate that we were not at fault as the property owner if a personal injury claim is brought against us.

We believe that we have sufficient insurance coverage in place and that the terms of our insurance policies are in line with industry practice in the PRC. Nonetheless, there are risks that we do not have sufficient insurance coverage for some damage and liabilities that may arise from our business operations. See "Risk Factors — Risks Relating to our Business — We may suffer losses caused by natural disasters, and these losses may not be fully covered by insurance."

Facilities

Our registered office is located at Room 2205, 22/F, Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui, Kowloon, Hong Kong. Our registered office, which comprises approximately 3,873 sq.m. pursuant to a lease that expires on March 16, 2011, is staffed by management and office personnel. Our Shenzhen office is located at No. 1 Hua Nan Main Road, Pinghu, Longgang District, Shenzhen, PRC. Our Shenzhen office, which comprises approximately 7,400 sq.m. in supporting commercial facilities located within China South City Shenzhen, is also staffed by management and office personnel. In addition, we have a sales and leasing center of approximately 1,470 sq.m., and a security monitoring center of approximately 500 sq.m. that we use for our operations. We have land use rights and building ownership rights for the buildings in which our Shenzhen office, security monitoring center and sales and leasing centers are located.

Employees

As of September 30, 2010, we had approximately 1,380 employees, including approximately 190 employees employed in joint venture entities.

We aim to recruit, retain and develop competent individuals committed to our long-term success and growth. Remunerations and other benefits of employees are reviewed annually both in response to market conditions and trends, and based on qualifications, experience, responsibilities and performance. In addition to basic salaries and other staff benefits, discretionary bonus and share options may be awarded to employees who demonstrate outstanding performance and contributions to our operations.

Legal Proceedings

From time to time, we have been involved in legal proceedings or other disputes in the ordinary course of our business which are primarily disputes with our customers, contractors and employees, and we have not incurred significant legal costs and expenses in connection with these legal proceedings. We are not aware of any material legal proceedings, claims or disputes currently existing or pending against us that may have a material adverse impact on our business or our results of operations.

REGULATION

The following section sets forth a summary of the most significant PRC laws and regulations that affect us. For a description of the legal risks relating to government regulation of our business, and in particular the land system in China, see “Risk Factors.”

Overview

Our Subsidiary, China South International, is treated as an integrated logistics enterprise and a foreign investment enterprise by local authorities in Shenzhen. Our project companies in Nanchang and Heyuan are qualified as domestic real property enterprises and our project company in Nanning is under the application process of a domestic real property enterprise in the PRC.

We are subject to extensive government regulation in the PRC. In connection with our integrated logistics and trade center development activities, we are subject to a number of PRC laws and regulations relating to the land system in the PRC, such as those related to land use rights, (including how land use rights may be acquired and transferred), documents of title, property development, real estate loans, mortgages and other financing techniques, property management, leasing and property-specific taxes. In addition, as an owner of warehouses used in the logistics industry, we, and our jointly controlled entity, China South NEL, are subject to PRC laws and regulations relating to ownership and operation of warehouses. Furthermore, our customers and logistics providers located on-site at China South City Shenzhen are subject to PRC laws and regulations, and licensing requirements, relating to the import/export industry and the provision of logistics services. In the future, we may also engage in import/export services. We are also subject to regulations relating to foreign currency exchange, dividend distributions and taxation. These provisions are discussed below.

Our Treatment as an Integrated Logistics Enterprise

Because it provides a platform for a variety of integrated logistics and trade services and facilities, including transportation services, bonded, unbonded and export supervised warehouses, logistics liaison services, on-site logistics service providers, and quality testing services, China South International is treated as an integrated logistics enterprise by local authorities in Shenzhen and, in accordance with relevant PRC laws, regulations and policies, is not subject to rules and regulations in the PRC applicable to foreign investment real estate enterprises. See “— Regulations on Foreign-Invested Real Estate Enterprises” for a description of the rules and regulations applicable to foreign investment real estate enterprises.

Although our revenue is primarily generated from the sale and lease of properties, our legal treatment as an integrated logistics enterprise in Shenzhen is consistent with PRC laws and regulations, and necessary approvals related to our integrated logistics operations have been obtained from the appropriate regulatory authorities in the PRC. However, because we develop properties necessary for the integrated logistics activities available at our integrated logistics and trade center operations, we are subject to certain PRC laws, regulations and policies otherwise applicable to property development enterprises. For a description of these rules and regulations, see “— Property Development,” “— Qualifications of a Property Developer,” “— Property Leasing,” “— Property Sales” and “— Regulations on Development of a Real Estate Project.”

China South International was established on December 18, 2002. According to Regulations for Guiding the Direction of Foreign Investment (指導外商投資方向規定), issued by the State Council on February 11, 2002, foreign investment projects should be examined, approved and submitted for record by development planning authorities or foreign trade and economic cooperation authorities depending on the nature of the projects. Upon its establishment, China South International was examined and approved by the Shenzhen Municipal Trade and Industry Bureau.

China South International increased its registered capital on five occasions, by HK\$100.0 million, HK\$100.0 million, HK\$120.0 million, HK\$600.0 million and HK\$300.0 million on June 15, 2005,

December 5, 2005, September 4, 2007, February 8, 2010 and June 13, 2010, respectively, for a total of HK\$1,500.0 million. According to the Notice of the Ministry of Commerce on Practicing Good Governance in Accordance with the Law When Carrying Out the Work Associated With the Examination and Approval of Foreign-Invested Enterprises (商務部關於依法行政做好外商投資企業審批工作的通知), issued by the Ministry of Commerce, or the MOFCOM, on January 21, 2005, the MOFCOM is responsible for the approval of capital increases of: (1) US\$100 million or more, in the case of encouraged category or permitted category foreign investment enterprises; and (2) US\$50 million or more, in the case of restricted category foreign investment enterprises. According to a notice of the MOFCOM issued on June 10, 2010 every capital increase of US\$300 million or less (in the case of encouraged or permitted categories) is subject to the examination approval and management of local approval authorities. As China South International is an encouraged category foreign investment enterprise, each of its capital increases fell below the relevant threshold and therefore fell within the authority of the Shenzhen Municipal Trade and Industry Bureau.

China South International amended its business scope on March 25, 2004, September 21, 2004 and November 11, 2007, respectively. With respect to foreign investment enterprises that apply for a change of business scope, the MOFCOM is responsible for the relevant approval only where such change involves a restricted category foreign investment enterprise requiring a special state prescription. Based on the advice of our PRC legal counsel, we do not believe that: (1) China South International will be treated as a foreign investment real estate enterprise or subject to the requirements imposed on such enterprises; or that (2) China South International's treatment as an integrated logistics enterprise will be affected as a result of its property development activities.

Logistics Regulations of the PRC

Under PRC laws and regulations, local government agencies are encouraged to adopt preferential land, investment and tax policies to further promote the construction of infrastructure and logistics facilities. Although China South International is treated as an integrated logistics enterprise, as of the date of this offering memorandum, we have not received any preferential land, investment or tax treatment.

The Land System of the PRC

Overview

Although all land in the PRC is owned by the State or by collectives, individuals and entities may obtain land use rights and hold such land use rights for development purposes. The State has the right to resume the right to use land in accordance with law if required for the public interest. Individuals and entities may acquire land use rights in different ways, the two most important being land grants from local land authorities and land transfers from land users who have already obtained land use rights.

Land Grants

National and Local Legislation

On May 19, 1990, the State Council issued the Regulations of People's Republic of China Concerning the Interim Grant and Assignment of Right to Use State Land in Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例), or Urban Land Regulations. The Urban Land Regulations prescribe different maximum periods of grant for different uses of land as follows:

Use of Land	Maximum Period (years)
Commercial, tourism, entertainment	40
Residential	70
Industrial	50
Educational, scientific, technological, cultural, public health and sports	50
Comprehensive utilization or other purposes	50

Under the Urban Land Regulations, domestic and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The State may not resume possession of lawfully granted land use rights prior to expiration of the term of grant. If the public interest requires the resumption of possession by the State under special circumstances during the term of grant, compensation must be paid by the State. Subject to compliance with the terms of the land grant contract, a holder of land use rights may exercise substantially the same rights as a land owner during the grant term, including holding, leasing, transferring, mortgaging and developing the land for sale or lease.

Upon paying in full the land grant fee pursuant to the terms of the contract, the grantee may apply to the relevant land bureau for issuance of the land use rights certificate. Upon expiration of the term of grant, renewal is possible subject to the execution of a new contract for the grant of land use rights and payment of a new land grant fee. If the term of the grant is not renewed, the land use rights and ownership of any buildings on the land will revert to the State without compensation.

The Law of the People's Republic of China on Property Rights (中華人民共和國物權法), or Property Law, adopted by the National's People's Congress on March 16, 2007 and effective as of October 1, 2007, further clarified land use rights in the PRC with the following rules:

- land use rights for residences will be automatically renewed upon expiry;
- car parking spaces and garages within residential buildings must first be used to meet the needs of the owners who live in the building;
- the construction of buildings must comply with relevant laws and regulations and must not affect the ventilation or lighting of neighboring buildings; and
- where the land use rights for construction use are transferred, exchanged, used as a capital contribution, donated to others or mortgaged, an application for modification registration must be filed with the registration department.

In addition to the general framework for transactions relating to land use rights set out in the Urban Land Regulations, local legislation provides for additional requirements, including those applicable to specific transactions within specific areas relating to the grant and transfer of land use rights. These local regulations are numerous and some of them are inconsistent with national legislation. Under PRC law, national laws and regulations prevail to the extent of such inconsistencies.

Methods of Land Grant

There are two methods by which land use rights may be granted, namely by private agreement or competitive processes (i.e., public tender, auction or listing for sale at a land exchange administered by the local government).

The MLR has required since August 31, 2004, that the grant of land use rights must be made pursuant to public tenders, auctions or listings for sale on a land exchange and that no land use rights for commercial uses could be granted by way of private agreement. PRC laws and regulations specifically provide that land to be used for commercial purposes must be granted by way of competitive processes. A number of measures are provided by PRC laws and regulations to ensure such grant of land use rights for commercial purposes is conducted openly and fairly. For instance, the local land bureau must take into account various social, economic and planning considerations when deciding on the use of a certain piece of land, and its decision regarding land use designation is subject to approval by the city or provincial government. In addition, the announcement of a public tender, auction or listing for sale at a land exchange must be made 20 days prior to the date of beginning such competitive processes. Furthermore, it is also stipulated that for listing at a land exchange, the time period for accepting bids must not be less than 10 days.

When land use rights are granted by way of tender, a bid evaluation committee consisting of not fewer than five members (including a representative of the grantor and other experts) formed by the land bureau is responsible for evaluating the bids and the tenderee is responsible for deciding on the successful bidder. The successful bidder will then sign the land grant contract with the land bureau and pay the balance of the land-grant fee before obtaining the State land use rights certificate and the land bureau effecting registration of the successful bidder as the holder of land use rights for the land. See “— Documents of Title and Registration of Property Interests.” The land bureau will consider the following factors: if the invitation to tender only requires a bid from the bidder, whoever offers the highest bid will be the successful bidder; or if the invitation to tender requires the bidder to submit planning proposals in addition to the bid, then details of the proposals will be considered. If the relevant land bureau considers that none of the bids is satisfactory, the land bureau has the right to reject all the bids.

Where land use rights are granted by way of auction, a public auction will be held by the relevant local land bureau. The land use rights are granted to the highest bidder. The successful bidder will then be asked to sign the land grant contract with the local land bureau and pay the relevant land grant fee within a prescribed period. Tenders for land use rights can be by way of open tenders or private tenders.

Where land use rights are granted by way of listing at a land exchange administered by the local government, a public notice will be issued by the local land bureau to specify the location, area and purpose of use of land and the initial bidding price, period for receiving bids and terms and conditions upon which the land use rights are proposed to be granted. The land use rights are granted to the bidder with the highest bid who satisfies the terms and conditions. The successful bidder will enter into a land grant contract with the local land bureau and pay the relevant land grant fee within a prescribed period.

The land use rights for China South City Shenzhen have been granted pursuant to local exceptions to these requirements. These are discussed below.

On July 8, 1994, the Shenzhen Municipal People’s Congress issued the Regulations for the Grant of Land Use Rights in the Shenzhen Special Economic Zone (深圳經濟特區土地使用權出讓條例), or Shenzhen SEZ Land Use Rights Regulations. On February 13, 1998, the Standing Committee of Shenzhen People’s Congress issued an amendment to the Shenzhen SEZ Land Use Rights Regulations. In general, the transfer of land use rights must be in compliance with the regulations issued by the MLR. However, the amendment to the Shenzhen SEZ Land Use Rights Regulations allows some exceptions based on the characteristic and practical needs of the Shenzhen Special Economic Zone.

On July 6, 2001, the Shenzhen Municipal People’s Government issued the Decision on Strengthening Administration of the Transformation to a Market System for Land and Further Invigorating and Standardizing the Real Estate Market (關於加強土地市場化管理進一步搞活和規範房地產市場的決定), or the Shenzhen 2001 Regulations. Under the Shenzhen 2001 Regulations, designated parcels of land can be sold by agreement at a public market price, although such sale must be announced to the public.

Upon signing the land grant contract the grantee is required to pay the land grant fee pursuant to the terms of the contract and the contract is then submitted to the relevant local bureau for the issue of the land use rights certificate. Upon expiration of the term of grant, the grantee may apply for its renewal. Upon approval by the relevant local land bureau, a new contract is entered into to renew the grant, and a land grant fee shall be paid.

Model Land Grant Contract

To standardize land grant contracts, in 2008, the MLR and the State Administration for Industry and Commerce, or the SAIC, published the model land grant contract, on the basis of which many local governments have formulated their respective local form land grant contract to suit their special local circumstances. The model land grant contract contains terms such as location of land, use of land, land grant fee and its payment schedule, conditions of land upon delivery, term of grant, land use conditions and restrictions (including GFA, plot ratio and height and density limitations), construction of public facilities, submission of building plans for approval, deadline for commencement of construction, payment of idle fees, deadline for completion of construction, application for extension of the stipulated

construction period, restrictions on subsequent transfers, responsibility for obtaining supply of utilities, restrictions against alienation before payment of the land-grant fee and completion of prescribed development, application of renewal, force majeure, breach of contract and dispute resolution.

If the land user fails to develop and invest in the land within the period of time specified in the land grant contract, the land bureau has the right to impose various penalties ranging from fines to withdrawal of the grant without consideration (unless the failure is due to force majeure or the activities of a government authority).

Termination

A land use right terminates upon the expiry of the term of grant specified in the land grant contract and the resumption by the state of that right.

The State generally will not withdraw a land use right before the expiration of its term of grant and if it does so for special reasons, such as in the public interest, it must offer proper compensation to the land user, having regard to the surrounding circumstances and the period for which the land use right has been enjoyed by the user.

Upon expiry, the land use right and ownership of the related buildings erected on the land and other attachments may be acquired by the State without compensation. The land user will take steps to surrender the land use rights certificate and cancel the registration of the certificate in accordance with relevant regulations.

A land user may apply for renewal of the land use rights and, if the application is granted, the land user is required to enter into a new land grant contract, pay a land grant fee and effect appropriate registration for the renewed grant.

Documents of Title and Registration of Property Interests

A land use rights certificate is the evidentiary legal document to demonstrate that the registered land user has the lawful right to use the land during the term stated therein. Upon the completion of construction of a building (including passing the acceptance tests by various government departments), a building ownership certificate will be issued to the owner of the building. The holder of a land use right who is issued a building ownership certificate holds the land use rights and owns the building erected on the land. All holders of land use rights, and other rights in respect of the land such as the right to buildings erected on the land, must register all their lawful land use rights, as well as ownership rights to the buildings. In Shenzhen, the land use rights certificate and the building ownership certificate are combined into a single certificate.

Mortgage and Guarantee

Under PRC laws and regulations, when a mortgage is created on the ownership of a building on State-owned land legally obtained, a mortgage shall be simultaneously created on the land use rights of the land on which the building is erected. Pursuant to PRC laws and regulations, buildings newly erected on a piece of urban land after a mortgage contract has been entered into shall not constitute mortgaged property. If the mortgaged property is auctioned off, the new buildings added on the land may be auctioned together with the mortgaged property, but the mortgagee shall not be entitled to priority compensation from the proceeds of the auction of the new buildings.

Within 30 days after a real estate mortgage contract has been signed, the parties to the mortgage must register the mortgage with the real estate administration authority in the city where the real estate is situated. A real estate mortgage contract becomes effective on the date of registration of the mortgage. When carrying out mortgaged property registration, the loan contract and the mortgage contract as well as the land use rights certificate or the building ownership certificate in respect of the mortgaged property must be submitted to the registration authority.

Under PRC laws and regulations, guarantees may be in one of two forms: (1) general guarantees whereby the guarantor bears the liability when the debtor fails to perform the payment obligation; or (2) guarantees with joint and several liability whereby the guarantor and debtor are jointly and severally liable for the payment obligation. A guarantee contract must be in writing and, unless agreed otherwise, the term of a guarantee shall be six months after the expiration of the term for performance of the principal obligation.

Where indebtedness is secured by both a guarantee and by mortgaged property, the guarantor's liability shall be limited to the extent of the indebtedness that is not secured by the mortgaged property.

Property Development

Overview

Property development projects in the PRC are generally divided into single projects and large tract development projects. A single project refers to the construction of buildings on a plot of land and the subsequent sale of units. Large tract development projects consist of the comprehensive development of large area and the construction of necessary infrastructure such as water, electricity, road and communications facilities. The developer may either assign the land use rights of the developed area or construct buildings on the land itself and sell or lease the buildings erected on it.

Foreign entities must establish foreign investment enterprises in the PRC as project companies to develop property. The typical scope of business of such project companies includes development, construction, sales, leasing and property management of commodity properties and ancillary facilities on the specific land as approved by the government. The term of the property development company is usually the same as the term of grant of the land use rights in question.

Establishment of a foreign-invested project company is subject to the approval by the relevant departments of the PRC government in accordance with the following procedures. First, a project application report is submitted to the central or local development and reform commission for verification and approval. If the development and reform commission considers the proposed property development project to be consistent with the prevailing national and local economic plans and foreign investment regulations, it will grant an approval to the applicant in respect of the project.

Once the project application report has been verified and approved, a joint feasibility study report is prepared that reflects the investor's assessment of the overall economic viability of the proposed project company. The feasibility study report and/or articles of association may then be submitted to the MOFCOM, or its local counterpart, as the case may be, for approval. If the Ministry of Commerce or its local counterpart finds the application documents to be in compliance with PRC law, it will issue an approval certificate for the establishment of the project company. With this approval certificate, the investor can apply to the local administration for industry and commerce for a foreign investment enterprise business license for the project company.

Development Regulations

In November 2009, the MLR, issued a circular which restricts the area of land that may be granted by local governments for development of commodity housing to seven hectares for small cities and towns, 14 hectares for medium-sized cities and 20 hectares for large cities.

In November 2009, the Ministry of Finance, or the MOF, MLR, PBOC, PRC Ministry of Supervision and PRC National Audit Office also jointly promulgated a notice which raised the minimum down-payment for land grant fees to 50% and requires the land grant fees to be fully paid within one year after the signing of a contract for the assignment of land, subject to limited exceptions. Any developer defaulting on any such payment may not participate in any new transactions of land grant.

In March 2010, the MLR promulgated the Notification on Emphasizing Relevant Issues Relating to the Supply and Supervision of Land for Real Estate Development (關於加強房地產用地供應和監管的有關問題的通知), or the 2010 Notice, which adopted measures to improve the regulation of land for real

estate development, and included measures to: (1) improve the preparation and implementation of land supply plans; (2) improve the regime of public tender, auction and listing-for-sale of land use rights; (3) enhance the supervision on the use of land; and (4) disclose to the public information on the supply and assignment of land and the status of the construction project on the land.

In addition, the 2010 Notice stipulates that the administrative authorities for land and resources of cities and counties must establish a regime for developers to report the commencement and completion of construction projects. Under such regime, the developer must adhere to certain timing and application requirements for the commencement and completion of the construction project. A developer who fails to report accordingly must be announced to the public and prohibited from participating in any new land grant transactions for a minimum of one year. The 2010 Notice also stipulates penalties for property development enterprises that default on the payment of the land grant fees, hold idle land, hoard or speculate in land, develop property on the land exceeding their actual development capacity or default on the performance of the contract for the assignment of land.

In September 2010, the MLR and the Ministry of Housing and Urban-Rural Development, or MOHURD, jointly issued a notice, which stipulates, among other things, that the planning and construction conditions and land use standards should be specified when a parcel of land is to be granted, and the restrictions on the area of one parcel of land granted for commodity properties should be strictly implemented. In addition, a property developer and its shareholders will be prohibited from participating in bidding for land before it rectifies any violations of law in which it may have engaged, such as keeping land idle for more than one year.

Regulations on Foreign-Invested Real Estate Enterprises

Once a foreign entity developer has established a project company and secured the land use rights to a piece of land for development, it has to apply for and obtain the requisite planning permits from the planning departments and have its design plan approved by, and apply for and obtain construction permits from, the relevant construction commission for commencement of construction work on the land. When the construction work on the land is completed, the completed buildings and structures must be examined and approved by the government departments before they can be delivered to purchasers or lessors for occupancy.

Foreign Investment Catalog

PRC law requires that a foreign investment project be approved by government authorities at the appropriate level depending on the amount of the investment by the foreign enterprise and the industries to which the project belongs under the foreign investment catalog. We have obtained approval from the Shenzhen Bureau of Trade and Industry as a foreign investment enterprise and have subsequently received approval on three occasions to increase the investment capital for China South City Shenzhen.

We expect to inject our future proceeds for China South City Shenzhen in stages, each of which will be subject to the approval by Shenzhen Bureau of Trade and Industry. Under this arrangement, we need not apply for approval from the MOFCOM and the National Development and Reform Commission, or the NDRC. We believe that if China South International is treated as a foreign-invested real estate enterprise, it will not face any additional restrictions under the Catalog with respect to its operations at China South City Shenzhen nor will such treatment necessitate amending China South International's business scope.

On May 4, 2010, the NDRC issued a circular, which specified that the power to verify foreign invested projects must be delegated and project verification procedures must be simplified. Except for the projects that are required to be verified and approved by relevant departments of the State Council, foreign invested projects which are within the encouraged or permitted industry categories will be verified by the NDRC at the provincial level, provided that such projects have a total investment (including capital increase) of no more than US\$300 million.

On June 10, 2010, the MOFCOM released a circular, under which the relevant local branches of the MOFCOM are granted the power to examine, approve and administer the establishment and alterations of foreign investment enterprises which are within the encouraged and permitted categories with a total investment of no more than US\$300 million and foreign investment enterprises which are within the restricted category under the Catalog with a total investment of no more than US\$50 million.

Circular No. 171

Issued in response to increasing foreign investment in the real estate industry in recent years, the Opinions on Regulating the Entry of Foreign Capital into the Real Estate Market and the Administration Thereof (關於規範房地產市場外資准入和管理的意見), or Circular No. 171, issued by the Ministry of Construction, the MOFCOM, the NDRC, the PBOC, SAIC and the SAFE, on July 11, 2006, may impact foreign investment in the PRC real estate industry in the following areas:

- Circular No. 171 requires a foreign invested real estate enterprise, or FIREE, with total investments equating to or exceeding US\$10 million to have a registered capital consisting of no less than 50% of its total amount of investment. FIREEs with total investments below US\$10 million shall have a registered capital in amounts pursuant to and consistent with existing regulations.
- upon payment of the land use rights grant fees, the FIREE can apply to the land administration authority for a land use rights certificate. Upon obtaining the land use rights certificate, a FIREE may then obtain a recertification of its existing foreign investment enterprise approval certificate, or FIEAC, and the business license, with the same validity period as that of such land use rights certificate; following which, the FIREE may apply to the tax administration for tax registration purposes.
- when a foreign investor merges with a domestic real estate enterprise, or acquires a FIREE's equity or project, the investor is required to submit a guarantee which ensures the compliance with the provisions of the land use rights grant contract, construction site planning permit and construction work planning permit, and the land use rights certificate, and the modification certification issued by the construction authorities, and the tax payments certification issued by the relevant tax authorities.
- foreign investors which merge with domestic real estate development enterprises by share transfer or other methods, or which acquire the equity of a PRC party in joint venture enterprises, must allocate their employees appropriately, deal with bank debts and settle the lump sum payment of the transfer price through self-owned funds. However, a foreign investor with an unfavorable record should not be allowed to conduct any of these activities.
- FIREEs which have not paid up their registered capital fully, or failed to obtain a land use rights certificate, or hold under 35% of the total capital required for the project, may not be allowed to obtain a loan in or outside China, and foreign exchange administration departments shall not approve any settlement of foreign loans by such enterprises. Although the MOFCOM has not issued any further opinions on the regulation of entry of foreign capital into the real estate market, however, based on the Capital Ratios Notice, issued by the State Council on May 25, 2009, this capital requirement may be reduced to 30% in the future.
- PRC or foreign investors in a FIREE shall not guarantee fixed profit returns or provide other arrangements to the same effect for any party in any form.

With regard to China South City Shenzhen, the Shenzhen Municipal Administration of Foreign Exchange and the Municipal Trade and Industry Bureau in Shenzhen have treated our subsidiary, China South International, as an integrated logistics enterprise rather than as a real estate enterprise. Because China South International has not been treated as a real estate enterprise, we have been able to distribute funds downstream in the form of shareholders loans rather than capital contributions and have not been subject to certain approval and registered capital requirements applicable to foreign invested real estate

enterprises, including those under the Catalog. If the governmental agencies in Shenzhen were to treat us as a real estate developer, this would need to be recorded with the MOFCOM and we would no longer be able to inject capital into China South International in the form of shareholders' loans. Furthermore, we would become subject to a registered capital ratio requiring us to maintain registered capital levels at 50% or more of our total investment.

Circular No. 50

The Notice of the Ministry of Commerce and the State Administration of Foreign Exchange on Further Strengthening and Regulating the Examination, Approval and Oversight of Foreign Direct Investment in the Real Estate Sector (商務部、國家外匯管理局關於進一步加強、規範外商直接投資房地產業審批和監管的通知), or Circular No. 50, issued by the MOFCOM and the State Administration for Foreign Exchange on May 23, 2007 may impact foreign investment in the PRC real estate industry in the following areas:

- the local governments/authorities that approve FIREE establishments are now required to file such approvals with the MOFCOM;
- prior to establishing a foreign invested real estate enterprise, foreign investors are required to obtain land use rights or the ownership of a real estate project, or the investor should have entered into an indicative land grant contract or indicative project purchase agreement with the land administrative department, developer of the land or owner of the property;
- the practice of allowing foreign investors taking over local project companies by way of roundtrip investment is strictly controlled; and
- a foreign investment enterprise that intends to engage in real estate development, or an existing FIREE which intends to undertake a new real estate development project, shall first apply to the relevant authorities for such business scope and scale expansion in accordance with laws and regulations on foreign investments.

Circular No. 130

The Notice of the General Affairs Department of the State Administration of Foreign Exchange on Issuance of the List of the First Batch of Foreign-Invested Real Estate Projects Recorded With the Ministry of Commerce (國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知), or Circular No. 130, issued by the State Administration for Foreign Exchange on July 10, 2007, is a strict embodiment and application of Circular No. 50, under which some notices will have a significant impact on offshore financings of FIREEs. Some of the key developments in this area are as follows:

- an FIREE which has obtained an FIEAC (including new establishment and registered capital increase) and filed with the MOFCOM after June 1, 2007 may not incur foreign debt or convert loans in foreign currency into RMB; and
- an FIREE which obtains an FIEAC after June 1, 2007 but fails to file with the MOFCOM after June 1, 2007, may not conduct a foreign exchange registration nor a foreign exchange conversion of its registered capital.

Because China South International has not been treated as a real estate enterprise in Shenzhen, we have not been subject to the requirements of Circular No. 50, Circular No. 130 or Circular No. 171 with regard to China South City Shenzhen.

Qualifications of a Property Developer

Establishment of a Property Development Enterprise

According to the Law of the People's Republic of China on the Administration of Urban Property (中華人民共和國城市房地產管理法), or the Urban Property Law, a property development enterprise is defined as an enterprise which engages in the development and sale of property for the purpose of making profits. Under the Regulations on Administration of Development of Urban Property (城市房地產開發經營管理條例), or the Development Regulations, an enterprise which is to engage in development of property must have a minimum registered capital of RMB1 million and employ at least four full-time professional property/construction technicians and at least two full-time accounting officers, each of whom must hold relevant qualification certificates. Furthermore, a developer who aims to establish a property development enterprise should apply for registration with the Administration for Industry and Commerce. The property development enterprise must also report its establishment to the property development authority in the location of the registration authority, within 30 days upon the receipt of its business license.

Under the Notice on Adjusting the Portion of Capital Fund for Fixed Assets Investment of Certain Industries (關於調整部分行業固定資產投資項目資本金比例的通知), the portion of capital funding for property projects (excluding affordable residential housing projects) has been increased from 20% to 35%. However, on May 25, 2009, the State Council issued the Notice on Adjusting the Minimum Capital Requirement for Fixed Assets Investment (關於調整固定資產投資項目資本金比例的通知), which lowered the minimum capital requirement for non-residential property projects to 30%.

Under the Regulations for the Administration of the Qualifications of Real Estate Development Enterprises (房地產開發企業資質管理規定), or Qualification Certificate Regulations, issued by the Ministry of Construction on March 29, 2000, a real estate developer shall apply for registration of its qualifications according to the Qualification Certificate Regulations.

According to the Qualification Certificate Regulations, a newly established property developer must first apply for a temporary qualification certificate within 30 days of obtaining its business license. The temporary qualification certificate has a one-year validity and may be extended for not more than two years with the approval of the relevant real estate development administration authority. In addition, an application for a formal qualification certificate must be made one month before the expiration of the interim certificate. All qualification certificates are subject to inspection by the relevant government authorities and to be renewed on an annual basis. Under government regulations, developers must fulfill all statutory requirements before they may obtain or renew their qualification certificates.

In addition, the Qualification Certificate Regulations require the qualifications of a property development enterprise to be classified into five classes: class 1, class 2, class 3, class 4 and the tentative class. Different classes of qualification must be examined and approved by corresponding authorities. The class 1 qualifications must be subject to both preliminary examination by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2 or lower must be formulated by the relevant government authorities.

Furthermore, the Qualification Certificate Regulations stipulate that a developer of any qualification classification may only engage in the development and sale of the property within its approved scope of business and may not engage in business which falls outside the approved scope of its qualification classification. A class 1 property development enterprise may undertake property development projects throughout the country without any limit on the scale of the project. A property development enterprise of class 2 or lower may undertake a project with a GFA of less than 250,000 sq.m. and the specific scopes of business must be formulated by the relevant government authorities.

According to documentation provided by the Shenzhen Municipal Bureau of Land Resources and Housing Management, China South International is not treated as a real estate developer and therefore does not require a long-term (two years) qualification certificate normally granted to real estate developers. The Shenzhen Municipal Bureau of Land Resources and Housing Management has granted a short-term (one year) qualification certificate to China South International in order to allow China South International to undertake the development of property necessary for its integrated logistics operations. In May 2010, we obtained an annual renewal of the qualification certificate.

Although we have been classified as an integrated logistics enterprise in Shenzhen, we have the requisite qualification certificates for engaging in our property development activities for China South City Shenzhen.

Property Leasing

Both the Urban Land Regulations and the Real Property Law permit leasing of granted land use rights and the buildings or homes constructed on the land. Leasing of properties situated in urban areas is governed by the Measures for Administration of the Lease of Urban Premises (城市房屋租賃管理辦法), or the Leasing Measures, issued by the Ministry of Construction on May 9, 1995. The Leasing Measures were issued by the Ministry of Construction in June 1995 in accordance with the Real Property Law in order to strengthen the administration of the leasing of urban buildings. The Leasing Measures permit property owners to lease their properties to others for residential or commercial property uses except as otherwise prohibited by relevant law. The landlords and tenants who are the parties to a property lease transaction are required to enter into a written lease agreement specifying all of the terms of the lease arrangement as required by statute. Leasing of buildings and the underlying land use rights must not exceed a maximum term of 20 years. The lease agreement becomes effective upon signing; however, it must be registered with the relevant real property administration authority at the municipality or county level within 30 days after its execution for the purpose of protecting the tenant's interest against claims from third parties. A tenant may, upon obtaining consent from the landlord, assign or sublease the premises to sub-tenants. Local governments may impose rent controls.

Property Sales

Pre-sale of Real Estate

Under PRC laws and regulations, real estate developers wishing to engage in the pre-sale of real estate in the PRC must first obtain the following permits:

- Certificate of Real Estate Exploitation and Business License of the Developer;
- State-owned Land Use Rights Certificate;
- Construction Project Planning Permit;
- Construction Permit;
- Work Commencement Permit; and
- Commodity Premises Pre-sale Permit.

Under the Measures for the Administration of the Sale of Commodity Premises (商品房銷售管理辦法), or Commodity Premises Sale Measures, issued by the Ministry of Construction on April 4, 2001, the sale of commodity premises, which include residential properties, commercial properties and other buildings that are developed by property developers, can include both pre-completion and post-completion sales.

Pre-completion Sales

A developer intending to sell a commodity property before the completion of construction must attend to the necessary pre-completion sale registration with the real estate administration authority of the relevant city or county to obtain a Permit for Pre-completion Sale of Commodity Properties.

Commodity properties may only be sold before completion provided that:

- the grant premium has been paid in full for the grant of the land use rights involved and a land use rights certificate has been obtained;
- a Permit for Construction Work Planning and a Construction Permit have been obtained;
- the funds invested in the development of the commodity properties put up for pre-completion sale represent 25% or more of the total investment in the project and the progress of works and the completion and delivery dates have been ascertained; and
- the pre-completion sale has been registered and a pre-sale permit has been obtained.

According to Commodity Premises Pre-Sale Measures, for the pre-sale of commodity buildings, the developer must sign a contract on the pre-sale of a commodity building with the purchaser. The developer must, within 30 days after signing the contract, apply for registration and filing of the pre-sale commodity building with the relevant property administration authorities.

On July 6, 2006, the MOHURD, NDRC and SAIC jointly promulgated a Notice, which provides that:

- a property development enterprise may start to sell a commodity property within 10 days after receiving a pre-sale permit, and without this permit, the pre-sale of commodity buildings is prohibited, as is the subscription for (including reservation, registration and number selecting) or acceptance of, pre-sale payments;
- the pre-sale of commodity buildings must not be advertised without a pre-sale permit; and
- property development enterprises with a record of serious irregularity or developers who do not satisfy the requirements of the pre-sale of commodity buildings are not allowed to take part in pre-sale activities.

On April 13, 2010, the MOHURD issued a Notice, which provides that, without pre-sale approval, pre-sale of commodity properties is not permitted and property developers are not allowed to charge buyers any deposit, pre-payment or payment of similar nature.

Post-completion Sales

In accordance with the Commodity Premises Sale Measures, issued by the Ministry of Construction on April 4, 2001, commodity properties may be put up for post-completion sale only when the following preconditions for such sale have been satisfied:

- the real estate developer offering to sell the post-completion properties has a valid business license and a qualification classification certificate;
- the real estate developer has obtained a land use rights certificate or other approval documents of land use;
- the real estate developer has the relevant permit for construction project planning and the permit for construction;
- the commodity property has been completed, inspected and accepted as qualified;
- the original residents have been resettled;
- the supplementary and essential facilities for supplying water, electricity, heating, gas, communication and other essentials have been made ready for use, and other supplementary facilities and public facilities have been made ready for use, or the schedule of construction and delivery date of have been specified; and
- the property management plan has been completed.

Prior to a post-completion sale of a commodity property, a real estate developer is also required to submit a Real Estate Development Project Manual and other documents showing that the preconditions for a post-completion sale have been fulfilled to the relevant real estate development authority.

Restrictions on the Sale of Commodity Properties

Because it provides a platform for a variety of integrated logistics and trade center services and facilities, China South International is treated as an integrated logistics enterprise by local authorities in Shenzhen. However, because we develop properties necessary for the integrated logistics activities available at our integrated logistics and trade center operations, we are subject to certain PRC laws, regulations and policies otherwise applicable to property development enterprises, including the Commodity Premises Sale Measures. For a description of our treatment as an integrated logistics enterprise, see “— Overview — Our Treatment as an Integrated Logistics Enterprise.”

Regulations on Real Estate Financing

Financing Restrictions

The PRC government has introduced a number of measures and regulations to restrict the ability of property developers to raise capital through external financing and other methods since 2003. For example, the Circular on Further Strengthening the Management of Property Loans (關於進一步加強房地產信貸業務管理的通知) stipulates that commercial banks may not grant loans to property developers for the purposes of paying for land grant fees and land premiums. Loans of any kind must not be granted for projects which do not obtain a land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit. In addition, a developer applying for real estate development loans shall have at least 35% of capital funds required for the development. Furthermore, the Opinions of the Ministry of Construction and other Departments on Adjusting the Housing Supply Structure and Stabilizing Housing Prices (關於調整住房供應結構穩定住房價格的意見) and the Notice on Strengthening the Management of Commercial Real Estate Credit and Loans (關於加強商業性房地產信貸管理的通知), or the 2007 Notice, stipulate that commercial banks may not grant loans to developers of projects where: (1) the capital funds (owner’s equity) constitutes less than 35%; (2) projects without a land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit; and (3) property development enterprises that have been classified by the relevant government authorities as hoarding land and housing resources. Furthermore, commercial banks are not permitted to accept commodity buildings with a vacancy exceeding three years as collateral for a loan, and may not grant property development enterprises any loans for the payment of relevant land assignment premiums.

The 2007 Notice further stipulates requirements that strengthen the processes for loan management, including the implementation of credit checks, monitoring of real estate loans and risk management.

Because the local authorities in Shenzhen treat our subsidiary, China South International, as an integrated logistics enterprise rather than a property developer, it has not been subject to these measures and regulations. However, our Nanchang and Heyuan project companies are, and our Nanning project company is likely to be, treated as real property development enterprises, and therefore will be subject to these measures and regulations.

Additional Loan Policies

According to a notice promulgated by the PBOC on June 19, 2001, all banks must comply with the certain funding requirements, including the loan amount to actual value of security (mortgage ratio) and timing requirements before granting residential development loans, individual housing mortgage loans and commercial real estate loans. Pursuant to guidance issued by the CBRC on September 2, 2004, any property development enterprise applying for property development loans must have at least 35% of the capital required to fund the development of the property.

Regulations on Development of a Real Estate Project

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

If construction work has not been commenced within one year upon the commencement date as set forth in the land use rights agreement, a surcharge on idle land equivalent to less than 20% of the land grant fees may be levied. If the construction work has not been commenced within two years, the land can be confiscated without any compensation, unless the delay is caused by force majeure, the acts of government or acts of other relevant departments under the government, or by indispensable preliminary work.

Planning of a Real Estate Project

After signing a land use rights grant contract, a developer shall apply for an Opinion on Construction Project's Site Selection and a Permit for Construction Site Planning with the city planning authority. After obtaining a Permit for Construction Site Planning, a developer may commence planning and design work in accordance with the Permit for Construction Site Planning requirements and proceed to apply for a Permit for Construction Work Planning with the city planning authority.

Relocation

Upon obtaining approvals for a construction project, a permit for construction site planning, state-owned land use rights and a verification of deposit to compensate parties that are affected by the relocation payable by the developer by a bank, a developer may apply to the local real estate administration authorities where the real estate is located for a permit for housing demolition and removal.

Upon granting a demolition and removal permit, the real estate administration department must issue a demolition and removal notice to the inhabitants of the area.

Construction of a Real Estate Project

After obtaining the Permit for Construction Work Planning, a developer shall apply for a Construction Permit from the relevant construction authority.

Completion of a Real Estate Project

A real estate project must comply with the relevant laws and other regulations, requirements on construction quality, safety standards and technical guidance on survey, design and construction work, as well as provisions of the relevant construction contract. After the completion of works for a project, the developer shall apply for an acceptance examination to the construction authority and shall also report details of the acceptance examination to the construction authority. A real estate development project may only be delivered after passing the acceptance examination.

Regulations on Environmental Protection in Construction Projects

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.

According to the Environmental Regulations, a developer is required to submit an environmental impact report, an environmental impact report form, or an environmental impact registration form (as the case may be) to the relevant environmental protection administration for approval during the project's feasibility analysis stage. In the meantime, if any ancillary environmental protection facilities are necessary in the construction project, such facilities are required to be designed, constructed and used in conjunction with the main project. After completion of the project, the developers are required to apply to the relevant environmental protection administrations for final acceptance examination in respect of any ancillary environmental protection facilities. Construction projects are approved for use after passing the acceptance examination.

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 effective as of September 1, 2003, 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, the authority in charge of examination and approval of the project shall not approve construction of the project, and the construction work unit may not commence work.

A notice issued by the State Environmental Protection Administration on July 6, 2006 provides for stringent examination and approval procedures for various real estate development projects. It also stipulates that no approvals may be issued for new residential projects or extensions in industry development zones, areas impacted by industrial enterprises or areas where such development poses potential harm to residents' health.

Regulations on Stabilizing Housing Prices

On May 24, 2006, the General Office of the State Council issued the Opinion of the Ministry of Construction and other Departments on Adjusting Housing Supply Structure and Stabilization of Housing Prices (關於調整住房供應結構穩定住房價格的意見), or MOC Opinion, which provides for: (1) adjustments to the housing supply structure; (2) modifications of tax, credit and land policies; and (3) regulation of the housing and property markets. To implement the MOC Opinion, the MOHURD promulgated opinions, which set forth supplemental requirements on the proportion and allocation of newly-built housing structures.

The General Office of the State Council has issued opinions, which provide relevant credit policies and measures to support the purchase of a home buyer's initial first ordinary home or improved ordinary home and additional consumer loan programs to facilitate real estate purchases. In January 2010, the General Office of the State Council issued a circular, which adopted a series of measures to strengthen and improve the regulation of the property market, stabilize market expectations and facilitate the stable and healthy development of the property market. These include, among others, measures to increase the supply of affordable housing and ordinary commodity housing, provide reasonable guidance for the purchase of property, restrain speculative investment in property, and strengthen risk prevention and market supervision.

On April 17, 2010, the State Council issued a notice pursuant to which the State Council raised the minimum down payment for second home purchases to 50% and set a minimum 30% down payment on first homes with a GFA of more than 90 sq.m. To strengthen property market regulation and enhance the implementation of these existing policies, on September 29, 2010, the PBOC and CBRC jointly issued a notice according to which the minimum down payment has been raised to 30% for all first home purchases, and commercial banks throughout China are required to suspend mortgage loans for purchases of a customer's third parcel of residential property and beyond.

On September 29, 2010, the MOF, State Administration of Taxation and the MOHURD jointly issued a notice according to which, as of October 1, 2010, the deed tax for individuals who purchased ordinary residential property with a GFA floor area under 90 sq.m. as his sole family residence will be reduced to 1%, and those who sell their homes and buy new ones within one year would not be eligible for reductions or exemptions on individual income tax on the profits from the sales.

Property Management

A property management enterprise shall apply for assessment of qualifications by the qualification approval authority. An enterprise which passes such a qualification assessment will be issued a qualification certificate evidencing the qualification classification by the authority. No enterprise may engage in property management without undertaking a qualification assessment and obtaining a qualification certificate.

Insurance

There are no mandatory requirements under PRC laws and regulations for a property developer to obtain insurance policies for its property developments. Under standard industry practice in the real estate industry in Guangdong Province, construction companies are generally required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies are required to pay for the insurance premium at their own costs and obtain insurance to cover their liabilities, such as third-party's liability risk, employer's liability risk, risk of non-performance of contract in the course of construction and risks associated with the construction and installation works during the construction period. The requirement for construction companies to obtain insurance coverage for all of these risks ceases immediately after the completion and acceptance upon inspection of construction.

Regulation of Bonded Warehouses and Export Supervised Warehouses

Bonded Warehouses

The operation of bonded warehouses is governed by Rules of Customs of the PRC on Bonded Warehouses and Goods Stored Therein and enforced by the PRC General Administration of Customs, or PRC Customs. Bonded warehouses refer to the warehouses of PRC Customs established to store bonded goods and other goods that have not completed customs procedures.

PRC Customs conducts inspections of the operation of bonded warehouses annually. Persons responsible for operating a bonded warehouse and persons directly involved in the management of the bonded warehouse are required to be familiar with customs laws and regulations, abide by the monitoring authority of PRC Customs, and accept PRC Customs training.

When bonded goods enter into the warehouse, the consignor and the consignee or their agents must go to the Customs authorities to handle the formalities related to customs clearing and entry into the bonded warehouses, and the Customs authorities shall check and verify the type, quantity, and value of goods declared for customs clearing and entry into the warehouses against the scope and type of goods that may be stored in the bonded warehouses, and conduct a registration and verification of the entering goods.

Goods stored in bonded warehouses may undergo simple processing, such as packaging, grading and categorization, marking and unpacking, but not any substantial processing. Goods in bonded warehouses are not allowed to be sold, transferred, pledged, pawned, detained, used for other purposes or undergo other disposal without permission from the Customs authorities.

Export Supervised Warehouse

“Export supervised warehouse” refers to a warehouse under special Customs supervision, which was established upon approval of PRC Customs, for storage of goods that have already obtained export permits, been settled in foreign exchange with overseas firms and cleared all customs export formalities.

An export supervised warehouse must be used for special purposes, and may not be sub-leased or lent to others for operation, or be subordinated with any branch warehouse. PRC Customs may, at any time, dispatch officers to enter an export supervised warehouse to inspect goods in storage, and all relevant account books and records. PRC Customs may, jointly with the enterprise that operates the export supervised warehouse, lock the warehouse or dispatch staff to the warehouse to administer Customs functions at the warehouse.

Goods stored in warehouses according to regulations must be shipped out of the jurisdiction within a prescribed period and must not be sold in the jurisdiction. The period for storage in a warehouse is six months. Under special circumstances, this period may be extended upon application to the Customs authorities, but for no longer than another six months.

Regulation of Foreign Currency Exchange and Dividend Distribution

Foreign Currency Exchange

The principal regulation governing foreign currency exchange in the PRC is the Regulations of the People’s Republic of China for the Control of Foreign Exchange (中華人民共和國外匯管理條例), or the Foreign Exchange Regulations, which was amended by the State Council on August 1, 2008, and became effective on August 5, 2008. Under these regulations, Renminbi are freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not for expenses of capital, such as direct investment, loans or investments in securities outside the PRC unless the prior approval of the SAFE is obtained.

Under the Foreign Exchange Regulations, foreign investment enterprises in the PRC may purchase foreign exchange without SAFE approval for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also remit foreign exchange (subject to a cap approved by the SAFE) to satisfy foreign exchange liabilities or to pay dividends.

Dividend Distribution and Remittance

Under PRC laws and regulations, wholly foreign-owned enterprises in China may only pay dividends out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in China is required to set aside at least 10.0% of its after-tax income each year, if any, to fund a reserve fund until the accumulated reserve amounts to 50.0% of its registered capital. It is also required to set aside funds for the employee bonus and welfare fund from its after-tax income each year at percentages determined at its sole discretion. These reserves are not distributable as cash dividends. If the registered capital of a foreign investment enterprise has not been fully paid in accordance with the articles of association, dividends in foreign currency may not be remitted out of the PRC.

Shareholder Loan

Shareholder loans made to foreign investment enterprises are regarded as foreign debt in China, and are therefore subject to a number of PRC laws and regulations. Under these regulations, our PRC subsidiaries can legally borrow foreign exchange loans up to their borrowing limits, which is the difference between their respective amounts of “total investment” and “registered capital” as approved by the MOFCOM or its local counterparts. “Total investment” is the projected amount of funds necessary for a foreign investment enterprise to attain the production or operational capacity set out in its joint venture contract and/or articles of association, whereas “registered capital” refers to the equity or capital contributions to be paid in full by the foreign investors. According to article 2 of the Notice on Several Issues Concerning Strengthening Administration of Foreign Exchange Relating to Capital Account Items (關於加強資本項目外匯管理若干問題的通知), issued by the SAFE on September 15, 1998, such loans must additionally be registered and recorded with the SAFE or its local branch. Interest rates on foreign loans should not exceed rates for similar loans in the international financial markets. Interest payments on such loans, if any, are subject to a 10% withholding tax.

If the foreign exchange debts of a foreign investment enterprise exceed an enterprise’s statutory borrowing limits, the foreign investor is required to increase its total investment amount and registered capital as necessary to comply with these limits.

Taxation

Enterprise Income Tax

The EIT Law imposes a uniform tax rate of 25% (compared to a previous top rate of 33%) for all enterprises incorporated or resident in China, including foreign investment enterprises, and eliminates many tax exemptions, reductions and preferential treatments formerly applicable to foreign investment enterprises. However, the EIT Law grandfathers preferential tax treatments for foreign investment enterprises established before March 16, 2007. For foreign investment enterprises that are currently enjoying the preferential tax rate of 15% or 24%, their applicable tax rate will be gradually phased into the new 25% tax rate during a five-year transitional period. Certain of our PRC subsidiaries enjoyed preferential enterprise income tax rates of 15% on their taxable income for the years prior to 2008. When our currently available tax benefits become unavailable, which we expect will occur in 2012, our financial condition and results of operations could be adversely affected.

Under the EIT Law that has been effective since January 1, 2008, enterprises established under the laws of foreign countries or regions whose “de facto management bodies” are located within the PRC territory are considered as “resident enterprises” and thus will normally be subject to enterprise income tax at the rate of 25% on global income. In particular, non-resident enterprises with an institution or establishment in China must pay enterprise income tax at the rate of 25% on taxable income derived by such institution or establishment within China as well as on taxable income earned outside China which has a “de facto” connection with such institution or establishment. Non-resident enterprises without any institution or establishment within China, or non-resident enterprises whose income has no connection to its institution or establishment inside China must pay a withholding income tax at the rate of 10% on taxable income derived from inside China, unless otherwise exempted pursuant to applicable tax treaties or tax arrangements between the PRC government and the government of other jurisdictions. Under the EIT Law, dividends, bonuses and other equity investment proceeds received by an enterprise are exempted from Enterprise Income Tax if distributed between qualified resident enterprises or if obtained by a non-resident enterprise with institutions or establishments in China from a resident enterprise and having a “de facto” connection with such institutions or establishments. However, even if we are unable to satisfy the requirements for this exemption from withholding tax on the dividends we receive from our subsidiaries in China, we are entitled to a reduced withholding tax of 5% on dividend payments due to a tax treaty between China and Hong Kong, which became effective on December 8, 2006. The tax treaty provides that a company incorporated in Hong Kong may be subject to a withholding tax of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in the PRC company, or at the rate of 10% if it holds less than a 25% interest in the PRC company.

The Implementation Regulations define the term “de facto management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting and properties of a non-PRC company is located.” The determination of tax residency in a particular situation requires a review of the surrounding facts and circumstances and the mechanism provided in the Implementation Regulations gives the relevant taxation authority discretion in applying its judgment.

Business Tax

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%. China South NEL 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 issued by the State Administration of Taxation in December 2009, 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 EIT 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.

Land Appreciation Tax

Under PRC laws and regulations, PRC companies that engage in integrated logistics and trade center development activities are subject to land appreciation tax. Land appreciation tax is levied on us by local tax authorities in accordance with the Notice on the Levy of Land Appreciation Tax in Shenzhen Municipality, issued by the Shenzhen Local Taxation Bureau on November 9, 2005, which provides that all enterprises and individuals, domestic and foreign, who receive income as a result of a grant of land use rights are subject to payment of land appreciation tax. Land appreciation tax is levied upon the “appreciation value” of property, as defined in the relevant tax laws. All taxable gains from the sale or transfer of land use rights, buildings and related facilities in China are subject to land appreciation tax at progressive rates that range from 30% to 60% of the gain but not to exceed 50% to 200% of the sum of deductible items, which include: (1) amount paid for obtaining the land use rights; (2) costs and expenses for the development of the land; (3) costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions; (4) related tax payable for the transfer of property; and (5) other deductible items as specified by the MOF.

On December 28, 2006, the State Administration of Taxation issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (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), or the LAT Notice, which came into effect on February 1, 2007, and sets forth methods of calculating land appreciation tax and the time frame for settlement of land appreciation tax. The LAT Notice provides that land appreciation tax must be settled if: (1) the property development project has been completed and fully sold; (2) the property development enterprise transfers the whole uncompleted development project; or (3) the land use rights with respect to the project are transferred. In addition, the relevant tax authorities may require the property development enterprise to settle the land appreciation tax if: (1) for completed property development projects, the transferred GFA represents more than 85% of total saleable GFA, or the proportion represented is less than 85%, but the remaining salable GFA has been leased out or used by the property development enterprise; (2) the project has not been completed sold more than three years after obtaining the sale permit or pre-sale permit; (3) the property development enterprise applies for

cancellation of the tax registration without having settled the relevant land appreciation tax; or (4) other conditions stipulated by the tax authorities.

On May 12, 2009, the State Administration of Taxation issued the Administrative Rules for the Settlement of Land Appreciation Tax (土地增值稅清算管理規程), or the Settlement Rules, which re-affirm the circumstances under which the land appreciation tax must be settled, the criteria that are to be met for relevant tax authorities to require the settlement of land appreciation tax and the circumstances under which the tax authorities must levy and collect land appreciation tax as prescribed by the Notice. The Settlement Rules further stipulate detailed procedures for the examination and verification of the settlement of land appreciation tax to be carried out by relevant tax authorities.

On May 19, 2010, the State Administration of Taxation issued the Circular on Issuers Concerning Settlement of Land Appreciation Tax (關於土地增值稅清算有關問題的通知) to strengthen the settlement of land appreciation tax. The circular clarifies certain issues with respect to calculation and settlement of the land appreciation tax, such as: (1) the recognition of the revenue upon the settlement of land appreciation tax; and (2) the deduction of fees incurred in connection with the property development.

On May 25, 2010, the State Administration of Taxation issued the Notice on Strengthening the Collection Land Appreciation Tax, which requires that the minimum land appreciation tax prepayment rate must be 2% for provinces in the eastern region, 1.5% for provinces in the central and northeastern regions, and 1% for provinces in the western region. The local tax bureaus must determine the applicable land appreciation tax prepayment rates based on the types of the properties.

Value-Added Tax

Under PRC regulations which took effect on January 1, 2009, all units and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC are taxpayers of value-added tax, and shall pay value-added tax at tax rates of between 2% and 17%, depending on the activities in which they engage.

Deed Tax

Pursuant to the Interim Regulations of the People's Republic of China on Deed Tax (中華人民共和國契稅暫行條例), the transferee, whether an individual or otherwise, of the title to a land site or building in the PRC must be subject to the payment of deed tax at a rate of 3% to 5%. The relevant government authorities will determine their effective tax rates. Pursuant to the Notice on Strengthen the Management of Deed Tax Administration by the Shenzhen tax authority in 2006, the rate of deed tax in Shenzhen is 3%.

Urban Land Use Tax

Pursuant to the Provisional Regulations of the People's Republic of China Governing Land Use Tax in Urban Areas (中華人民共和國房地產稅暫行條例), land use tax of urban land is levied according to the area of relevant land. As of January 1, 2007, the annual tax on every sq.m. of urban land collected from foreign-invested enterprises must be between RMB0.6 and RMB30.0.

Building Tax

Under the Interim Regulations of the People's Republic of China on Building Tax (中華人民共和國城鎮土地使用稅暫行條例), a building tax must be levied at a rate of 1.2% if it is calculated on the basis of the residual value of a building, and at a rate of 12% if it is calculated on the basis of the rental payments for the lease of the building.

According to the Circular Concerning the Levy of Building Tax on Foreign Enterprises and Foreigners (關於對外資企業及外籍個人徵收房產稅有關問題的通知) promulgated by the MOF on January 12, 2009, and the Circular Concerning the Implementation of the Levy of Building Tax on Foreign-Invested Enterprise and Foreign Individuals (關於做好外資企業及外籍個人房產稅徵管工作的通知) issued by the State Administration of Taxation on January 6, 2009, domestic and foreign-invested enterprises and foreign individuals will be subject to the Interim Regulations of the People's Republic of China on Building Tax from January 1, 2009.

Municipal Maintenance Tax and Education Surcharge

According to the Notice of the State Council on Extending the Urban Maintenance and Construction Tax and Educational Surcharges from Chinese to Foreign-funded Enterprises and Citizens issued by the State Council on October 18, 2010, as of December 1, 2010, foreign-invested enterprises, foreign enterprises and foreign persons are no longer exempt from payment of municipal maintenance tax and education surcharges imposed at the local government level. Municipal maintenance tax and education surcharges are calculated with reference to a taxpayers' value-added tax, business tax and sales tax.

Dividends from our China Operations

Under PRC tax laws, regulations and rulings applicable to years prior to 2008, dividends from a PRC company paid to its overseas investor were exempt from any PRC withholding or income tax. The EIT Law as currently in effect provides that a withholding tax rate of 20% will normally be applicable to dividends payable to non-PRC investors that are derived from sources within the PRC, but with a possibility of exemption or reduction. The Implementation Regulations reduce the withholding tax rate for non-PRC residents to 10%. As a result, effective from January 1, 2008, dividends paid by foreign investment enterprises to non-PRC resident shareholders are subject to withholding tax at an ordinary rate of 10%, unless otherwise exempted or reduced by PRC laws and regulations or in accordance with arrangements or treaties between the PRC government and the government of any other jurisdiction where such non-PRC resident shareholder is registered.

MANAGEMENT

Directors and Executive Officers

The following tables set forth the names, ages and current positions of our directors and members of senior management.

Board of Directors

Name	Age	Position
Cheng Chung Hing ^{(2) (3)}	49	Executive Director (Co-Chairman)
Leung Moon Lam	54	Executive Director (Chief Executive Officer)
Xu Yang	71	Executive Director
Ma Kai Cheung	68	Non-Executive Director (Co-Chairman)
Sun Kai Lit Cliff	57	Non-Executive Director
Ma Wai Mo	66	Non-Executive Director
Cheng Tai Po	58	Non-Executive Director
Shi Wan Peng ⁽¹⁾	73	Independent Non-Executive Director
Leung Kwan Yuen Andrew ^{(1) (2) (3)}	59	Independent Non-Executive Director
Li Wai Keung ^{(1) (2) (3)}	53	Independent Non-Executive Director

Senior Management

Name	Age	Position
Fung Sing Hong Stephen	45	Chief Financial Officer
Chen Jiacheng	47	Chief Operating Officer
Tse Man Yu	39	Deputy Chief Financial Officer and Company Secretary
Huang Wei Sheng	46	Deputy General Manager
Jiang Kai	58	General Manager of the Construction Department
Jung Minh	47	General Manager of Commercial Operation
Wang De Wen	32	Vice President of CSC Xi'an
Liu Xiao Dong	39	Deputy General Manager of China South International
Zheng Miao Fang	29	Deputy General Manager of China South International
Kuang Kun Lin	48	Deputy General Manager of China South International
Liu Ze Bin	56	Deputy General Manager of Construction Department
Zhang Li Ling	45	General Manager of Shenzhen First Asia Pacific
Zhang Xue Fang	46	Deputy General Manager of CSC Nanchang
Deng Jian Ming	42	Deputy General Manager of CSC Nanchang
Zheng Li Yang	44	Deputy General Manager of CSC Nanning
Yu Shao Guang	31	Deputy General Manager of CSC Heyuan

(1) Member of the audit committee.

(2) Member of the remuneration committee.

(3) Member of the nomination committee

A description of the business experience and present position of each director and senior manager is provided below.

Executive Directors

Mr. CHENG Chung Hing (鄭松興先生), aged 49, is our co-chairman and an executive director. He is a co-founder of our Group and has been appointed as a director of the Company since August 2, 2002. He is primarily responsible for formulating the overall strategies and assessing the performance of the Group as well as providing leadership for the Board. He has more than 25 years of management experience in the manufacturing, wholesale and distribution businesses. Mr. Cheng has been awarded the “Young Industrialist Awards of Hong Kong 1997” from the Federation of Hong Kong Industries, the Distinguished International Entrepreneur of the Year Award 1997 from San Francisco State University and the Chinese Outstanding Entrepreneur Award 2008 from the China Enterprise Confederation and the China Enterprise Directors Association. Mr. Cheng is a member of the 3rd, the 4th and the 5th Shenzhen Committee of the Chinese People’s Political Consultative Conference. Mr. Cheng is also presently the honorary life president of the Hong Kong Gemstone Manufacturers’ Association Limited, foundation honorary chairman of Gem and Jewelry Committee of China General Chamber of Commerce, honorary chairman of Zhejiang Pearl Trade Association, chairman of the Shenzhen Logistics and Supply Chain Management Association, vice chairman of the Shenzhen Industrial and Economic Association, a standing member of the China Enterprise Confederation and the China Enterprise Directors Association and vice president of the China Chamber of International Commerce Shenzhen. Mr. Cheng is also the chairman of Man Sang International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 938), and China Metro-Rural Holdings Limited, a company listed on the NYSE Amex, formerly known as the American Stock Exchange (ticker symbol: CNR). Mr. Cheng is the younger brother of Mr. Cheng Tai Po, a non-executive director of the Company.

Mr. LEUNG Moon Lam (梁滿林先生), aged 54, is a chief executive officer and executive director. He is a co-founder of our Group and has been appointed as a Director of the Company since June 1, 2002. He is primarily responsible for the execution of the Board’s decision and the overall management of the Group. He has more than 25 years of management experience in the garment manufacturing, wholesale and distribution businesses. Mr. Leung received the Chinese Outstanding Entrepreneur Award 2008 from the China Enterprise Confederation and the China Enterprise Directors Association. Mr. Leung was a member of the 3rd and the 4th Shenzhen Committee of the Chinese People’s Political Consultative Conference. At present, Mr. Leung is a member of the Liaoning Committee of the Chinese People’s Political Consultative Conference, the vice chairman of the Jiangxi Chinese Overseas Friendship Association, chairman of Shenzhen Textile Industry Association, the executive chairman of the Shenzhen Leather Industry Association, an honorary chairman of the Shenzhen Longgang Charity Association and the Honorary Professor of Business of Hang Seng School of Commerce. Also, Mr. Leung is the chairman of Wetter (China) Limited and Kings Faith International Limited.

Professor XU Yang (許揚教授), aged 71, is an executive director. Professor Xu joined our Group as a senior consultant of our Company in September 2002, and was appointed as a director since February 4, 2008. He is primarily responsible for the general development direction, operational strategy, market promotion, and governmental relations of the Company. Professor Xu has over 20 years of experience in capital operations management, focusing on optimizing allocation and managing the use of capital in business operations. From 1992 to 2000, Professor Xu was the chairman of Shenzhen Investment Limited (previously known as Shum Yip Investment Limited, which is listed on the Main Board of the Stock Exchange, stock code: 604). He was the vice chairman of the 2nd Shenzhen Committee of the Chinese People’s Political Consultative Conference, deputy chief secretary of the Shenzhen Municipal Government and director of the Shenzhen Economic Development Bureau. Professor Xu is currently the permanent honorary chairman of the Shenzhen Industrial and Economic Association, honorary chairman of Shenzhen Enterprise Confederation and Shenzhen Entrepreneur Association and deputy chairman of China National Industrial and Economic Association. Professor Xu graduated from Harbin Institute of Technology in 1964. He completed the Stanford executive program at Stanford University in 1988. He also holds the qualification of senior engineer.

Non-Executive Directors

Dr. MA Kai Cheung, SBS, BBS (馬介璋博士), aged 68, is our co-chairman and a non-executive director. He is a co-founder of our Group and has been appointed as a director of the Company since August 2, 2002. He is primarily responsible for advising on the formulation of the Company's general business models and development strategies and major issues. Dr. Ma has more than 40 years of management experience in garment distribution and manufacturing businesses. Dr. Ma was awarded a Bronze Bauhinia Star (BBS) and a Silver Bauhinia Star (SBS) by the Government of Hong Kong Special Administrative Region in 2003 and 2009 respectively. Since 1998, he has been a committee member of the Chinese People's Political Consultative Conference. Dr. Ma is the president of Shenzhen Overseas Chinese International Association, permanent honorary president of Hong Kong Chiu Chow Chamber of Commerce Limited, president and standing committee member of Federation of Hong Kong Guangdong Community Organizations, president of Hong Kong & Kowloon Chiu Chow Public Association and permanent honorary president of Federation of Hong Kong Chiu Chow Community Organizations. Dr. Ma received an honorary doctoral degree in philosophy from the Morrison University in the United States in 2004. He received a fellowship from the Asian Knowledge Management Association in 2008. Dr. Ma is also the chairman of Tak Sing Alliance Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 00126).

Mr. SUN Kai Lit Cliff (孫啟烈先生), BBS, JP, aged 57, is a non-executive director. He is a co-founder of our Group and has been appointed as a director of the Company since August 2, 2002. He is primarily responsible for advising on the formulation of the Company's general business models, development strategies and major issues. Mr. Sun is an associate of the Institute of Industrial Engineers of Ohio and has over 30 years of management experience in the businesses of wholesale distribution and manufacturing of kitchenware and other metal and plastic products. He was appointed as Justice of the Peace and was awarded a Bronze Bauhinia Star (BBS) by the Government of Hong Kong Special Administrative Region respectively in July 2003 and July 2006. At present, Mr. Sun is a member of the 10th Zhejiang Committee of Chinese People's Political Consultative Conference and a member of the Standing Committee of the 13th Ningbo Committee of Chinese People's Political Consultative Conference. He is also the chairman of the Federation of Hong Kong Industries, honorary chairman of The Hong Kong Exporters' Association, honorary chairman of the Hong Kong Q Mark Council, president of the Hong Kong Plastics Manufacturers Association Ltd., honorary president of the Shenzhen Federation of Industrial Economics and the honorary founding president and executive vice president of Shenzhen Overseas Chinese International Association. Mr. Sun is the executive director of Kinox Enterprises Limited and Kin Hip Metal and Plastic Factory Ltd. He is currently an independent non-executive director of Ming Fai International Holdings Limited (stock code: 3828) and Ka Shui International Holdings Ltd. (stock code: 822) which are listed on the Main Board of the Stock Exchange.

Dr. MA Wai Mo (馬偉武博士), aged 66, is a non-executive director. He is a co-founder of our Group and has been appointed as a director of the Company since August 2, 2002. He is primarily responsible for advising on the formulation of the Company's general business models, development strategies and major issues. He has more than 30 years of management experience in the printing and packaging, manufacturing, wholesale and distribution businesses. Dr. Ma was a member of the 3rd and the 4th Shenzhen Committee of the Chinese People's Political Consultative Conference, the chairman of the 13th, 14th, 16th and 17th Hong Kong Corrugated Paper Manufacturers' Association. Currently, he serves as a member of the Standing Committee of the Chaoyang District Shantou City Committee of the Chinese People's Political Consultative Conference, the vice chairman of the 7th general committee of the China Packaging Technology Association, the honorary chairman of the 7th Shenzhen Packaging Association, the vice president of the 7th and the 8th Guangdong Printing and Replicate Association, the executive vice president of the Guangdong Overseas Chinese Enterprises Association, the honorary founding president and the executive vice president of Shenzhen Overseas Chinese International Association. Dr. Ma is also the chairman of Luk Ka International Limited, a wholly owned subsidiary of Luk Ka Overseas Investments Limited. Dr. Ma was awarded the World's Outstanding Chinese in 2005 and received an honorary doctor of science degree from Armstrong University in 2005.

Mr. CHENG Tai Po (鄭大報先生), aged 58, is a non-executive director. He has been appointed as the director of the Company since April 30, 2010 and is primarily responsible for advising on the formulation of the Group's general business models, development strategies and major issues. Mr. Cheng has over 25 years' experience in manufacturing, wholesale and distribution businesses. He is a board member of the Zhanjiang Ocean University, China and a general committee member of the Hong Kong Jewelry Manufacturers' Association Ltd. Mr. Cheng is also the director and deputy chairman of Man Sang International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 938) and the director and vice-chairman of China Metro-Rural Holdings Limited, a company listed on the NYSE Amex (formerly known as the American Stock Exchange) (ticker symbol: CNR). Mr. Cheng is the elder brother of Mr. Cheng Chung Hing, the co-chairman and executive director and the controlling Shareholder of the Company.

Independent Non-Executive Directors

Mr. SHI Wan Peng (石萬鵬先生), aged 73, has been an independent non-executive director since September 4, 2009. Mr. Shi graduated from Beijing Jiaotong University, previously known as Northern Jiaotong University in 1960. He is a professor-level senior engineer. Mr. Shi served as deputy director of the Transport Bureau of the State Economic Commission, director of the Economic and Technical Cooperation Bureau, director of the Production and Dispatch Bureau of the State Development Planning Commission, deputy officer (of ministerial grade) of the State Economic and Trade Commission, president of the China Textiles Association, the alternate member of the 15th Central Committee of the Communist Party of China, a standing member of the 10th National Committee of the Chinese People's Political Consultative Conference. Mr. Shi is currently the vice chairman of the World Packaging Organization, the president of the Asian Packaging Federation, president of China Packaging Federation, an independent director of HuaBei Expressway Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 916) and also an independent non-executive director of CPMC Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 906). Mr. Shi has worked in the People's Republic of China government departments and organizations for more than 40 years, and has been engaged in the areas of planning and management of government economic work as well as in economic operations, with extensive experience in the management of macroeconomic affairs in development of economy in the PRC.

Mr. LEUNG Kwan Yuen Andrew (梁君彥先生), GBS, SBS, JP, aged 59, has been an independent non-executive director of the Company since September 4, 2009. He has more than 30 years of management experience in the textile manufacturing, wholesale and distribution businesses. Mr. Leung is a member of the Industrial (First) Functional Constituency of the Legislative Council of Hong Kong, also a member of the National Committee of the Chinese People's Political Consultative Conference. Mr. Leung is currently the chairman of the Vocational Training Council, the honorary chairman of Textile Council of Hong Kong, a council member of the Hong Kong Trade Development Council, the honorary president of the Federation of Hong Kong Industries, a fellow of The Textiles Institute as well as The Clothing and Footwear Institute in the United Kingdom. In addition, Mr. Leung is the chairman of Sun Hing Knitting Factory Limited, he is also the independent non-executive director of Dah Sing Banking Group Limited, the company listed on the Main Board of the Stock Exchange, (stock code: 2356). During the period from January 12, 2007 to April 18, 2010, Mr. Leung was an independent non-executive director of Meadville Holdings Limited, a company withdrawing its listing of shares from the Stock Exchange effective April 19, 2010 (stock code: 3313).

Mr. LI Wai Keung (李偉強先生), aged 53, has been an independent non-executive director of the Company since September 4, 2009. Mr. Li has more than 32 years of experience in financial management. Mr. Li graduated from the Hong Kong Polytechnic University and holds a master's degree in business administration from the University of East Asia, Macau, currently known as the University of Macau. He is a fellow of The Chartered Association of Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Li is the executive director and chief financial officer of GDH Limited, he is also a non-executive director of Guangdong Investment Limited, a company listed on the Main Board of the Stock Exchange (stock code: 270) and an independent non-executive director of Shenzhen Investment Limited, Hans Energy Company Limited and Hong Long Holdings Limited, the companies

listed on the Main Board of the Stock Exchange (stock codes: 604, 554 and 1383, respectively). He is a director of Shenzhen City Airport (Group) Company Limited, a member on the Council of the Hong Kong Chinese Orchestra Limited, and serves as the vice chairman of the Financial and Accounting Affairs Steering Committee of the Hong Kong Chinese Enterprises Association.

Senior Management

Mr. FUNG Sing Hong Stephen (馮星航先生), aged 45, is our chief financial officer. Mr. Fung joined our Group in July 2006, and is responsible for formulating corporate financing strategy, investor relations and the overall financial management of the Group. Mr. Fung graduated from the University of Wales, United Kingdom with a master's degree in business administration. He is a member of both the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Fung has more than 16 years of experience in financial management, mergers and acquisitions, capital markets financing and corporate restructuring. Prior to joining our Group, Mr. Fung was an executive director and the chief financial officer of Guangdong Investment Limited, or GDI. From December 2002 to November 2004, Mr. Fung served as an executive director and the chief financial officer of Kingway Brewery Holdings Limited, or Kingway. Both GDI and Kingway are companies listed on the Main Board of the Stock Exchange (stock codes: 270 and 124, respectively). Mr. Fung was also a key member of the Guangdong Enterprises (Holdings) Limited, or GDE, restructuring team and has been extensively involved in the US\$5.3 billion debt restructuring of GDE.

Mr. CHEN Jiacheng (陳加成先生), aged 47, is our chief operating officer. He joined our Group on June 18, 2010, and is responsible for overall operation management of the Group. He has extensive experience in corporate governance and modern corporate management. Mr. Chen obtained a bachelor degree in engineering from Northwest Industrial University in 1983 and a master degree in business administration from Tsinghua University in 1999. Prior to joining our Group, Mr. Chen was the executive director and chief executive director of XinAo Gas Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2688).

Ms. TSE Man Yu (謝文瑜女士), aged 39, is our deputy chief financial officer and company secretary. Ms. Tse joined our Group in February 2008. She assists the chief financial officer in the overall financial management of the Group and is responsible for the company secretarial duties. Ms. Tse graduated from the City University of Hong Kong with a bachelor of science (honours) degree in finance. She is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Tse has more than 13 years of experience in financial management, mergers and acquisitions, corporate finance and asset management. Prior to joining our Group, Ms. Tse was the assistant chief financial officer of GDI, which is a company listed on the Main Board of the Stock Exchange (stock code: 270). Ms. Tse was an alternate director of Guangdong Development Fund Limited, or GDF, which is a company listed on the London Stock Exchange (code: gdf), and a director of Guangdong Investment Management Limited, which is the fund manager of GDF. Ms. Tse had also been senior corporate finance executive of Tung Fong Hung (Holdings) Limited (now known as Freeman Corporation Limited) and Sing Pao Media Group Limited (now known as China Gamma Group Limited), which were companies listed on the Main Board of the Stock Exchange (stock codes: 279 and 164, respectively).

Mr. HUANG Wei Sheng (黃偉生先生), aged 46, is the deputy general manager of China South International and has been with us since October 2002. Mr. Huang is responsible for the administration, government relations, information and legal departments of China South International. He is also involved, together with other management, in overall management and operational strategy of China South International. Mr. Huang taught at the business management faculty of Guangdong Shaoguan University. In 1989, he received a postgraduate programme diploma in business administration from Jinan University. Mr. Huang has approximately 13 years of experience in international trade and business management. Mr. Huang had been working for the China Resources National Corporation as International Business Engineer (國際商務師) and Shenzhen Nanyang Trading Company (深圳市南洋貿易有限公司). Before he joined us, he had worked as deputy general manager for Man Hing Industry Development (Shenzhen) Co. Ltd., a PRC subsidiary of Man Sang International.

Mr. JIANG Kai (江凱先生), aged 58, is the deputy general manager and the chief engineer of the construction department of China South International. He joined us in January 2007. He is responsible for managing construction projects of China South International, including co-ordinating the planning and designs, managing tenders and bids, budgeting and costing, construction management and daily management of the construction department of China South International. Mr. Jiang has over 15 years of management experience in the construction industry. Mr. Jiang had been working for the 1st branch of the Shenzhen Architectural Design Institute (深圳市建築設計第一分院) as chief engineer, Shenzhen Construction Investment Holdings Ltd. (深圳市建設投資控股公司) as manager of the construction department and Shenzhen New World Group Co., Ltd. (深圳市新世界集團有限公司) as group deputy general manager. Mr. Jiang graduated from the Underground Construction Faculty of Tongji University in 1982 with a bachelor degree in underground construction, and holds a qualification of senior engineer.

Mr. JUNG Minho (鄭珉虎先生), aged 47, is the general manager of commercial operation of the Group. He joined our Group in June 2010, and is responsible for the management of the retail and department store business as well as the supporting commercial facilities of the Group. Mr. Jung graduated from Seoul National University in 1987 with a master degree of arts in economics. He was awarded the Magnolia Award from the Shanghai City Government in 2009 in appreciation of his outstanding contribution to Shanghai's development. Before joining the Group, Mr. Jung worked for Shanghai Hansol Potential Paper Co. Ltd. as the Assistant to General Manager and the Head of Treasury Department, and held a number of managerial positions with Shanghai Emart Supermarket Co. Ltd., including the general manager, East China and the development general manager — China Region.

Mr. WANG De Wen (王德文先生), aged 32, is the vice president of CSC Xi'an. He joined our Group in October 2009, and is responsible for the overall operations and daily management of the CSC Xi'an project. Mr. Wang graduated from Cornell University in 2006 with a master degree in applied statistics. Prior to joining our Group, Mr. Wang was an analyst in the investment research department of Guosen Securities, the project manager of the investment banking division of Great Wall Securities Co., Ltd. He was also the managing director of Shenzhen Howard Investment Co., Ltd., and was responsible for overseeing the operations of various logistic trade centers.

Mr. LIU Xiao Dong (劉曉東先生), aged 39, is the deputy general manager of China South International. He joined us in November 2004. He is responsible for our sales and leasing, business promotion, strategic planning, administration and operational strategy. Mr. Liu graduated from Poitiers University in France with a master's degree in business administration. Mr. Liu has approximately 15 years of experience in marketing. From 1992 to 1993, he worked for Jiangxi Shangrao Social Science Association (中共江西省上饒地委社科聯) as a reporter and editor. From 1993 to 1999, he worked for Jiangxi Jiang China-Japan Sales Co. Ltd. (江西江中日化銷售有限公司) and was responsible for marketing strategy and sales management. From 1999 to 2004, he worked for Jiangzhong Medicine Manufacturing Group (江西江中制藥(集團)有限責任公司) and held various positions including strategic planning manager, human resources department manager, regional director of Eastern China region and was responsible for developing new businesses in the Shanghai, Jiangsu, Zhejiang, Anhui and Jiangxi markets.

Ms. ZHENG Miao Fang (鄭妙芳女士), aged 29, is the deputy general manager of CSC Shenzhen. She joined our Group in 2003, and is responsible for managing human resources, administration, finance, information technology, legal and purchase departments, etc. Ms. Zheng graduated from the School of Finance and Economics of Guangdong University of Foreign Studies in 2003, majoring in accounting and was accredited the PRC Certificate of Accounting Professional. Ms. Zheng has abundant experience in administration and human resources fields.

Mr. KUANG Kun Lin (況坤林先生), aged 48, is the deputy general manager of CSC Shenzhen. He joined our Group in June 2009, and is responsible for overseeing the exhibition and conference services and operations of the Group. Mr. Kuang graduated from Wuhan University in 2005 with a doctoral degree in economics. Mr. Kuang is the current vice president of Shenzhen Scientific Life Researching Society. Prior to joining our Group, Mr. Kuang was the general manager of China Hi-Tech Fair Exhibition Center, and has extensive experience in exhibition operations.

Mr. LIU Ze Bin (劉澤斌先生), aged 56, is the deputy general manager and the general manager of the construction department of CSC Shenzhen. He joined our Group in June 2010, and is responsible for managing all the construction projects. Mr. Liu graduated from Tongji University in 1977, majoring in architecture and holds a qualification of senior engineer. Prior to joining our Group, Mr. Liu was the an assistant to director of The Eighth Institute of Project Planning and general manager of Shenzhen Nanyou Design and Engineering Co. Ltd., chairman of Shenzhen Nan Shang Real Estate Development Co. Ltd., general manager of Shenzhen Fuyuan Real Estate Development Limited and the group vice president of Shenzhen Yili Group. He has over 15 years of experience in construction management.

Ms. ZHANG Li Ling (張李玲女士), aged 45, is the general manager of Shenzhen First Asia Pacific. She joined us in June 2004. She is responsible for property management, planning, training, administration and liaison with various governmental departments in surrounding areas. Ms. Zhang graduated from Jiangxi Teachers University in 1995. Ms. Zhang has approximately nine years of experience in the property development industry. From 1999 to 2001, she worked as an assistant manager in the property department of Shenzhen Ancheng Property Development Co. Ltd. (深圳市安誠置業發展有限公司), and from 2002 to 2003, as an assistant property manager of Hutchison Whampoa Properties (Shenzhen) Company Limited (和記物業服務(深圳)有限公司).

Mr. ZHANG Xue Fang (章學方先生), aged 46, is the executive deputy general manager of CSC Nanchang. He joined our Group in 2007, and is responsible for the overall operations and daily management of CSC Nanchang. Mr. Zhang graduated from Jinggangshan University in 1981, majoring in Chinese. He also completed a postgraduate program at the School of International Politics in Shandong University in 1999. Prior to joining our Group, Mr. Zhang held senior managerial positions with a Jiangxi national defense industrial largescale corporation, was a chancellor of Jiangxi National Defense Industrial Staff University, an adjunct professor of Jiangxi Normal University and general manager of Yuan Wang Group. He was also engaged in educational property development, and was an executive council member of China Market Economics Society.

Mr. DENG Jian Ming (鄧建明先生), aged 42, is the deputy general manager of CSC Nanchang. He joined our Group in January 2010, and is responsible for the financial management and financing of CSC Nanchang. He graduated from Jiangxi College of Finance and Economics in 1993 with a degree in economics. Before joining our Group, Mr. Deng held various positions in branch business department and different departments of the Jiangxi Province sub-branch of China Construction Bank. He has over 17 years of experience in project evaluation, financing and capital management.

Mr. ZHENG Li Yang (張利陽先生), aged 44, is the deputy general manager of CSC Nanning. He joined our Group in November 2006, and was seconded to Nanning in May 2008. He is responsible for the overall operations and daily management of the CSC Nanning project. Mr. Zheng graduated from Party School of the Central Committee of C.P.C. in 2000, majoring in Economic Management.

Mr. YU Shao Guang (余少光先生), aged 31, is the deputy general manager of CSC Heyuan. He joined our Group in 2005, and is responsible for the overall operations and daily management of the Heyuan project. He graduated from Sun Yat-Sen University in 2002, majoring in Economic Law. Prior to joining our Group, he worked for Man Hing Industry Development (Shenzhen) Company Ltd. and was responsible for property management.

The Board of Directors

Our board of directors, or the Board, is responsible and has general powers for the management and conduct of our business. Cheng Chung Hing and Ma Kai Cheung are our co-chairman. As co-chairmen, they are together responsible for providing leadership for the Board. The co-chairman supplement each other in carrying out such responsibilities.

The Board meets regularly, and at least four times a year at approximately quarterly intervals. Between scheduled meetings, our senior management provides information on the activities and developments of our business to the directors. When required, additional Board meetings are held. In addition, directors have full access to information on our company and independent professional advice whenever deemed necessary by the directors.

All directors are subject to re-election by shareholders at the annual general meeting following their appointments. The directors shall retire and shall be eligible to offer themselves for re-election at least once every three years according to our articles of association. None of the directors has entered into any service contract with us which is not determinable by us within one year without payment of compensation, other than statutory compensation.

Board Committees

Our standing committees are the audit committee, the remuneration committee and the nomination committee. Each committee's constitution, power and duties are clearly defined by its terms of reference, and each committee is accountable to the board of directors.

Audit Committee

The audit committee is responsible for the review and supervision of our financial reporting process, internal controls and review of the financial statements. The audit committee consists of Li Wai Keung as chairman, Shi Wan Peng and Leung Kwan Yuen Andrew. All the audit committee members are independent non-executive directors. There were two meetings of the audit committee held in 2010 to review the annual and interim results before submission to the Board.

Remuneration Committee

The remuneration committee is responsible for reviewing and determining the terms of remuneration packages, bonuses and other compensation payable to the directors and senior management. The remuneration committee comprises three members. The members are Li Wai Keung, Leung Kwan Yuen Andrew and Cheng Chung Hing. The chairman of the remuneration committee is Li Wai Keung.

Nomination Committee

The nomination committee is responsible for making recommendations on the nomination of directors with a view to appointing suitable individuals with relevant expertise and experience to enhance the constitution of the Board and to contribute to the Board. The nomination committee has three members. The members are Leung Kwan Yuen Andrew, Li Wai Keung and Cheng Chung Hing. The chairman of the nomination committee is Leung Kwan Yuen Andrew.

Directors' Compensation

In the fiscal years ended March 31, 2008, 2009 and 2010 and the six month period ended September 30, 2010, the total amount of directors' compensation (comprising directors' fees, basic salaries, allowances, benefits-in-kind, performance related bonus, employee share option benefits and pension scheme contributions) was HK\$39.7 million, HK\$14.7 million, HK\$19.7 million and HK\$6.2 million, respectively.

The amount of directors' compensation is determined by the Board based on their contribution to us and with reference to their duties and responsibilities, time spent on our matters and market conditions. The remuneration committee will determine the remuneration policies for the directors with reference to similar factors and other factors such as salaries paid by comparable companies, time commitment and responsibilities of directors elsewhere in us and desirability of performance-based remuneration, in accordance with the terms of reference for the remuneration committee and the requirements under the relevant regulation and rules.

Directors' Interests

As of September 30, 2010, the interests and short positions of our directors in the shares, underlying shares and debentures of the Company as recorded in the register which were required to be kept under section 352 of the Securities and Futures Ordinance of Hong Kong, or as otherwise notified to us and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, or the Model Code, were as follows:

Name of Director	Class of Shares	Total	Approximate Percentage of Our Total Issued Share Capital
Cheng Chung Hing	Ordinary shares/share options	2,532,508,558	42.35%
Ma Kai Cheung	Ordinary shares	888,966,649	14.87%
Leung Moon Lam	Ordinary shares/share options	727,874,712	12.17%
Sun Kai Lit Cliff	Ordinary shares	218,041,662	3.65%
Ma Wai Mo	Ordinary shares	226,197,662	3.78%
Cheng Tai Po	Ordinary shares	2,461,444,558	41.16%
Li Wai Keung	Ordinary shares	2,000,000	0.03%

As disclosed in the table above, as of September 30, 2010, to the knowledge of the directors, none of the directors or chief executive of the Company had any interests or short positions in the Company's shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

We adopted a share option scheme on September 4, 2009, or the Share Option Scheme. The purpose of the Share Option Scheme is to provide incentives and rewards to selected eligible persons, which include directors, employees, officers, agents, consultants or representatives of the Company for their contribution or potential contribution to the Company or its subsidiaries. The Share Option Scheme has been in effect from September 30, 2009, our initial public offering and listing on the Hong Kong Stock Exchange.

The maximum number of shares in respect of which option may be granted under the Share Option Scheme may not exceed 10% of the issued share capital of the Company at the date of adoption of the Share Option Scheme. The maximum entitlement of each eligible participant in the total number of shares issued and to be issued upon exercise of options granted under the Share Option Scheme of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years from the date of grant of the relevant option.

On December 2, 2010, we granted share options to Mr. Chen Jiacheng, the chief operating officer of the Company, to subscribe to six million ordinary shares of the Company at an exercise price of HK\$1.41 per share, equal to the closing price of the Company's ordinary shares on the date of grant. The share options will vest in three stages, with two million share options vesting on each of the first, second and third anniversary of the date of grant, and will remain valid for five years from the date of grant.

Except as disclosed above, as of the date of this offering memorandum, the Board had not granted any options under the Share Option Scheme to the directors or employees of the Company or its subsidiaries to subscribe to shares in the Company and no outstanding share options had been exercised.

PRINCIPAL SHAREHOLDERS

As of September 30, 2010, the interested persons, other than the directors or chief executive of the Company, in the shares and the underlying shares of the Company representing 5% or more of the nominal value of shares comprised in the relevant share capital of the Company as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

Name	Nature of Interest	Number of Shares or Underlying Shares Held	Approximate Percentage of the Company's Total Issued Share Capital ⁽⁶⁾
Accurate Gain Developments Limited . . .	Beneficial owner	1,339,913,759 ⁽¹⁾	22.41%
Proficient Success Limited	Beneficial owner	1,116,594,799 ⁽²⁾	18.67%
Tak Sing Alliance Holdings Limited . . .	Deemed interest in controlled corporation	888,966,649 ⁽³⁾	14.87%
Carrianna (BVI) Limited	Deemed interest in controlled corporation	888,966,649 ⁽³⁾	14.87%
Gartrend Development Limited	Deemed interest in controlled corporation	888,966,649 ⁽³⁾	14.87%
Carrianna Holdings Limited	Deemed interest in controlled corporation	888,966,649 ⁽³⁾	14.87%
Sincere United Holdings Limited	Deemed interest in controlled corporation	888,966,649 ⁽³⁾	14.87%
Carrianna Development Limited	Beneficial owner	888,966,649 ⁽³⁾	14.87%
Kings Faith International Limited	Beneficial owner	654,874,712 ⁽⁴⁾	10.95%

Notes:

- (1) Mr. Cheng Chung Hing and Mr. Cheng Tai Po each owns 50% of the issued share capital of Accurate Gain Developments Limited.
- (2) Mr. Cheng Chung Hing and Mr. Cheng Tai Po owns 42% and 38% respectively of the issued share capital of Proficient Success Limited.
- (3) Carrianna Development Limited is wholly owned by Sincere United Holdings Limited, which in turn is wholly owned by Carrianna Holdings Limited. Carrianna Holdings Limited is wholly owned beneficially by Gartrend Development Limited with Dr. Ma Kai Cheung holding one share on trust for Gartrend Development Limited. Gartrend Development Limited has two classes of issued shares: ordinary shares and non-voting deferred shares. Dr. Ma Kai Cheung and his brother Ma Kai Yum each holds 50% of the non-voting deferred shares of Gartrend Development Limited, which (a) carry no right to attend or vote at, or to receive notice of, general meetings, (b) do not entitle its holders to receive dividends until (i) after the holders of ordinary shares have been paid, (ii) the company's profits available for distribution as dividends exceed HK\$100,000,000,000,000.00 and (iii) the company determines to make such distribution to the holders of non-voting deferred shares, and (c) rank after the claims of the ordinary shareholders as regards to repayment of capital in the event of insolvency in that only one half of the balance of HK\$100,000,000,000,000.00 in the assets of the company (if any) is distributable among the holders of non-voting deferred shares. All of the ordinary shares of Gartrend Development Limited are beneficially held by Carrianna (BVI) Ltd, with one share held by Dr. Ma Kai Cheung on trust for Carrianna (BVI) Ltd. Carrianna (BVI) Ltd is wholly owned by Tak Sing Alliance Holdings Limited.
- (4) These 654,874,712 shares are held by Kings Faith International Limited which in turn 80% owned by Mr. Leung Moon Lam.

Save of disclosed above, as of September 30, 2010, to the knowledge of the director or chief executive of the Company, no other person (not being a director or chief executive of the Company) had, or were deemed or taken to have an interest or short position in the shares or underlying shares which would represent 5% or more of the nominal value of shares comprised in the relevant share capital of the Company. The Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

The following discussion describes certain of our material related party transactions for the fiscal years ended March 31, 2008, 2009 and 2010 and the six month period ended September 30, 2010.

The following table sets forth certain material transactions between us and our related parties for the periods indicated.

	Fiscal Year Ended March 31,			Six Months Ended September 30,
	2008	2009	2010	2010
	HK\$	HK\$	HK\$	HK\$
	(in thousands)			
Companies in which a director of the Company is a controlling shareholder:				
Purchases of products ⁽¹⁾	420	81	—	—
Consultancy fees paid ⁽²⁾	600	600	300	—
Management fees ⁽³⁾	442	—	—	—
Rental expense and related service fees for office building ⁽⁴⁾	—	1,406	1,898	942
Rental expense for trade centers ⁽⁵⁾	—	871	874	440

- (1) The purchases of products from related companies were made according to the published prices and conditions offered by the related companies to their major customers.
- (2) The consultancy fees were related to the consultancy and management services provided to us by a related company and were based on terms mutually agreed between both parties.
- (3) The management fees were related to management and administrative services provided to the Group by a related company. The fees were based on the actual staff costs incurred by the related company.
- (4) The rental expense and related service fees for office building were related to the leasing of office space provided to us by a related company. The fees were based on terms mutually agreed between both parties.
- (5) The rental expense was related to leasing of trade centers provided to us by related parties. The rental was based on terms mutually agreed between the parties.

The following is a brief description of our material related party transactions.

Purchases of Products from Related Companies

We purchase products from Man Sang International Limited, in which Cheng Chung Hing is a controlling shareholder. The purchases were made according to the published prices and conditions offered by the related companies to their major customers. The purchases from these companies were HK\$420,000, HK\$81,000, zero and zero for the fiscal years ended March 31, 2008, 2009 and 2010 and the six month period ended September 30, 2010, respectively.

Consultancy Fees Paid to Related Companies

We obtain consultancy and management services with regard to our business operations from Luk Ka Overseas Investment Limited, in which Ma Wai Mo is a controlling shareholder. The consultancy fees were based on terms mutually agreed between us and the related companies. We paid fees to these companies of HK\$600,000, HK\$600,000, HK\$300,000 and zero in the fiscal years ended March 31, 2008, 2009 and 2010, respectively. We paid no fees to these companies in the six month period ended September 30, 2010.

Rental Expenses and Related Service Fees for Office Building and Trade Centers

We pay the rental expenses and related service fees for the leasing of office space provided to us by Man Sang International Limited, in which Cheng Chung Hing is a controlling shareholder. The rental expenses and related service fees were based on terms mutually agreed between us and the related companies. The rental expenses and related service fees for our office space were zero, HK\$1.4 million, HK\$1.9 million and HK\$0.9 million for the fiscal years ended March 31, 2008, 2009 and 2010 and the six month period ended September 30, 2010, respectively, and the rental expenses for the trade centers were zero, HK\$871,000, HK\$874,000 and HK\$440,000 for the fiscal years ended March 31, 2008, 2009 and 2010 and the six month period ended September 30, 2010, respectively.

Other Related Party Transactions

As of March 31, 2009, certain directors and Tak Sing Alliance Holdings Limited (a beneficial shareholder of the Company) had guaranteed certain of our bank loans for up to HK\$8.5 million. During the fiscal year ended March 31, 2010, the guarantees were released. For details of outstanding balances with our related parties, see the notes to our interim consolidated financial statements.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing property projects and to finance our working capital requirements, we have entered into financing arrangements with various financial institutions. As of September 30, 2010, our total outstanding borrowings totaled RMB3,830.5 million (US\$572.5 million). We set forth below a summary of the material terms and conditions of these loans and other material indebtedness.

Project Construction Loan Agreements

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, including Shanghai Pudong Development Bank, Industrial and Commercial Bank of China, China Construction Bank, Bank of China, Chinese Mercantile Bank, Shenzhen Ping An Bank Limited, HSBC Bank (China) Company Limited. These loans typically are secured project loans to finance the construction of our projects and have terms ranging from two years to ten years, which generally correspond to the construction periods of the particular projects. Our PRC bank loans are typically secured by mortgages over a portion of our land use rights and a portion of our properties and/or guaranteed by China South International, our wholly owned subsidiary. The Notes will be structurally subordinated to these loans and any other indebtedness incurred by our PRC subsidiaries.

Interest

The principal amounts outstanding under the project loans generally bear interest at floating rates calculated with reference to the PBOC benchmark interest rate. Floating interest rates are generally subject to review by the lenders annually. Interest payments generally are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of September 30, 2010, the interest rates with respect to these loan agreements ranged from 4.78% to 5.94% per annum.

Covenants

Under these project loans, our subsidiary borrowers have agreed, among other things, not to take the following actions without obtaining the relevant lender's prior consent:

- creating encumbrances on their properties or assets;
- altering the nature or scope of their business operations in any material respect;
- making major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions or reorganizations;
- reducing their registered capital;
- making other changes to the company's status, such as by liquidation or dissolution;
- transferring part or all of the liabilities under the loans to a third party;
- prepaying the loans;
- selling or disposing assets;
- transferring a substantial equity interest in the borrower; and
- incurring other indebtedness or granting guarantees to third parties that would adversely affect their ability to repay their loans.

Dividend Restriction

Pursuant to the project loans with certain of our lenders, some of our PRC subsidiaries have also agreed not to distribute any dividends:

- before the principal amount of and accrued interest on the relevant project loan have been fully paid;
- if the borrower's after-tax net profit is nil or negative, or not sufficient to compensate for accumulated losses of previous years; or
- representing over 30% of profit after tax, or over 20% of undistributed profit, without providing the lender prior written notice and subject to the lender's prior written consent, if the lender believes the dividend may affect substantially the performance of the loan agreement.

Events of Default

The loan agreements contain certain customary events of default, such as failure to pay the amount payable on the due date, unauthorized use of loan proceeds, failure to obtain the lender's approval for an act that requires its approval, material breach of the terms of the loan agreement and acceleration of repayment obligations under other loan or financing documents. Upon the occurrence of an event of default, the lenders may terminate the loan agreement and demand immediate repayment.

Guarantee and Security

China South International has entered into guarantee agreements with the PRC banks in connection with some of the project loans pursuant to which China South International has guaranteed all liabilities of the subsidiary borrowers under these loans. Our obligations under the loan agreements are typically secured by mortgages over properties and the land use rights relating to the relevant projects. As of September 30, 2010, RMB1,862 million (US\$278.4 million) of our project loans were secured by mortgages over land use rights and properties owned by China South International.

Working Capital and Term Loan Agreements

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, including, but not limited to, the Agricultural Bank of China, Bank of Communication, Xi'an International Trust Co. Ltd., Dongguan Trust Co., Ltd., Bank of Guangzhou, Shenzhen Ping An Bank Limited, China Citic Bank, Bank of China, Bank of Dongguan, Industrial and Commercial Bank of China, Bank of Jiangsu and Hangzhou Bank. These loans have terms ranging from one year to three years, and typically are either credit loans or loans secured by mortgages over a portion of our land use rights and a portion of our properties. The Notes will be structurally subordinated to these loans and any other indebtedness incurred by our PRC subsidiaries.

Interest

The principal amounts outstanding under these loans generally bear interest at floating rates calculated with reference to the PBOC benchmark interest rate. Floating interest rates are generally subject to monthly, quarterly, or annual review by the lenders. Interest payments are typically payable monthly and must be made on each payment date as provided in the particular loan agreement. As of September 30, 2010, the interest rates with respect to our working capital and term loan agreements ranged from 4.50% to 5.40% per annum.

Covenants

Under these loans, our subsidiary borrowers have agreed, among other things, not to take the following actions without obtaining the relevant lender's prior consent:

- creating encumbrances on their properties or assets;
- altering the nature or scope of their business operations in any material respect;
- making major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions or reorganizations;
- reducing their registered capital;
- making other changes to the company's status, such as by liquidation or dissolution;
- transferring part or all of the liabilities under the loans to a third party;
- prepaying the loans;
- selling or disposing assets;
- transferring substantial equity interest in the borrower; and
- incurring other indebtedness or granting guarantees to third parties that would adversely affect their ability to repay their loans.

Dividend Restriction

Pursuant to the working capital and term loans with certain of our lenders, some of our PRC subsidiaries have also agreed not to distribute any dividends if the borrower's after-tax profit is nil or negative, or not sufficient to compensate for accumulated losses of previous years.

Events of Default

The working capital and term loan agreements contain certain customary events of default, such as failure to pay the amount payable on the due date, unauthorized use of loan proceeds, failure to obtain the lender's approval for an act that requires its approval, material breach of the terms of the loan agreement and acceleration of repayment obligations under other loan or financing documents. Upon the occurrence of an event of default, the lenders may terminate the loan agreement and demand immediate repayment.

Guarantee and Security

Some of our working capital and term loans are credit loans. In addition, China South International has entered into guarantee agreements with the PRC banks in connection with some of our working capital and term loans pursuant to which China South International has guaranteed all liabilities of the subsidiary borrowers under these loans. Our obligations under the loan agreements are typically secured by mortgages over a portion of properties and a portion of the land use rights owned by China South International. As of September 30, 2010, RMB590.11 million (US\$88.2 million) of our working capital and term loans were secured by mortgages over land use rights and properties owned by China South International.

Syndicated Revolving Credit Facility

China South International has entered into facility agreements in connection with separate revolving loan facilities with the Industrial and Commercial Bank of China Shenzhen and Bank of Jiangsu Shenzhen. The proceeds of these credit facilities have been used for the purpose of funding our projects and meeting our working capital needs. We have entered and will continue to enter into separate loan agreements when utilizing the credit facilities. As of September 30, 2010, HK\$2,388.4 million was outstanding under these facility agreements.

Interest and Maturity

Under the facility agreements, the interest rate applicable for each loan will be prescribed in the separate loan agreements. The credit facilities under these facility agreements by their terms expire within 12 months of the date of the agreements.

Covenants

Pursuant to these facility agreements, China South International has agreed, among other things, not to take the following actions without obtaining the relevant lender's prior consent:

- creating mortgages or other repayment guarantees on the finished or ongoing construction projects at the China South International Industrial Materials City and relevant cash-flow;
- obtaining financing from other banks for its new projects;
- making major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions or reorganizations;
- reducing its registered capital;
- transferring or disposing, or threatening to transfer or dispose, important parts of its assets; and
- granting guarantees to third parties or mortgaging or pledging its major assets where doing so would adversely affect its ability to repay its loan(s) under the facility agreement.

Events of Default

The facility agreements contain certain customary events of default, including providing fraudulent balance sheet, income statement or other financial information, providing balance sheet, income statement or other financial information with material information missing, unauthorized use of loan proceeds, and failure to obtain the lender's approval for an act that requires its approval. The lenders are entitled to demand repayment of part or all of the loans and/or cancel the unutilized facility upon occurrence of an event of default.

Customer Guarantees

In line with industry practice, we provide guarantees to mortgagee banks in respect of mortgage loans taken out by purchasers of our properties. Such guarantee obligations typically terminate upon the delivery of the relevant property ownership certificates on the underlying property to the bank and the completion of the relevant mortgage registration process. As of September 30, 2010, the aggregate outstanding amount guaranteed was HK\$281.5 million.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to China South City Holdings Limited, and any successor obligor on the Notes, and not to any of its subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.” Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee (as defined herein) is referred to as a “JV Subsidiary Guarantor.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and The Hongkong and Shanghai Banking Corporation Limited, as trustee (the “Trustee”). The term “Indenture” refers to the Indenture as amended by all supplemental indentures executed on or prior to the date on which the Notes are issued.

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at The Hongkong and Shanghai Banking Corporation Limited, Attn: Corporate Trust and Loan Agency, HSBC Securities Services, Level 30, HSBC Main Building, 1 Queen’s Road Central, Hong Kong.

Brief Description of the Notes

The Notes are:

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

In addition, on the Original Issue Date, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Notes will be secured by a pledge of the Collateral as described below under “— Security” and will:

- be entitled to a first priority lien on the Collateral (subject to any Permitted Liens); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on January 14, 2016, unless earlier redeemed pursuant to the term thereof and the Indenture.

The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “— Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will bear interest at 13.50% 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 semi-annually in arrears on January 14 and July 14 of each year (each an “Interest Payment Date”), commencing July 14, 2011. Interest on the Notes will be paid to Holders of record at the close of business on December 30 or June 29 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” and “Redemption for Taxation Reasons” and as 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 Notes will be issued only in fully registered form, without coupons, in denominations of US\$100,000 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 in the Borough of Manhattan, The City of New York (which initially will be the corporate trust administration office of the Trustee), and the Notes may be presented for registration of transfer or exchange at such office or agency; *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 or by wire transfer. Interest payable on the Notes held through DTC will be available to DTC participants (as defined herein) on the Business Day the payment is due.

The 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 “Non-Guarantor Subsidiaries”). All of the Subsidiary Guarantors are holding companies that do not have significant operations.

None of the existing Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future. In addition, no future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries organized under the laws of the PRC 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.

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC), promptly upon becoming 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.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than a JV Subsidiary Guarantor is referred to as a “Future Subsidiary Guarantor” and upon execution of the applicable supplemental indenture to the Indenture will be a “Subsidiary Guarantor.”

In the case of a future 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 organized 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 shares or the issuance of new shares, no less than 20% and no more than 49.9% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase no less than 50.1% of the Capital Stock of an Independent Third Party and designate such entity as a Restricted Subsidiary, the Company may, concurrently with the consummation of such sale or purchase, cause the provision of a JV Subsidiary Guarantee instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions, in the case of both (a) and (b), are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (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 the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company;
- as of the date of execution of the JV Subsidiary Guarantee, after giving effect to the issuance or sale of Capital Stock in such JV Subsidiary Guarantor, the Non-Guaranteed Portion with respect to all of the JV Subsidiary Guarantors then existing and their respective Restricted Subsidiaries does not exceed 10.0% of Total Assets;
- all capital contributions (by way of transfer of cash or other property or any payment for property or services for the use of others or otherwise) to be made into a JV Subsidiary Guarantor from the date of the sale of existing Capital Stock or issuance of new Capital Stock as referred to above, shall be made directly or by contribution of assets or services having an equivalent Fair Market Value by (i) the Company and its Restricted Subsidiaries and (ii) such Independent Third Party that purchased or subscribed for Capital Stock in the JV Subsidiary Guarantor in proportion to their respective direct or indirect ownership percentages of the Capital Stock of such JV Subsidiary Guarantor;
- 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 JV Subsidiary 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) a duly executed Security Document that pledges in favor of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
- (iii) an Officers' Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
- (iv) a legal opinion by a law firm of recognized international standing addressed to the Trustee 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 September 30, 2010, the Company and its subsidiaries had total consolidated indebtedness of HK\$4,441.1 million (US\$572.3 million), of which HK\$2,843.4 million (US\$366.4 million) was secured.

The Subsidiary Guarantee of each Subsidiary Guarantor:

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

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

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

In addition, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be entitled to a first ranking security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under “— Security”; and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The JV Subsidiary Guarantee of each JV Subsidiary Guarantor will not be secured.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; *provided* that any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors 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 respective rights 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, 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 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 and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid,

under applicable laws. See “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The Subsidiary Guarantees or JV Subsidiary Guarantees (if any) may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees.”

Release of the Subsidiary Guarantees and JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under “— Defeasance — Defeasance and Discharge”;
- 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 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 described under “— 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 or disposition are used for the purposes permitted or required by the Indenture; or
- in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee or a JV Subsidiary Guarantor from its JV Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officer’s Certificate stating that all requirements relating to such release have been complied with and such release is authorized and permitted by 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 shares or the issuance of new shares, is for no less than 20% and no more than 49.9% 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 such JV Subsidiary Guarantee, or (c) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale is made to an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company;

- as of the date of execution of the JV Subsidiary Guarantee, after giving effect to the issuance or sale of Capital Stock in such JV Subsidiary Guarantor, the Non-Guaranteed Portion with respect to all of the JV Subsidiary Guarantors then existing and their respective Restricted Subsidiaries does not exceed 10.0% of Total Assets;
- all capital contributions (by way of transfer of cash or other property or any payment for property or services for the use of others or otherwise) to be made into a JV Subsidiary Guarantor from the date of the sale of existing Capital Stock or issuance of new Capital Stock as referred to above, shall be made directly or by contribution of assets or services having an equivalent Fair Market Value by (i) the Company and its Restricted Subsidiaries and (ii) such Independent Third Party that purchased or subscribed for Capital Stock in the JV Subsidiary Guarantor in proportion to their respective direct or indirect ownership percentages of the Capital Stock of such JV Subsidiary Guarantor;
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iv) a legal opinion by a law firm of recognized international standing addressed to the Trustee 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 of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the "Limitation on Asset Sales" covenant.

As of the date of the Indenture, all of the Company's Subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under "— 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.

Security

The Company has agreed, for the benefit of the Holders, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of all of the initial Subsidiary Guarantors owned by the Company or the Subsidiary Guarantor Pledgors (the “Collateral”) on a first priority basis (subject to Permitted Liens and *pari passu* sharing described below) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The Company and the initial Subsidiary Guarantor Pledgors have agreed to take all requisite steps under applicable laws and undertake customary procedures in connection with the granting and perfection of the first priority Liens on the Collateral and to promptly deliver to the Trustee an Opinion of Counsel and Officers’ certificate relating to each such pledge in form and substance as set forth in the Indenture.

The initial Subsidiary Guarantor Pledgors are ASEAN City (BVI) Limited, China Central City (BVI) Limited, Fortune Pace Investments Limited and Grow Rich Holdings Limited.

None of the Capital Stock of the Non-Guarantor Subsidiaries will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC will be pledged at any time in the future. If any JV Subsidiary Guarantor is established, the Capital Stock of such JV Subsidiary Guarantor owned by the Company or any Subsidiary Guarantor will be pledged to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, as the case may be, in the manner described above. However, none of the JV Subsidiary Guarantors will provide a Security Document pledging the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Trustee.

The Company has also agreed, for the benefit of the Holders, to pledge, or cause each Subsidiary Guarantor (other than a JV Subsidiary Guarantor, if any) to pledge, the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC) after the Original Issue Date, promptly upon such Person becoming a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above.

Each Subsidiary Guarantor that pledges capital stock of a Restricted Subsidiary after the Original Issue Date is referred to as a “Future Subsidiary Guarantor Pledgor” and, upon giving such pledge, will be a “Subsidiary Guarantor Pledgor.”

The proceeds realizable from the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) is unlikely to be sufficient to satisfy the Company’s and each of the Subsidiary Guarantor Pledgors’ obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement), and the Collateral securing the Notes and such Subsidiary Guarantee (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See “— Release of Security” and “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and other *pari passu* secured indebtedness.”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced

by the obligations owed to other secured creditors under the Intercreditor Agreement). By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted Pari Passu Secured Indebtedness

On or after the Original Issue Date, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) and any Pari Passu Subsidiary Guarantee of a Subsidiary Guarantor Pledgor with respect to such Indebtedness (such Indebtedness of the Company and any such Pari Passu Subsidiary Guarantee, “Permitted Pari Passu Secured Indebtedness”); *provided that* (1) the Company or such Subsidiary Guarantor Pledgor was permitted to Incur such Indebtedness under the covenant described under “— Limitation on Indebtedness and Preferred Stock”, (2) the holders of such Indebtedness (other than Additional Notes) (or their representative) become party to the Intercreditor Agreement referred to below; (3) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral and such Pari Passu Subsidiary Guarantee is substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor Pledgor than the provisions of the Indenture and the Security Documents; and (4) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee an Opinion of Counsel and Officers’ Certificate with respect to corporate and collateral matters in connection with the Security Documents, in form and substance as set forth in the Security Documents. The Trustee will be permitted and authorized, without the consent of any Holder, to enter into any amendment to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness).

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Agreement

Prior to the first Incurrence of any Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the Trustee will enter into an intercreditor agreement (the “Intercreditor Agreement”), which shall be in a form satisfactory to the Trustee, without requiring any instruction or consent from the Holders, with the Company, the Subsidiary Guarantor Pledgors and the holders of such Permitted Pari Passu Secured Indebtedness (or their representative). The Intercreditor Agreement will provide, among other things, that (1) the parties thereto shall share equal priority and pro rata entitlement in and to the Collateral; (2) the conditions that are applicable to the release of or granting of any Lien on such Collateral; and (3) the conditions under which the parties thereto will enforce their rights with respect to such Collateral and the Indebtedness secured thereby.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Agreement, any amendments or modifications thereto, and any future intercreditor agreement required under the Indenture.

Enforcement of Security

The first priority Liens (subject to Permitted Liens) securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, will be granted to the Trustee. The Trustee, subject to the Intercreditor Agreement (if any), will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the written instruction of the Holders to exercise remedies under the Security Documents. The Trustee has agreed to act as secured party on behalf of the holders under the applicable Security Documents, to follow the instructions provided to it under the Indenture, the Security Documents and the Intercreditor Agreement (if any) and to carry out certain other duties.

The Indenture and/or the Security Documents principally provide that, at any time while the Notes are outstanding, the Trustee has the right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce all privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture.

All payments received and all amounts held by the Trustee in respect of the Collateral under the Security Documents will be, subject to the Intercreditor Agreement (if any), applied as follows:

first, to the Trustee to the extent necessary to reimburse the Trustee, for itself and in its capacity as security agent, for any expenses incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses incurred in enforcing its remedies under the Security Documents and preserving the Collateral and all amounts for which the Trustee and the security agent are entitled to indemnification under the Security Documents;

second, to each of the Agents to the extent necessary to reimburse each of the Agents for any unpaid fees and amounts due to any of the Agents and any expenses incurred by such Agents in connection with the performance of its obligations under the Indenture and all amounts for which each of the Agents is entitled to indemnification under the Indenture.

third, to the Trustee for the benefit of Holders and, to the extent applicable, to holders of Permitted Pari Passu Secured Indebtedness (or their representative); and

fourth, any surplus remaining after such payments will be paid to the Company or the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Trustee, in its capacity as such or as security agent, may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification to its satisfaction. In addition, the Trustee's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Trustee's Liens on the Collateral. Neither the Trustee, in its capacity as such or as security agent, nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents, for the creation, perfection, continuation, priority, sufficiency or protection of any of the Liens, for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents provide that the Company and the Subsidiary Guarantor Pledgors will indemnify the Trustee for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Trustee arising out of the Security Documents except to the extent that a court of competent jurisdiction in a final, non-appealable judgment determines that the gross negligence or willful misconduct of the Trustee was the primary cause of any of the foregoing.

This section, “— Enforcement of Security,” shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with “— Permitted Pari Passu Secured Indebtedness” above.

Release of Security

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance and discharge of the Notes as provided below under “— Defeasance — Defeasance and Discharge”;
- upon certain dispositions of the Collateral in compliance with the covenants described under “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries” or “— Limitation on Asset Sales,” or in accordance with the provision described under “— Consolidation, Merger and Sale of Assets”;
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture; and
- in connection with and upon execution of a JV Subsidiary Guarantee to replace a Subsidiary Guarantee, with respect to all pledges of Capital Stock granted by such JV Subsidiary Guarantor (or its Subsidiaries) in its direct and indirect Subsidiaries, and in accordance with the terms of the Indenture.

No release of Collateral shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officer’s Certificate stating that all requirements relating to such release have been complied with and that such release has been authorized by, permitted by and made in accordance with the provisions of the Indenture.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees and JV Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the first paragraph of the “Limitation on Indebtedness and Preferred Stock” covenant described below; *provided further* that Additional Notes that are consolidated and form a single class with the outstanding Notes must be fungible with the outstanding Notes for U.S. federal income tax purposes. The Hongkong and Shanghai Banking Corporation Limited may serve as Trustee with respect to any Additional Notes.

Optional Redemption

At any time and from time to time on or after January 14, 2014, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve-month period beginning on January 14 of each of the years indicated below.

<u>Period</u>	<u>Redemption Price</u>
2014	106.750%
2015 and thereafter	103.375%

At any time prior to January 14, 2014, 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 January 14, 2014, 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 113.50% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Selection and Notice

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

- (1) if the Notes are listed on any recognized securities exchange, in compliance with the requirements of the principal securities exchange on which the Notes are listed; or
- (2) if the Notes are not listed on any recognized securities exchange, on a pro rata basis, by lot or by such method as the Trustee deems fair and appropriate.

A Note of US\$100,000 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 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, the Subsidiary Guarantors' and the JV 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.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees 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 "— 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), including, without limitation, the PRC (each, as applicable, a "Relevant Taxing Jurisdiction"), or any jurisdiction through which payments are made (together with each Relevant Taxing Jurisdiction, a "Relevant Jurisdiction"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as will result in receipt by the Holder of each Note, the Subsidiary Guarantees or the JV Subsidiary Guarantees, as the case may be, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note, Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, and the Relevant Taxing Jurisdiction (other than merely acquiring or holding such Note or the receipt of payments or enforcement of rights thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee), including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

- (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on the last day of 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 or beneficial owner, as the case may be, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required 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, and such request is made to a Holder or a beneficial owner at least 60 days before it will be required to comply with such request; or
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
- (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any tax, assessment or other governmental charge that is payable otherwise than by withholding or deduction from payments of principal, premium (if any) and interest on the Notes or from payments under the Subsidiary Guarantees or JV Subsidiary Guarantees (if any);
 - (d) any tax, assessment or other governmental charge required to be withheld by any paying agent from any payment of principal, premium (if any) or interest on the Notes if such tax, assessment or other governmental charge results from the presentation of such Note for payment (in cases in which presentation is required) and the payment can be made without such withholding or deduction by the presentation of such Note for payment to another available paying agent of the Company;
 - (e) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or
 - (f) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b), (c), (d) and (e); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and upon reasonable notice in advance of such notice to Holders to the Trustee and the Paying and Transfer Agent (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment is proposed and becomes effective (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person, 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 mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, addressed to the Trustee stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall be entitled to rely on such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above and will not be responsible for any loss occasioned by acting in reliance on such certificate and opinion.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided that* the Company may Incur Indebtedness and any Restricted Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 3.0 to 1.0 with respect to any Incurrence of Indebtedness on or prior to September 30, 2012 and 3.25 to 1.0 with respect to any Incurrence of Indebtedness thereafter. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following (“Permitted Indebtedness”):
 - (a) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee and JV Subsidiary Guarantee;
 - (b) any Pari Passu 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); *provided that* such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;
 - (d) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided that* (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d) and (ii) if the Company is the obligor 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 the Company is not the obligee, such Indebtedness must be unsecured and expressly 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 Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h) or (o) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided that* (i) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or

by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, 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, 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 or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded, (iii) in no event may Indebtedness of the Company, 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 not a Subsidiary Guarantor or 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;

- (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 or Purchase Guarantees Incurred 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 a Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in a Permitted Business; *provided* that in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (h) (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under this clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);

- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit or trade guarantees issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;
 - (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;
 - (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business *provided, however*, that such Indebtedness is extinguished within five Business Days of Incurrence;
 - (m) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (f) or (h) above or clause (n) below or (iii) Guarantees by any JV Subsidiary Guarantor of Indebtedness of any other JV Subsidiary Guarantor that is a direct or indirect Subsidiary or parent of such JV Subsidiary Guarantor, which Indebtedness was permitted to be Incurred by another provision of this covenant;
 - (n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (n) at any time outstanding does not exceed US\$20.0 million (or the Dollar Equivalent thereof); and
 - (o) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$15.0 million (or the Dollar Equivalent thereof).
- (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 clause (1) above, 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.

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;
- (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 Wholly Owned 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 clause (1) of the covenant described under “— 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 Original Issue 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 quarter during which the Notes are originally issued and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
 - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue 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 Original Issue Date of any Indebtedness of the Company or any Restricted Subsidiary 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 Original Issue 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 Original Issue Date, (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date of an obligation of another Person, (C) to the extent that an Investment made after the Original Issue 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, or (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 Original Issue Date in any such Person; plus
- (v) US\$25.0 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 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 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 payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company; or
- (6) the declaration and payment of dividends by the Company in an aggregate amount not to exceed US\$25.0 million (or the Dollar Equivalent thereof) with respect to the fiscal year ended March 31, 2011;

provided that, in the case of clause (2), (3), (4) or (6) of this paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) and (6) of the preceding paragraph shall be included in calculating whether the conditions of clause (4)(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 their 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), 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 opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;

- (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.
- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
- (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor or Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor or any JV Subsidiary Guarantor, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; provided that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (b) existing under or by reason of applicable law, rule, regulation or order;
 - (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; provided that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to, any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
 - (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Limitation on Indebtedness and Preferred Stock” and “— Limitation on Asset Sales” covenants; or
 - (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness of the type described under clause (2)(h) or permitted under clause (2)(n) or 2(o) of the “Limitation on Indebtedness and Preferred Stock” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes and, with respect to Indebtedness of the type described in clause 2(h) or permitted under clause 2(o), any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary;
- (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) for the sale of shares of all the Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance with, the "— Limitation on Asset Sales" covenant; or
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "— Limitation on Asset Sales" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any other Restricted Subsidiary, unless (1) (a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee (in the case of a Subsidiary Guarantor) or JV Subsidiary Guarantee (in the case of a JV Subsidiary Guarantor) of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clauses (2)(c), (2)(d) or (2)(m)(ii) (other than in each case a Guarantee by a PRC Restricted Subsidiary of the Indebtedness of a non-PRC Restricted Subsidiary) of the covenant described under "— Limitation on Indebtedness and Preferred Stock."

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to guarantee any Indebtedness of the Company or any other Restricted Subsidiary unless the aggregate claims of the creditor under such guarantee will be limited to the JV Entitlement Amount. If any JV Subsidiary Guarantor guarantees any Indebtedness of the Company or any other Restricted Subsidiary where the aggregate claims of the creditor under such guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by a Subsidiary Guarantor.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion addressed to the Trustee 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 to directors of the Company who are not employees of the Company;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clauses (1) or (2) of the first paragraph of the covenant described under “— Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company; and
- (5) the payment of compensation to employees, officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the “Limitation on Restricted Payments” covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering 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 or a Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary or between or among Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries; *provided* that in the case of clause (iii) (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary that is not a Wholly Owned Subsidiary Guarantor 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).

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind (other than the Collateral), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided* that the Company may enter into a Sale and Leaseback Transaction if:

- (1) the Company could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the first paragraph of 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 under “— Limitation on Liens,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company applies the proceeds of such transaction in compliance with, the covenant described under “— Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;
- (3) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in clause (1) of the covenant described under “— Limitation on Indebtedness and Preferred Stock” after giving pro forma effect to such Asset Disposition; and

- (4) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$10.0 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 the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale, or to acquire Replacement Assets.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute "Excess Proceeds." Excess Proceeds of less than US\$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other *pari passu* Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company's Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided, however*, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than a Permitted Business as long as any Investment therein was not prohibited when made by the covenant described under “— Limitation on Restricted Payments.”

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans as contemplated, under the caption “Use of Proceeds” in this offering memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash 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 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 “— Limitation on Indebtedness and Preferred Stock” or such Lien would violate the covenant described under “— Limitation on Liens”; (5) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (6) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “— Limitation on Restricted Payments.”

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred 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 “— 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 “— Limitation on Liens”; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor or a JV Subsidiary

Guarantor; and (6) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged as required under “— Security.”

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee, the relevant JV Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, 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 described 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 described under “— 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 described under “— Certain Covenants — Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company’s common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarter of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year, an Officers’ Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent fiscal semi-annual periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company’s external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers’ Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Furthermore, the Company, each Subsidiary Guarantor and each JV Subsidiary Guarantor have agreed that, for as long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor is neither subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, shall supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or beneficial owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial owner of a Note.

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 “— Repurchase of Notes upon a Change of Control Triggering Event” or “— Limitation on Asset Sales,” or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a first priority Lien on the Collateral (subject to any Permitted Liens) in accordance with the provisions described under “— Security”;
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes then outstanding;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$7.5 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$7.5 million (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any 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;
- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;
- (10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Trustee ceases to have a first priority Lien in the Collateral (subject to any Permitted Liens).

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall (subject to the Trustee being indemnified 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 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, in its capacity as security agent, may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes (subject to the Trustee being indemnified to its satisfaction), foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate. See “— Security.”

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders provide the Trustee indemnity reasonably satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the indemnity; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company’s and its Restricted Subsidiaries’ performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to promptly 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 that acquired or leased such property and assets (the “Surviving Person”) shall be a corporation organized and validly existing under the laws of Bermuda,

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, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;

- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the proviso in clause (1) of the covenant described under “— 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) of this paragraph) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this covenant 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 “— 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 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, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

- (3) immediately after giving effect to such transaction on a pro forma basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in clause (1) of the covenant described under “— 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) of this paragraph) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “— Limitation on Asset Sales” covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “— The Subsidiary Guarantees — Release of the Subsidiary Guarantees.”

Although there is a limited body of case law interpreting the phrase “substantially all”, there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company that may adversely affect Holders.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee (or its agent), in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity for such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;
- (2) the Company has delivered to the Trustee (a) either (i) an Opinion of Counsel from a firm of recognized international standing with respect to U.S. federal income tax matters which is based on a change in applicable U.S. federal income tax law occurring after the Original Issue Date to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Company's exercise of its option under this "Defeasance and Discharge" provision and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred or (ii) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel and (b) an Opinion of Counsel from a firm 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 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," 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 such clause, clause (4) under "Events of Default" with respect to such other covenants and clauses (5) and (6) under "Events of Default" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (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)(b) of the preceding paragraph and the

delivery by the Company to the Trustee of an Opinion of Counsel from a firm of recognized international standing with respect to U.S. federal income tax matters to the effect that beneficial owners of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

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 Intercreditor Agreement or any Security Document may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Agreement or any Security Document, *provided* that such amendment shall not adversely affect the interests of the Holders;
- (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 JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor and the corresponding Collateral as provided or permitted by the terms of the Indenture;
- (7) add additional Collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (8) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (9) effect any changes to the Indenture in a manner necessary to comply with the procedures of DTC, Euroclear or Clearstream;

- (10) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee and the security agent to enter into the Intercreditor Agreement, or any amendments to the Intercreditor Agreement, the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture);
- (11) make any other change that does not materially and adversely affect the rights of any Holder; or
- (12) 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 Intercreditor Agreement or any Security Document may be amended with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes; *provided*, however, that no such amendment may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the place, 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) release any Collateral, except as provided in the Intercreditor Agreement, the Indenture and the Security Documents;
- (9) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (10) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (11) amend, change or modify any provision of the Intercreditor Agreement, any Security Document or the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;

- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;
- (13) change the redemption date or the redemption price of the Notes from that stated under “— Optional Redemption” or “— Redemption for Taxation Reasons”;
- (14) amend, change or modify the obligation of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; or
- (15) 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 U.S. federal securities laws.

Concerning the Trustee and the Agents

The Hongkong and Shanghai Banking Corporation Limited has been appointed as Trustee under the Indenture and HSBC Bank USA, N.A. 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 will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the degree of care and skill as required of it as Trustee in its exercise of the rights and powers vested in it under the Indenture.

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 and shall not be obligated to account for any profits therefrom; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

None of the Trustee, the Agents, the security agent nor any of their respective officers, directors, employees, attorneys or agents will be responsible or liable for any action taken or omitted by it, for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents or the Intercreditor Agreement (if any), for the creation, perfection, priority, sufficiency or protection of any of the Liens, for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so, except to the extent that a court of competent jurisdiction in a final, non-appealable judgment determines that the fraud, gross negligence or willful misconduct of the Trustee, any Agent, the security agent or any of their respective officers, directors, employees, attorneys or agents, as the case may be, was the primary cause of any loss to any Holder.

The Hongkong and Shanghai Banking Corporation Limited will initially act as Trustee and the security agent under the Security Documents in respect of the Lien over the Collateral. The Trustee, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Trustee and the security agent may have obligations under the Security Documents or the Intercreditor Agreement that are in conflict with the interests of the Holders and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the security agent will be under any obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have offered to the Trustee and/or the security agent indemnity and/or security satisfactory to the Trustee and/or the security agent against any loss, liability or expense.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

Subject to the terms of the Security Documents, The Hongkong and Shanghai Banking Corporation Limited will initially act as Trustee and security agent under the Security Documents in respect of the Lien over the Collateral. The Trustee, acting in its capacity as such and as security agent under the Security Documents in respect of the Lien over the Collateral, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Trustee and the security agent may have obligations under the Security Documents or the Intercreditor Agreement (if any) that are in conflict with the interests of the Holders and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the security agent will be under any obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have provided to the Trustee and/or the security agent (as applicable) indemnity and/or security satisfactory to the Trustee and/or the security agent (as applicable) against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee and the security agent, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee and/or the security agent in respect of such risks.

Book-Entry; Delivery and Form

The certificates representing the Notes will be issued in fully registered form without interest coupons. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a “Regulation S Global Note”) and will be deposited with HSBC Bank USA, N.A. as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream.

Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each, a “Restricted Global Note,” and, together with the Regulation S Global Notes, the “Global Notes”) and will be deposited with HSBC Bank USA, N.A. as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under “Transfer Restrictions.”

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC (“participants”) or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Qualified institutional buyers may hold their interests in a Restricted Global Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such system. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC’s applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Company, nor any of the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee, the Note Registrar, the Transfer Agent nor the Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

The Company expects that DTC will take any action permitted to be taken by a Holder (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is 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. However, if there is an Event of Default under the Notes, DTC will exchange the applicable Global Note for Certificated Notes, which it will distribute to its participants and which may be legended as set forth under the heading “Transfer Restrictions.”

The Company understands that: DTC is a limited purpose trust company organized under the laws of the State of New York, a “banking organization” within the meaning of New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies and certain other organizations that clear through or maintain a custodial relationship with a participant, either directly or indirectly (“indirect participants”).

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, any of the Subsidiary Guarantors, any of the JV Subsidiary Guarantors, the Trustee, the Note Registrar, the Transfer Agent or the Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depository for the Global Notes and a successor depository is not appointed by the Company within 90 days, the Company will issue Certificated Notes in registered form, which may bear the legend referred to under “Transfer Restrictions,” in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under “Transfer Restrictions,” in accordance with the DTC’s rules and procedures in addition to those provided for under the Indenture.

The Clearing Systems

General

DTC, Euroclear and Clearstream have advised the Company as follows:

DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a “banking organization” within the meaning of New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC’s participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the Initial Purchasers. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Notes in DTC will receive all distributions of principal of and interest on the Notes from the Trustee through such DTC participant.

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, 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 custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Initial Settlement

Initial settlement for the Notes will be made in immediately available funds. All Notes issued in the form of global notes will be deposited with HSBC Bank USA, N.A. as custodian for DTC. Investors' interests in Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will initially hold positions on behalf of their participants through DTC.

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same day funds on the settlement date.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between DTC Participants. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in same-day funds using DTC's Same Day Funds Settlement System.

Trading between Euroclear and Clearstream Participants. Secondary market trading between Euroclear participants and Clearstream participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

Trading between DTC Seller and Euroclear or Clearstream Purchaser. When Notes are to be transferred from the account of a DTC participant to the account of a Euroclear participant or a Clearstream participant, the purchaser must send instructions to Euroclear or Clearstream through a participant at least one business day prior to settlement. Euroclear or Clearstream, as the case may be, will receive the Notes against payment. Payment will then be made to the DTC participant's account against delivery of the Notes. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to and excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. After settlement has been completed, the Notes will be credited to the respective clearing system and by the clearing system, in accordance with its

usual procedures, to the Euroclear participant's or Clearstream participant's account. Credit for the Notes will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Notes will accrue from, the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade date fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear participants or Clearstream participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the Notes are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream participants purchasing Notes would incur overdraft charges for one day, assuming they cleared the overdraft when the Notes were credited to their accounts. However, interest on the Notes would accrue from the value date. Therefore, in many cases, the investment income on Notes earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross-market transaction will settle no differently than a trade between two DTC participants.

Finally, day traders that use Euroclear or Clearstream and that purchase Notes from DTC participants for credit to Euroclear participants or Clearstream participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

- (1) borrowing through Euroclear or Clearstream for one day (until the purchase side of the day trade is reflected in their Euroclear account or Clearstream account) in accordance with the clearing system's customary procedures;
- (2) borrowing the Notes in the United States from a DTC participant no later than one day prior to settlement, which would give the Notes sufficient time to be reflected in the borrower's Euroclear account or Clearstream account in order to settle the sale side of the trade; or
- (3) staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Euroclear participants or Clearstream participants.

Trading between Euroclear or Clearstream Seller and DTC Purchaser. Due to the time zone differences in their favor, Euroclear participants or Clearstream participants may employ their customary procedures for transactions in which Notes are to be transferred by the respective clearing system to another DTC participant. The seller must send instructions to Euroclear or Clearstream through a participant at least one business day prior to settlement. In these cases, Euroclear or Clearstream will credit the Notes to the DTC participant's account against payment. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to the Notes excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. The payment will then be reflected in the account of the Euroclear participant or Clearstream participant the following day, and receipt of the cash proceeds in the Euroclear or Clearstream participant's account will be back-valued to the value date (which would be the preceding day when

settlement occurs in New York). If the Euroclear participant or Clearstream participant has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over the one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream participant's account would instead be valued as of the actual settlement date.

As in the case with respect to sales by a DTC participant to a Euroclear or Clearstream participant, participants in Euroclear and Clearstream will have their accounts credited the day after their settlement date. See “— Trading between DTC Seller and Euroclear or Clearstream Purchaser” above.

None of the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor, the Trustee, the Note Registrar, the Paying Agent or the Transfer Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor) addressed to the Company, such Subsidiary Guarantor or JV Subsidiary Guarantor, the Note Registrar, the Paying Agent, the Transfer Agent or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of DTC. Any such notice shall be deemed to have been delivered on the day such notice is delivered to DTC 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 Law Debenture Corporate Services Inc. for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby. The relevant pledge documents pursuant to “— Security” will be governed under the laws of the Hong Kong Special Administrative Region.

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, the rate per annum 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.

“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) the redemption price of such Note at January 14, 2014 (such redemption price being set forth in the table appearing above under the caption “— Optional Redemption”), plus (y) all required remaining scheduled interest payments due on such Note through January 14, 2014 (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\$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;

- (4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant described under “— 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 of property units pursuant to Finance Lease Purchases.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Board of Directors” means the board of directors 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 or the merger or amalgamation of another Person with or into the Company, or the sale of all or substantially all the assets of the Company to another Person;

- (2) the Permitted Holders are the beneficial owners of less than 30% 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 Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (4) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election to the board of directors was approved by a vote of at least a majority of the directors then still in office who were either directors on the Original Issue Date 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 a Rating Decline.

“Clearstream” means Clearstream Banking, société anonyme, Luxembourg.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors.

“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 includes, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to January 14, 2014.

“Comparable Treasury Price” means, with respect to any redemption date:

- (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for U.S. Government Securities”; or
- (2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets), and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income (other than accrual of revenue in the ordinary course of business),

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 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 Purchase Guarantees) and (7) any capitalized interest, *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“Consolidated Net Income” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
 - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated

Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

- (b) the Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains or losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains.

"Consolidated Net Worth" means, at any date of determination, stockholders' equity as set forth on the most recently available semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

"Contractor Guarantees" means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

"Currency Agreement" means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the 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.

“DTC” means The Depository Trust Company and its successors.

“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) results in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Euroclear” means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

“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 the 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.

“Finance Lease Purchase” means a purchase by a customer of a property unit from the Company or any Restricted Subsidiary in the ordinary course of business pursuant to an arrangement that is treated as a finance lease in accordance with GAAP where the outright sale or transfer of such property unit is restricted by applicable PRC law or regulation.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent two fiscal semi-annual 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 “Two Semi-Annual Period”) to (2) the aggregate Consolidated Fixed Charges during such Two Semi-Annual Period. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Two Semi-Annual Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semi-Annual Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the 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 two full fiscal semi-annual periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means generally accepted accounting principles in Hong Kong as in effect from time to time.

“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 or redemption price plus accrued dividends.

For the avoidance of doubt, a mandatory put option granted to a Person that obligates the Company or any Restricted Subsidiary to repurchase the Capital Stock of any Restricted Subsidiary or any other Person shall be deemed to be “Indebtedness”.

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligations, Entrusted Loans, 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; *provided* that such Indebtedness is not reflected on the balance sheet of the Company or any Restricted Subsidiary (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected 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 clause (2)(f) under the “Limitation on Indebtedness and Preferred Stock” covenant, or (ii) equal to the net amount payable by such Person if such Hedging Obligation terminated at that time if not Incurred pursuant to such clause.

“Independent Third Party” means any Person that is not an Affiliate of the Company.

“Intercreditor Agreement” has the meaning set forth under “— Security.”

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“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 to the extent such obligation is outstanding and to the extent guaranteed by such Person.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the Company’s proportional interest in the assets (net of the Company’s 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 S&P or any of its successors or assigns or a rating of “Aaa,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s, or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody’s or both, as the case may be.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor and its Subsidiaries, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary 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 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).

“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-Guaranteed Portion” means, at any time of determination with respect to all of the JV Subsidiary Guarantors then existing and their respective Restricted Subsidiaries, the aggregate value (without duplication) of the equity interests held by each Independent Third Party in any JV Subsidiary Guarantor as determined by multiplying (x) the total assets as shown on the balance sheet of the relevant JV Subsidiary Guarantor for its most recently ended semi-annual period (or, in the case of the JV Subsidiary Guarantor executing such JV Subsidiary Guarantee and any other Restricted Subsidiary of the Company that became a JV Subsidiary Guarantor after the end of the most recently ended semi-annual period, as shown on the balance sheet of such JV Subsidiary Guarantor after giving pro forma effect to the sale or issuance of Capital Stock to the relevant Independent Third Parties) by (y) the proportionate ownership of all Capital Stock held by such Independent Third Party in such JV Subsidiary Guarantor, provided that (A) assets attributable to any Unrestricted Subsidiary of such JV Subsidiary Guarantor and (B) assets which would be eliminated from the calculation of Total Assets of the Company for the relevant semi-annual period shall be excluded from the calculation of total assets in clause (x) above.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying and Transfer Agent and each Holder at its last address appearing in the Note register stating:

- (1) the provision in the Indenture 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\$100,000 or integral multiples of US\$1,000.

On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee or an authenticating agent shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$100,000 or integral multiples of US\$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the 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.

"Opinion of Counsel" means a written opinion addressed to the Trustee from legal counsel who is, and in a form, 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); *provided* that (1) the Company was permitted to Incur such Indebtedness under the covenant described under "— Limitation on Indebtedness and Preferred Stock" and (2) such guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

"Payment Default" means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under "— Repurchase of Notes upon a Change of Control Triggering Event," or an Offer to Purchase in the manner described under "— Limitation on Asset Sales" or (4) any Event of Default specified in clause (4) of the definition of Events of Default.

"Permitted Businesses" means any business which is the same as or related, ancillary or complementary to any of the businesses of the Company and its Restricted Subsidiaries on the Original Issue Date.

“Permitted Holders” means any or all of the following:

- (1) Mr. Cheng Chung Hing, Mr. Cheng Tai Po and Mr. Leung Moon Lam;
- (2) any Affiliate (other than an Affiliate as defined in clauses (2) or (3) of the definition of Affiliate) or the estate of any of the Persons specified in clause (1); and
- (3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more of the 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 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 consisting of consideration received in connection with an Asset Sale made in compliance with the covenant described under “— Limitation on Asset Sales.”
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “— Limitation on Liens”;
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees, Purchase Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;
- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company’s consolidated balance sheet;

- (13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (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 by the Company or any of its Restricted Subsidiaries, in each case in the ordinary course of business;
- (16) advances or deposits paid to government authorities or government-affiliated or supervised entities in the PRC in connection with the financing of land acquisition, land development or land re-development activities in the ordinary course of business that are recorded as assets on the Company's balance sheet to the extent each such advance or deposit is on normal commercial terms; and
- (17) repurchases of Notes.

“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 (2)(f) of the covenant described under “— 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 (2)(e) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) Liens under the Security Documents;
- (14) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “— Security — Permitted Pari Passu Secured Indebtedness”;
- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee or Purchase Guarantee;
- (17) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (18) Liens (including extensions and renewals thereof) upon real or personal property acquired after the Original Issue Date; *provided* that, (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(h) of the covenant described under “— 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) subject to Liens incurred pursuant to this clause (18) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;

- (19) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (21) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights 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;
- (22) Liens incurred or deposits made to secure Entrusted Loans;
- (23) Liens on current assets securing Indebtedness which is permitted to be Incurred under clause (2)(n) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”;
- (24) Liens securing Indebtedness of Restricted Subsidiaries (other than Subsidiary Guarantors or JV Subsidiary Guarantors) Incurred pursuant to clause (2)(o) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”; and
- (25) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

provided that, with respect to the Collateral, “Permitted Liens” shall only refer to the Liens described in clauses (1), (6), (13) and (14) of this definition.

“Permitted Pari Passu Secured Indebtedness” has the meaning set forth under “— Security — Permitted Pari Passu Secured Indebtedness.”

“Permitted Subsidiary Indebtedness” means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries; *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding the amount of any Public Indebtedness of any Restricted Subsidiary and Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (2)(b), (2)(d), (2)(f) and (2)(g) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 15% of Total Assets.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“PRC” means the People’s Republic of China, excluding, solely for purposes of this definition, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

“PRC CJV” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its terms 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.

“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.

“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.

“Purchase Guarantee” means Indebtedness of the Company or any Restricted Subsidiary consisting of a Guarantee in favor of any bank or other similar financial institution in the ordinary course of business of a loan financing a Finance Lease Purchase in a principal amount not exceeding the purchase price of the relevant property unit, *provided* that, following such Finance Lease Purchase, the Company or such Restricted Subsidiary retains the land use rights and possesses the building ownership certificates in respect of such property unit.

“Rating Agencies” means (1) S&P and (2) Moody’s and (3) if S&P or Moody’s or both shall not make a rating of the Notes publicly available, a recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P or Moody’s or both, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); and (3) the equivalent of any such category of S&P or Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P; “1,” “2” and “3” for Moody’s; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “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 “— 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 “— 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 Moody’s and S&P 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 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 as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. New York City time on the third Business Day preceding such redemption date.

“Replacement Assets” means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business, including the Capital Stock of any Person holding such property or assets that is primarily engaged in a Permitted Business and will, upon the acquisition by the Company or any of its Restricted Subsidiaries of such Capital Stock, become a Restricted Subsidiary.

“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.

“Security Documents” means, collectively, the pledge agreements and any other agreements or instruments that may evidence or create any security interest in favor of the Trustee and/or any Holders in any or all of the Collateral.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) Trade Payables or (3) Indebtedness Incurred in violation of the Indenture.

“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 that 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 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.

“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” does not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Subsidiary Guarantor Pledgor” means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that “Subsidiary Guarantor Pledgor” does not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency 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;
- (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 Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s;

- (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) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) Agricultural Bank of China, Bank of China Limited, Bank of Communications Co., Ltd., Bank of Dongguan Corporation Limited, Bank of Guangzhou, Bank of Hangzhou, Bank of Jiangsu, Bank of Nanchang, China CITIC Bank, China Construction Bank Corporation, China Development Bank, Chinese Mercantile Bank, China Merchants Bank Co., Ltd., China Zheshang Bank Co., Ltd., Guangxi Beibu Gulf Bank, HSBC Bank (China) Company Limited, The Industrial Bank Co., Ltd., Industrial and Commercial Bank of China Limited, Nanyang Commercial Bank (China) Limited, Pingan Bank, Shanghai Pudong Development Bank Co., Ltd. and Shenzhen Development Bank Co., Ltd., (ii) any other bank, trust company or other financial institution organized under the laws of the PRC or Hong Kong whose long-term debt is rated as high or higher than any of those banks listed in clause (i), or (iii) any other bank, trust company or other financial institution organized under the laws of the PRC or Hong Kong; *provided* that, in the case of clause (iii), such deposits do not exceed US\$10.0 million (or the Dollar Equivalent thereof) with any single bank or US\$30.0 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination.

“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 semi-annual period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to clause (2)(h) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness, *provided* further that only with respect to the calculation of “Non-Guaranteed Portion,” in the case of a JV Subsidiary Guarantor executing a JV Subsidiary Guarantee and any other Restricted Subsidiary of the Company that became a JV Subsidiary Guarantor after the end of the most recently ended semi-annual or annual period, the amount of Total Assets shall be calculated after giving pro forma effect to the sale or issuance of Capital Stock to the relevant Independent Third Parties.

“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 holder 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.

TAXATION

The following discussion summarizes certain Hong Kong, British Virgin Islands, PRC and United States federal income tax consequences to prospective holders arising from the purchase, ownership and disposition of Notes. The summary 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 is not intended as tax advice to any particular investor. This summary does not describe any tax consequences arising under the laws of any state, locality or other taxing jurisdiction other than the foregoing jurisdictions.

Prospective holders of Notes should consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Notes, including, in particular, the application of the tax considerations discussed below to their particular situations, as well as the application of any state, local, foreign or other tax laws.

Hong Kong Tax Considerations

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 profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is effected in Hong Kong and such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong and such profits are determined to be trading profits. However, Hong Kong does not impose tax on gains arising from the sale of capital assets. It is a question of fact in each case as to whether Note holders hold the Notes as capital assets or as trading assets.

Interest on the Notes will be subject to Hong Kong profits tax where such interest is received by or accrued to:

- a financial institution (as defined in the Inland Revenue Ordinance) and such interest arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong and such interest is derived from Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong, and such interest is derived from Hong Kong and is in respect of the funds of the trade, profession or business.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Hong Kong) of a Note.

British Virgin Islands Tax Considerations

There is no income or other tax in the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors to persons who are not resident in the British Virgin Islands pursuant to the Subsidiary Guarantees.

PRC Taxation

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.

Under the PRC EIT Law and implementation regulations issued by the State Council, if we are treated as a PRC “resident enterprise,” PRC income tax at the rate of 10% (or lower treaty rate, if any) is applicable to interest payable to investors that are “non-resident enterprises” and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant interest income is not effectively connected with the establishment or place of business, to the extent such interest is derived from sources within the PRC. Similarly, any gain realized on the transfer of the Notes by such investors is also subject to a 10% (or lower treaty rate, if any) PRC income tax if such gain is regarded as income derived from sources within the PRC. As advised by Commerce & Finance Law Offices, our PRC legal counsel, there is uncertainty as to whether we will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. If we are treated as a PRC “resident enterprise,” the interest we pay in respect of the Notes, and the gain any investor may realize from the transfer of the Notes, would be treated as income derived from sources within the PRC and may be subject to PRC tax, which may materially and adversely affect the value of investment in the Notes.

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside the PRC) of a Note.

U.S. Federal Income Taxation

CIRCULAR 230: ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES SET FORTH IN THIS OFFERING MEMORANDUM WAS WRITTEN IN CONNECTION WITH THE PROMOTION AND MARKETING BY THE COMPANY OF THE NOTES. SUCH DISCUSSION WAS NOT INTENDED OR WRITTEN TO BE LEGAL OR TAX ADVICE TO ANY PERSON AND WAS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. EACH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion is a summary of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. The discussion is not a complete description of all the tax considerations that may be relevant to a particular holder. This summary is based on the Internal Revenue Code of 1986, as amended, final, temporary and proposed Treasury Regulations and administrative pronouncements, judicial decisions, all as of the date hereof, changes to any of which subsequent to the date of this offering memorandum may affect the tax consequences described herein and may apply retroactively. The discussion addresses only purchasers of the Notes that hold the Notes as capital assets, that purchase the Notes in this offering at their “issue price,” which will be the first price at which a substantial amount of the Notes is sold to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers)

for money, and that have the U.S. dollar as their functional currency. It does not address all of the issues that may be relevant to the tax treatment of investors subject to special rules, such as — banks, insurance companies, regulated investment companies, real estate investment trusts, U.S. expatriates, investors liable for the alternative minimum tax, beneficial owners of individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, traders that elect mark-to-market treatment, or investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes. It does not address state, local, and foreign tax consequences of the purchase, ownership and disposition of the Notes. It does not address any U.S. federal tax consequences other than U.S. federal income tax consequences (such as the federal estate tax or gift tax).

PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES.

The discussion below assumes that the Notes are properly characterized as debt rather than equity for U.S. federal income tax purposes. Certain debt instruments that provide for one or more contingent payments are subject to Treasury regulations governing contingent payment debt instruments. A payment is not treated as a contingent payment under these regulations if, as of the issue date of the debt instrument, the likelihood that such payment will be made is remote and/or the payments are incidental. In certain circumstances as set forth in the Description of the Notes, we may redeem or offer to purchase the Notes in advance of their stated maturity, in which case we may pay amounts on the Notes that are in excess of the stated interest or principal of the Notes. We intend to take the position that the possibility that any such payment will be made is remote and/or the payments are incidental and therefore the Notes are not subject to the rules governing contingent debt instruments. Our determination that these contingencies are remote and/or incidental is binding on you unless you disclose your contrary position to the IRS in the manner that is required by applicable Treasury regulations. Our determination is not, however, binding on the IRS. It is possible that the IRS might take a different position from that described above, in which case the timing, character and amount of taxable income in respect of the Notes may differ adversely from that described herein. The remainder of this discussion assumes that the Notes will not be treated as contingent payment debt instruments.

U.S. Holders

As used herein, “U.S. Holder” means a beneficial owner of Notes that is, for U.S. federal income tax purposes:

- (i) an individual who is a citizen or resident of the United States;
- (ii) a corporation (or other business entity classified as a corporation) created or organized under the laws of the United States, any State thereof or the District of Columbia;
- (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source; or
- (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes purchases, holds or disposes of the Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships and partners in partnerships holding the Notes are urged to consult their own tax advisors.

Taxation of Interest

The gross amount of interest payments received by a U.S. Holder (including any Additional Amounts) with respect to the Notes will generally be includible in taxable income as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's method of tax accounting, provided such interest payments constitute "qualified stated interest." In general, "qualified stated interest" is interest that is unconditionally payable at least annually at a single fixed rate.

In addition, a U.S. Holder of a Note issued with original issue discount, or OID, must include the OID in income as ordinary interest for U.S. federal income tax purposes as it accrues on a constant yield to maturity basis in advance of receipt of the cash payment attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. Generally, a Note will have OID to the extent that its stated redemption price at maturity exceeds its issue price. A Note generally will not have OID if the stated redemption price at maturity exceeds its issue price by less than 1/4 of 1% of the Note's stated redemption price at maturity multiplied by the number of complete years to maturity, or de minimis OID. The stated redemption price at maturity of a Note is the total of all payments due on the Note other than payments of qualified stated interest. It is anticipated that the Notes will be issued with more than de minimis OID. Accordingly, U.S. Holders will be subject to the OID accrual rules described above.

A U.S. Holder may elect to recognize all of the interest and discount on a Note using a constant yield method. The constant yield election generally will apply only to the Note with respect to which it is made and may not be revoked without the consent of the U.S. Internal Revenue Service.

For U.S. foreign tax credit purposes, interest payments and OID received or accrued on the Notes will generally be income from foreign sources and will generally be treated as "passive category income" or, in certain cases, "general category income" for U.S. foreign tax credit purposes. Subject to applicable limitations, foreign income taxes withheld from payments in respect of the Notes, if any, may be creditable against U.S. Holder's federal income tax liability. The U.S. foreign tax credit rules are extremely complex. U.S. Holders should consult their own tax advisors regarding the availability of U.S. foreign tax credits and the application of the U.S. foreign tax credit rules to their particular situation.

Taxation of the Sale, Exchange, Redemption or Retirement of a Note

Upon the sale, exchange, redemption or retirement of a Note, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale, exchange, redemption or retirement (less any accrued but unpaid interest, which will be taxable as interest income, as described above) and the U.S. Holder's adjusted tax basis in such Note. A U.S. Holder's adjusted tax basis in a Note will generally equal the amount the U.S. Holder paid to acquire the Note, increased by any OID included in the U.S. Holder's income with respect to the Note and reduced by any payments, other than qualified stated interest payments, previously received by the U.S. Holder.

Gain or loss recognized by a U.S. Holder generally will be long-term capital gain or loss if the U.S. Holder has held the Note for more than one year at the time of disposition. Certain non-corporate U.S. Holders (including individuals) may qualify for preferential rates of U.S. federal income taxation in respect of long-term capital gains. The deductibility of capital losses is subject to certain limitations. Gain or loss realized by a U.S. Holder on the sale, exchange, redemption or retirement of a Note generally will be treated for foreign tax credit purposes as gain or loss arising from sources within the United States. However, with respect to a U.S. Holder that is eligible for the benefits of the United States-PRC Income Tax Convention, if we are deemed to be a PRC resident enterprise and gain from the disposition of a Note is taxed under the CIT Law, such gain may be treated as arising from sources within the PRC. See "— PRC Taxation." Prospective purchasers are urged to consult their independent tax advisors regarding the tax consequences if a foreign tax is imposed on the disposition of a Note, including the availability of the foreign tax credit under the investor's particular circumstances.

New Legislation regarding Medicare Tax and Reporting Obligations

For taxable years beginning after December 31, 2012, certain U.S. Holders that are individuals, estates or trusts will be subject to an additional 3.8% Medicare tax on, among other things, certain interest income and net gains from the disposition of securities. U.S. Holders that are individuals, estate or trusts should consult their tax advisors regarding the effect, if any, of this Medicare tax on their ownership and disposition of the Notes.

Effective for taxable years beginning after March 18, 2010, individuals who are U.S. Holders, and who hold “specified foreign financial assets” (as defined in section 6038D of the Code), including debt of a non-U.S. corporation that is not held in an account maintained by a U.S. “financial institution” (as defined in section 6038D of the Code), whose aggregate value exceeds \$50,000 during the tax year, may be required to attach to their tax returns for the year certain specified information. An individual who fails to timely furnish the required information may be subject to a penalty. Additionally, in the event a U.S. Holder does not file the required information, the statute of limitations may not close before such information is filed. Under certain circumstances, an entity may be treated as an individual for purposes of the foregoing rules.

Non-U.S. Holders

You are a “Non-U.S. Holder” for purposes of this discussion if you are a beneficial owner of Notes that is not a U.S. Holder or partnership for U.S. federal income tax purposes.

Taxation of Interest

Subject to the discussion of backup withholding below, a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on payments of interest to it. If a Non-U.S. Holder is engaged in a U.S. trade or business and interest on a Note is effectively connected with the conduct of such U.S. trade or business, the Non-U.S. Holder generally (subject to the possible application of special rules if an income tax treaty applies) will be subject to U.S. federal income tax on such interest on a net income basis in the same manner as if it were a U.S. Holder. A corporate Non-U.S. Holder whose interest on the Note is effectively connected with the conduct of a U.S. trade or business should consult its tax advisor regarding the possible application of the branch profits tax.

Taxation of the Sale, Exchange Redemption or Retirement of a Note

Generally, no U.S. federal withholding tax will be required with respect to any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement or other disposition of a Note. A Non-U.S. Holder will not be subject to U.S. federal income tax on gain realized on the sale, exchange, retirement, redemption or other disposition of a Note unless (a) the Non-U.S. Holder is an individual who is present in the United States for a period or periods aggregating 183 or more days in the taxable year of the disposition and certain other conditions are met, (in which case the Non-U.S. Holder generally will be subject to a 30% U.S. federal income tax on any gain recognized, which may be offset by certain U.S. losses) or (b) such gain is effectively connected with the Non-U.S. Holder’s U.S. trade or business (in which case the Non-U.S. Holder will be subject to tax in the same manner as discussed above with respect to effectively connected interest).

Information Reporting and Backup Withholding

Under certain circumstances, the Code requires information reporting annually to the IRS and to the applicable U.S. Holder or Non-U.S. Holder (each, a “Holder”), and backup withholding (currently applied at a rate of 28%, which rate is currently scheduled to increase to 31% in 2011) with respect to certain payments made on or with respect to the Notes. Generally, corporations and certain other entities are exempt from backup withholding, provided that they may be required to certify their exempt status.

Information reporting and backup reporting of U.S. federal income tax may apply to interest payments on the Notes to U.S. Holders that are not exempt recipients and that fail to provide certain certifications and identifying information (such as the U.S. Holder's taxpayer identification number) in the required manner. Information reporting and backup withholding generally will not apply to payments of interest on Notes held by a Non-U.S. Holder if such interest is paid outside the United States by a non-U.S. payor or non-U.S. middleman (within the meaning of the U.S. Treasury Regulations) or the Non-U.S. Holder properly certifies as to its non-U.S. status and certain other conditions are met or the Non-U.S. Holder otherwise establishes an exemption.

The payment of the proceeds on the sale, exchange, redemption, retirement or other taxable disposition of a Note to or through the U.S. office of a broker generally will be subject to information reporting and backup withholding unless the Holder provides certain certifications as described above or otherwise establishes an exemption. Additional information reporting and backup withholding rules apply with respect to the payment of the proceeds on the disposition of a Note to or through certain U.S. or U.S.-related brokers.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

PLAN OF DISTRIBUTION

BOCI Asia Limited and UBS AG, Hong Kong Branch are acting as the Joint Lead Managers and Joint Bookrunners for 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 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.

<u>Initial Purchaser</u>	<u>Principal Amount of Notes</u>
BOCI Asia Limited	US\$100,000,000
UBS AG, Hong Kong Branch.	US\$150,000,000
Total	<u>US\$250,000,000</u>

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 within the United States to qualified institutional buyers (as defined in Rule 144A), or QIBs, in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice. The following Co-Lead Managers will assist the Joint Lead Managers with the offering of the Notes: DBS Bank Ltd., Guangdong Securities Limited, Haitong International Securities Company Limited and Polaris Securities (Hong Kong) Limited.

We have agreed that, for a period of 65 days from the date of this offering memorandum, we will not, without the prior written consent of the Initial Purchasers, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or announce the offering of, any debt securities issued or guaranteed by us. The Initial Purchasers in their sole discretion may consent to the offering and sales of debt securities by us at any time without notice.

The Notes will constitute a new class of securities with no established trading market. Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. 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, they 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.

UBS AG, Hong Kong Branch (or its affiliates) may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Over-allotment involves sales in excess of the offering size, which creates a short position. 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 UBS AG, Hong Kong Branch (as stabilizing manager) 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 we nor the Initial Purchasers make any representation that UBS AG, Hong Kong Branch (as stabilizing manager) 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 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 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 Restrictions

General

No action has been taken or will be taken in any jurisdiction by us 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 and applicable state securities laws. 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 if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

The Initial Purchasers, through their affiliates, acting as selling agents where applicable, propose to offer the Notes to certain persons in offshore transactions in reliance on Regulation S and in accordance with applicable law and propose to offer the Notes to QIBs in the United States pursuant to Rule 144A. Except as permitted under the purchase agreement, the Notes will not be offered, sold or delivered within the United States. Any offer or sale of the Notes in the United States in reliance on Rule 144A will be made by broker-dealer affiliates who are registered as such under the Exchange Act. Terms used in this paragraph have the meanings given to them by Regulation S.

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, or 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 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), or 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 reoffering 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

This offering memorandum has not been registered with the Monetary Authority of Singapore, or the MAS. Accordingly, 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 may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA; (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

- (a) an institutional investor (as defined in Section 4A of the SFA);
 - (b) a relevant person (as defined in Section 275 (2) of the SFA); or
 - (c) any person pursuant to an offer referred to in Section 275 (1A) of the SFA,
- unless expressly specified otherwise in Section 276(7) of the SFA.

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:

- (1) to an institutional investor (under Section 274 of the SFA), or to a relevant person (as defined in Section 275(2) of the SFA) and in accordance with the conditions specified in Section 275 of the SFA;
- (2) (in the case of a corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of a trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;
- (3) where no consideration is or will be given for the transfer;
- (4) where the transfer is by operation of law; or
- (5) as specified in Section 276(7) of the SFA.

PRC

This offering memorandum does not constitute a public offer of the Notes, whether by sale of by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this offering memorandum or any other document.

British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands 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 Notes.

United States

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (1) to QIBs in compliance with Rule 144A and (2) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

By its purchase of the Notes, each purchaser of the Notes will be deemed to:

1. represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is: (i) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A; or (ii) a purchaser that is outside the United States;
2. acknowledge that the Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except as set forth below;
3. agree that if it is a purchaser other than a purchaser outside the United States and if it should resell or otherwise transfer the Notes within the time period referred to in Rule 144(d) under the Securities Act with respect to such transfer, it will do so only: (a) if such purchaser is an initial investor, (i) to the Company or any subsidiary thereof; (ii) inside the United States to a QIB in compliance with Rule 144A; (iii) outside the United States in an offshore transaction in compliance with Rule 904 under the Securities Act (if available); or (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available); or (b) if such purchaser is a subsequent investor of an interest in the Restricted Global Note, as set forth in (a) above and, in addition, 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 otherwise than as described in (a)(i), (a)(ii) or (a) (iii) above or (c) below, the Company, the Subsidiary Guarantors, the Trustee or the Paying Agent, Transfer Agent and Note Registrar may, in circumstances that any of them deems appropriate, require evidence as to compliance with any such exemption); or (c) pursuant to an effective registration statement under the Securities Act;
4. agree that it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes;
5. understand that if it is a purchaser outside the United States, the Notes will be represented by the Regulation S Global Note and that transfers thereto are restricted as described under “Description of the Notes — Book-Entry; Delivery and Form.” If it is a QIB, it understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, charged or otherwise transferred to a person who is not a QIB, the transferee will be required to provide the Trustee with a written certification (the form of which certification can be obtained from the Trustee) as to compliance with the transfer restriction referred to above;

6. understand that each Note sold within the United States will bear a legend to the following effect unless otherwise agreed by us and the holder thereof (unless such Note has been sold pursuant to a registration statement that has been declared effective under the Securities Act):

THIS NOTE, THE SUBSIDIARY GUARANTEES AND THE JV SUBSIDIARY GUARANTEES (IF ANY) RELATED TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND ACCORDINGLY, THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT WITHIN THE TIME PERIOD REFERRED TO IN RULE 144(d) UNDER THE SECURITIES ACT AS IN EFFECT WITH RESPECT TO SUCH TRANSFER, RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) IF SUCH PURCHASER IS AN INITIAL INVESTOR, (I) TO CHINA SOUTH CITY HOLDINGS LIMITED OR ANY SUBSIDIARY THEREOF; (II) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT; (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT; (IV) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); (B) IF SUCH PURCHASER IS A SUBSEQUENT INVESTOR OF AN INTEREST IN THE RESTRICTED GLOBAL NOTE, AS SET FORTH IN (A) ABOVE AND, IN ADDITION, 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 OTHERWISE THAN AS DESCRIBED IN (A)(I), (A)(II) OR (A)(III) ABOVE OR (C) BELOW, THE COMPANY, THE SUBSIDIARY GUARANTORS, THE JV SUBSIDIARY GUARANTORS (IF ANY), THE TRUSTEE OR THE PAYING AGENT, TRANSFER AGENT AND NOTE REGISTRAR MAY, IN CIRCUMSTANCES THAT ANY OF THEM DEEMS APPROPRIATE, REQUIRE EVIDENCE AS TO COMPLIANCE WITH ANY SUCH EXEMPTION); OR (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS NOTE WITHIN THE TIME PERIOD REFERRED TO ABOVE, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE HEREOF RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS CERTIFICATE TO THE TRUSTEE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE, THE PAYING AGENT AND THE TRANSFER AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS; and

7. acknowledge that the Company, the Subsidiary Guarantors, the Trustee, the Paying Agent, Transfer Agent and Note Registrar, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Company, the Subsidiary Guarantors, the Trustee, the Paying Agent, Transfer Agent and Note Registrar and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Singapore

Each purchaser of the Notes acknowledges that this offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each purchaser of the Notes has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase 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 has not circulated or distributed, nor will it 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 persons in Singapore other than: (i) to an institutional investor under Section 274 of the SFA; (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

RATINGS

The Notes have been provisionally rated “B” by Standard & Poor’s Ratings Services and “B2” by Moody’s Investors Service. The ratings reflect the rating agencies’ assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Additionally, we have been assigned a long-term corporate credit rating of “B+” with a stable outlook by Standard and Poor’s Rating Services, and a corporate family rating of “B1” with a stable outlook by Moody’s Investors Services. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant. Each such rating should be evaluated independently of any other rating on the Notes, on other of our securities, or on us.

LEGAL MATTERS

Certain legal matters will be passed upon for us by Baker & McKenzie as to matters of Hong Kong law, United States federal law and New York law, Commerce & Finance Law Offices as to matters of PRC law and Maples and Calder as to matters of British Virgin Islands law. Certain legal matters will be passed upon for the Initial Purchasers by Milbank, Tweed, Hadley & McCloy LLP as to matter of United States federal and New York law and Jia Yuan Law Firm as to PRC law.

INDEPENDENT AUDITOR

Our consolidated financial statements as of and for the three years ended March 31, 2008, 2009 and 2010 included in this offering memorandum have been audited by Ernst & Young, certified public accountants. The auditors' report of Ernst & Young on the consolidated financial statements as of and for the fiscal years ended March 31, 2009 (which include the consolidated financial statements as of and for the year ended March 31, 2008) and 2010 are included herein. With respect to our unaudited condensed consolidated interim financial statements as of September 30, 2010 and for the six month periods ended September 30, 2009 and 2010 appearing in this offering memorandum, Ernst & Young reported that they have applied limited procedures in accordance with professional standards for a review of such information as stated in their review report appearing in this offering memorandum.

LISTING OF THE NOTES

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this offering memorandum. Approval in-principle for the listing and quotation of the Notes on the Official List of the SGX-ST are not to be taken as an indication of the merits of our company and subsidiaries jointly controlled entities and associates or the Notes, Subsidiary Guarantees or JV Subsidiary Guarantees. 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.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a Paying Agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the Paying Agent in Singapore.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



To the Board of Directors
China South City Holdings Limited
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages F-3 to F-17 which comprises the condensed consolidated statement of financial position of China South City Holdings Limited as at 30 September 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

8 November 2010

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2010

	Notes	For the six months ended 30 September	
		2010	2009
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
REVENUE	3	590,515	249,564
Cost of sales		(258,775)	(129,709)
Gross profit		331,740	119,855
Other income and gains	4	19,757	142,520
Fair value gains on investment properties	4	358,464	253,038
Selling and distribution costs		(39,090)	(40,012)
Administrative expenses		(86,418)	(98,267)
Other expenses		(172)	(623)
Finance costs	5	(16,797)	(11,840)
Share of profits and losses of:			
A jointly-controlled entity		651	645
Associates		(162)	(165)
PROFIT BEFORE TAX	6	567,973	365,151
Income tax expense	7	(225,282)	(119,747)
PROFIT FOR THE PERIOD		342,691	245,404
Attributable to:			
Equity holders of the parent		347,196	245,709
Non-controlling interests		(4,505)	(305)
		342,691	245,404
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	8		
Basic		5.80	5.45
Diluted		5.78	5.45

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

	For the six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	342,691	245,404
Exchange realignment	146,667	236
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	489,358	245,640
Attributable to:		
Equity holders of the parent	492,150	245,909
Non-controlling interests	(2,792)	(269)
	489,358	245,640

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2010

	Notes	30 September 2010	31 March 2010
		HK\$'000 (Unaudited)	HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	154,041	157,684
Investment properties	11	9,752,873	9,077,250
Properties under development	12	2,501,572	1,978,789
Prepaid land premiums	13	6,945	6,911
Goodwill		20,066	20,066
Interests in jointly-controlled entities		6,896	8,980
Interests in associates		(983)	(803)
Loan receivables		—	625
Finance lease receivables		50,433	54,250
Deferred tax assets		98,278	75,413
Total non-current assets		12,590,121	11,379,165
CURRENT ASSETS			
Properties held for finance lease		212,161	96,116
Properties held for sale		583,020	677,346
Trade receivables	14	206,080	234,155
Prepayments, deposits and other receivables		53,373	86,077
Held for trading investments at fair value through profit or loss		131,434	123,932
Cash and bank balances		3,352,562	3,702,977
Total current assets		4,538,630	4,920,603
CURRENT LIABILITIES			
Trade and other payables	15	969,373	824,459
Interest-bearing bank and other borrowings	16	1,601,647	1,558,417
Tax payable		527,702	470,832
Total current liabilities		3,098,722	2,853,708
NET CURRENT ASSETS		1,439,908	2,066,895
TOTAL ASSETS LESS CURRENT LIABILITIES		14,030,029	13,446,060
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	16	2,839,435	2,644,308
Deferred tax liabilities		1,938,758	1,775,067
Total non-current liabilities		4,778,193	4,419,375
Net assets		9,251,836	9,026,685
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	17	59,796	60,000
Reserves		9,112,990	8,733,433
Proposed dividends	9	—	119,591
		9,172,786	8,913,024
Non-controlling interests		79,050	113,661
Total equity		9,251,836	9,026,685

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 September 2010

	Attributable to equity holders of the parent									
	Issued capital	Share premium	Statutory surplus reserve	Capital reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Total	Non-Controlling interests	Total Equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2009 (audited)	200	—	27,662	182,768	64,226	576,034	3,611,073	4,461,963	33,995	4,495,958
Total comprehensive income	—	—	29	—	—	171	245,709	245,909	(269)	245,640
Issue of shares at a premium through initial public offering	15,000	3,135,000	—	—	—	—	—	3,150,000	—	3,150,000
Issue of shares by capitalisation of shareholders' loan	44,800	41,000	—	—	—	—	—	85,800	—	85,800
Transaction costs attributable to issue of shares	—	(136,598)	—	—	—	—	—	(136,598)	—	(136,598)
Equity-settled share option arrangement	—	—	—	—	3,294	—	—	3,294	—	3,294
Transfer to retained profits	—	—	—	(182,768)	—	—	182,768	—	—	—
At 30 September 2009 (unaudited)	60,000	3,039,402	27,691	—	67,520	576,205	4,039,550	7,810,368	33,726	7,844,094

	Attributable to equity holders of the parent											
	Issued capital	Capital Redemption Reserve	Capital Reserve	Share premium	Statutory surplus reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividends	Total	Non-Controlling interests	Total Equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2010 (audited)	60,000	—	—	3,039,402	86,269	67,520	594,820	4,945,422	119,591	8,913,024	113,661	9,026,685
Total comprehensive income	—	—	—	—	1,661	—	143,293	347,196	—	492,150	(2,792)	489,358
Repurchase of shares	(204)	204	—	—	—	—	—	(24,616)	—	(24,616)	—	(24,616)
Acquisition of non-controlling interests (note 18)	—	—	(88,181)	—	—	—	—	—	—	(88,181)	(31,819)	(120,000)
Final 2010 dividend declared	—	—	—	—	—	—	—	—	(119,591)	(119,591)	—	(119,591)
At 30 September 2010 (unaudited)	59,796	204*	(88,181)*	3,039,402*	87,930*	67,520*	738,113*	5,268,002*	—	9,172,786	79,050	9,251,836

* These reserve accounts comprise the consolidated reserves of HK\$9,112,990,000 (31 March 2010: HK\$8,733,433,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2010

	For the six months ended 30 September	
	2010	2009
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	282,499	197,065
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(574,007)	(558,489)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(106,821)	4,213,819
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(398,329)	3,852,395
Cash and cash equivalents at beginning of period	3,702,977	246,084
Effect of foreign exchange rate changes, net	47,914	(5,271)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,352,562	4,093,208

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2010

1. CORPORATE INFORMATION

China South City Holdings Limited (the “Company”) is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at Room 2205, 22/F, Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui, Kowloon, Hong Kong. The principal place of business of the Group is located at No. 1 Hua Nan Main Road, Pinghu, Longgang District, Shenzhen, the People’s Republic of China (the “PRC”).

During the period, the Group is principally engaged in developing and managing integrated logistic trade centers, property development, property investment, property management and operation of hotel.

These interim condensed consolidated financial statements have not been audited.

2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2010.

Impact of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”, Which Also Include HKASs and Interpretations)

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2010, except for the adoption of the new standards and interpretations as noted below.

HKFRS 1(Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 32 Amendments	<i>Amendments to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
HKAS 39 Amendment	<i>Amendments to HKAS 39 Financial Instruments: Recognition and Measurement– Eligible Hedged Items</i>
Annual Improvements Project	<i>Improvements to HKFRSs 2009</i>
HK Interpretation 4	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>

The adoption of the above new standards and interpretations has had no material effect on the accounting policies of the Group and the methods of computation in the interim condensed consolidated financial statements.

3. SEGMENT INFORMATION

For management purpose, the Group is organised into business units based on their products and services and has five reportable segments as follows:

- (a) the property development segment engages in the development of integrated logistics and trade centers and supporting facilities;
- (b) the property investment segment invests in integrated logistics and trade centers and supporting facilities;
- (c) the property management segment engages in the management of the Group’s developed properties;
- (d) the hotel operation segment engages in the provision of hotel services; and
- (e) the “others” segment comprises, principally, the provision of exhibition and other services.

Management monitors the results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, fair value gains from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude cash and bank balances, equity investments at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Segment results, assets and liabilities

Six months ended 30 September 2010 (Unaudited)	Property development	Property investment	Property management	Hotel operation	Others	Total
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Sales to customers	498,559	65,127	15,810	14,269	—	593,765
Intersegment sales	—	—	—	(3,250)	—	(3,250)
Reportable segment revenue	498,559	65,127	15,810	11,019	—	590,515
Reportable segment profit/(loss) before increase in fair value of investment properties	329,661	28,879	(17,178)	(9,622)	—	331,740
Increase in fair value of investment properties	—	358,464	—	—	—	358,464
Reportable segment profit/(loss) after increase in fair value of investment properties	329,661	387,343	(17,178)	(9,622)	—	690,204
Reportable segment assets	1,149,184	12,258,756	2,449	68,356	174	13,478,919
Reportable segment liabilities	5,982	2,520,942	7,256	3,052	—	2,537,232
Six months ended 30 September 2009 (Unaudited)	Property development	Property investment	Property management	Hotel operation	Others	Total
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Sales to customers	177,202	49,207	12,213	13,098	—	251,720
Intersegment sales	—	—	—	(2,156)	—	(2,156)
Reportable segment revenue	177,202	49,207	12,213	10,942	—	249,564
Reportable segment profit/(loss) before increase in fair value of investment properties	122,737	12,637	(6,305)	(9,214)	—	119,855
Increase in fair value of investment properties	—	253,038	—	—	—	253,038
Reportable segment profit/(loss) after increase in fair value of investment properties	122,737	265,675	(6,305)	(9,214)	—	372,893

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	For the six months ended 30 September	
	2010	2009
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue		
Reportable segment revenue	593,765	251,720
Elimination of inter-segment revenue	(3,250)	(2,156)
Consolidated turnover	<u>590,515</u>	<u>249,564</u>
Profit/(Loss)		
Reportable segment profit after increase in fair value of investment properties	690,204	372,893
Share of profit of a jointly-controlled entity	651	645
Share of the losses of associates	(162)	(165)
Finance costs	(16,797)	(11,840)
Unallocated income	19,757	142,520
Unallocated expense	(125,680)	(138,902)
Consolidated profit before taxation	<u>567,973</u>	<u>365,151</u>
	30 September 2010	31 March 2010
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Assets		
Reportable segment assets	13,478,919	12,284,400
Interests in jointly-controlled entities	6,896	8,980
Interests in associates	(983)	(803)
Goodwill	20,066	20,066
Unallocated assets	3,623,853	3,987,125
Consolidated total assets	<u>17,128,751</u>	<u>16,299,768</u>
Liabilities		
Reportable segment liabilities	2,537,232	2,295,862
Current tax liabilities	527,702	470,832
Interest-bearing bank and other borrowings	4,441,082	4,202,725
Unallocated liabilities	370,899	303,664
Consolidated total liabilities	<u>7,876,915</u>	<u>7,273,083</u>

4. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2010	2009
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Other income		
Interest income from:		
Banks	5,346	307
Loan receivables	2,132	2,316
Contracted income in respect of the operation of hotel supporting entertainment facilities	1,307	1,304
Penalty income	—	220
Others	3,415	1,664
	<u>12,200</u>	<u>5,811</u>
Gains		
Fair value gains on investment properties	358,464	253,038
Fair value gains on held for trading investments at fair value through profit or loss	7,557	—
Gain on restructure and buying back of the interest-bearing notes	—	136,709
	<u>366,021</u>	<u>389,747</u>

5. FINANCE COSTS

	For the six months ended 30 September	
	2010	2009
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Interest on bank loans and other loans, net		
Wholly repayable within five years	89,441	79,795
Wholly repayable beyond five years	10,389	4,156
Interest on the interest-bearing notes	—	72,581
Less: Interest capitalised	(83,033)	(144,692)
Total	<u>16,797</u>	<u>11,840</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/ (crediting):

	For the six months ended 30 September	
	2010	2009
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Depreciation	16,423	18,290
Less: Depreciation capitalised in respect of properties under development	(430)	(25)
	<u>15,993</u>	<u>18,265</u>
Amortisation of prepaid land premiums	99	86
Equity-settled share option expense	—	3,294
Impairment of interests in a jointly-controlled entity*	172	199
	<u>172</u>	<u>199</u>

* Included in "Other expenses" in the interim condensed consolidated income statement.

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (2009: Nil). Major subsidiaries of the Group operate in Shenzhen, Mainland China, which were subject to the PRC corporate income tax rates of 22% for the year 2010 (2009: 20%).

During the 5th session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law was approved. It became effective on 1 January 2008. The PRC Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of income tax rates for domestic-invested and foreign-invested enterprises at 25%. Accordingly, the deferred taxes as at 30 September 2009 and 2010 have been provided at the enacted corporate tax rates.

The PRC land appreciation tax ("LAT") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures. The amount of LAT of HK\$89,140,000 was charged to the consolidated income statement for the six months ended 30 September 2010 (six months ended 30 September 2009: HK\$44,479,000).

The major components of income tax expense for the periods are as follows:

	For the six months ended 30 September	
	2010	2009
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Current – Mainland China corporate income tax	29,475	6,732
Current – LAT in Mainland China	89,140	44,479
Deferred – Mainland China corporate income tax	108,532	67,923
Deferred – LAT in Mainland China	(19,611)	(8,896)
Deferred – Withholding tax on dividend	17,746	9,509
Total tax charged for the period	<u>225,282</u>	<u>119,747</u>

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic and diluted earnings per share attributable to ordinary equity holders of the parent is based on the following data:

	For the six months ended 30 September	
	2010 (Unaudited)	2009 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>347,196,000</u>	<u>245,709,000</u>
Number of shares		
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	5,984,908,176	4,508,241,758
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>26,341,463</u>	<u>127,595</u>
	<u>6,011,249,639</u>	<u>4,508,369,353</u>

The calculation of weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the repurchased shares as detailed in note 17.

9. DIVIDEND

At a meeting of the board of directors held on 8 November 2010, the directors resolve not to pay an interim dividend to shareholders (six months ended 30 September 2009: nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2010, the Group acquired property, plant and equipment with an aggregate cost of approximately HK\$11,984,000 (six months ended 30 September 2009: HK\$3,168,000).

Certain of the Group's buildings and hotel properties with an aggregate carrying value of approximately HK\$41,769,000 as at 30 September 2010 (31 March 2010: HK\$41,723,000) were pledged to secure general banking facilities granted to the Group (note 16).

At 30 September 2010, certificates of ownership in respect of certain buildings of the Group in the PRC with an aggregate net book value of HK\$3,409,000 had not been issued by the relevant PRC authorities (31 March 2010: HK\$9,182,000). The Group is in the process of obtaining the relevant certificates of ownership.

11. INVESTMENT PROPERTIES

The Group's investment properties as at 30 September 2010 were valued by Savills Valuation and Professional Services Limited (the "Savills"), independent professionally qualified valuers, at RMB8,412,000,000 (31 March 2010: RMB7,980,000,000) (equivalent to HK\$9,752,873,000 (31 March 2010: HK\$9,077,250,000)) on an open market, existing use basis.

The Group's investment properties with aggregate carrying values of approximately HK\$9,603,310,000 and HK\$9,077,250,000 as at 30 September 2010 and 31 March 2010, respectively, were pledged to secure general banking facilities granted to the Group (note 16).

The Group's investment properties with aggregate carrying values of approximately HK\$9,752,873,000 and HK\$9,077,250,000 as at 30 September 2010 and 31 March 2010, respectively, are restricted for sales.

12. PROPERTIES UNDER DEVELOPMENT

Certain of the Group's properties under development with an aggregate carrying value of approximately HK\$94,611,000 as at 30 September 2010 (31 March 2010: HK\$93,905,000) were pledged to secure general banking facilities granted to the Group (note 16).

13. PREPAID LAND PREMIUMS

Certain of the Group's leasehold land with an aggregate carrying value of approximately HK\$2,455,000 as at 30 September 2010 (31 March 2010: HK\$2,437,000) were pledged to secure general banking facilities granted to the Group (note 16).

14. TRADE RECEIVABLES

Trade receivables represent rentals receivable from tenants, sales income and service income receivables from customers which are payable on presentation of invoices or in accordance with the terms of the related sales and purchase agreements. Overdue balances are reviewed regularly by senior management. In view of this and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. The carrying amounts of the trade receivables approximate to their fair values.

An aged analysis of the trade receivables as at each of the balance sheet dates, based on the payment due date and net of provision, is as follows:

	30 September 2010	31 March 2010
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Current	134,001	86,663
30 to 60 days	4,950	34,308
61 to 90 days	4,203	71,774
Over 90 days	62,926	41,410
Total	<u>206,080</u>	<u>234,155</u>

Receivables that were neither past due nor impaired and past due but not impaired relate to a large number of diversified customers for whom there was no recent history of default. The Group has retained the legal ownership of the property sold to purchasers for debtor balances.

15. TRADE AND OTHER PAYABLES

	Note	30 September 2010	31 March 2010
		HK\$'000 (Unaudited)	HK\$'000 (Audited)
Other payables		237,565	236,803
Construction fee and retention payables	(i)	573,340	395,735
Receipts in advances		124,630	162,017
Rental deposits		33,838	29,904
Total		<u>969,373</u>	<u>824,459</u>

(i) An aged analysis of the construction fee and retention payables as at the end of reporting period is as follows:

	30 September 2010	31 March 2010
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Within 1 year	557,078	378,214
Over 1 year	16,262	17,521
Total	<u>573,340</u>	<u>395,735</u>

The construction fee and retention payables are non-interest-bearing and repayable within the normal operation cycle or on demand.

16. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Maturity	30 September 2010	31 March 2010
		HK\$'000 (Unaudited)	HK\$'000 (Audited)
Current			
Bank loans – unsecured		805,397	944,504
Bank loans – secured		684,175	613,913
Other borrowings – unsecured		112,075	—
		<u>1,601,647</u>	<u>1,558,417</u>
Non-current			
Bank loans – unsecured	2012-2016	328,497	426,183
Bank loans – secured	2011-2017	2,159,254	2,218,125
Other borrowings – unsecured	2011-2013	351,684	—
		<u>2,839,435</u>	<u>2,644,308</u>
Analysed into:			
Within one year or on demand		1,601,647	1,558,417
In the second year		1,308,705	829,996
In the third to fifth years, inclusive		1,153,925	1,330,875
Beyond five years		376,805	483,437
		<u>4,441,082</u>	<u>4,202,725</u>

Certain of the Group's bank loans are secured by the Group's buildings and hotel properties, investment properties, properties under development, and leasehold land as stated in notes 10, 11, 12, and 13.

Certain of the Group's properties held for sale with an aggregate carrying value of approximately HK\$44,762,000 were pledged for certain of the Group's bank loans as at 31 March 2010. These pledged properties held for sale have been released as at 30 September 2010.

All interest-bearing bank loans and other borrowings bear interest at floating rates ranging from 4.78% to 5.94% per annum. All borrowings are denominated in RMB.

17. SHARE CAPITAL

	<u>30 September 2010</u>	<u>31 March 2010</u>
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Authorised:		
30,000,000,000 (31 March 2010: 30,000,000,000) ordinary shares of HK\$0.01 each	300,000	300,000
Issued and fully paid		
5,979,564,000 (31 March 2010: 6,000,000,000) ordinary shares of HK\$0.01 each	59,796	60,000

During the six months ended 30 September 2010, the movements in issued capital were as follows:

	Note	<u>Number of shares in issue</u>	<u>Issued capital</u> HK\$'000
At 1 April 2010		6,000,000,000	60,000
Repurchase of shares	(i)	(20,436,000)	(204)
At 30 September 2010 (unaudited)		5,979,564,000	59,796

- (i) During the period, the Company repurchased 20,436,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited for a total consideration of HK\$24,616,180. These shares were cancelled during the period and the issued share capital of the Company was reduced by the par value of the total repurchase ordinary shares.

18. ACQUISITION OF NON-CONTROLLING INTEREST

On 19 July 2010, China Central City (BVI) Limited, a wholly-owned subsidiary of the Group, purchased 100% shareholdings of Fortune Pace Limited and Fortune Great Limited, which formerly held 30% shareholdings in total of China South City Enterprise (Heyuan) Co. Ltd. ("Heyuan Enterprise") with a consideration of HK\$120,000,000. And since then Heyuan Enterprise was 100% owned by the Group.

The difference of HK\$88,181,000 between the carrying amount of HK\$31,819,000 of the non-controlling interests as at the acquisition date and the purchase consideration of HK\$120,000,000 was accounted for as a deduction of capital reserve.

19. CONTINGENT LIABILITIES

At the end of the period, contingent liabilities not provided for in the financial statements were as follows:

	<u>30 September 2010</u>	<u>31 March 2010</u>
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Guarantees given to banks in connection with facilities granted to third parties	281,491	217,921

20. COMMITMENTS

The Group had the following commitments at the end of the period:

Group	30 September 2010	31 March 2010
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Contracted, but not provided for:		
Properties under development	897,727	48,411
Capital contribution to an associate	450	450
Authorised, but not contracted for:		
Properties under development	4,857,358	5,641,374

21. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the six months ended 30 September 2009 and 2010:

	Notes	Six months ended 30 September	
		2010	2009
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Companies in which a director of the Company is a controlling shareholder:			
Consultancy fees paid	(i)	—	300
Rental expense and related services fees for office building	(ii)	942	912
Rental expense for trade centres	(iii)	440	437

Notes:

- (i) The consultancy fees were related to the consultancy and management services provided to the Group by a related company and were based on terms mutually agreed between both parties.
- (ii) The rental expense and related services fees for office building were related to the leasing of office space provided to the Group by a related company. The fees were charged based on terms mutually agreed between both parties.
- (iii) The rental expense for trade centres were related to the leasing of trade centres from related parties based on terms mutually agreed between both parties.

(b) Outstanding balances with related parties:

	30 September 2010	31 March 2010
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Amounts due from jointly-controlled entities (i)	8,504	11,034
Amount due to an associate (ii)	2,912	2,858

- (i) The amounts due from jointly-controlled entities are unsecured, have no fixed terms of repayment and bear interest at 7% per annum.
- (ii) The amount due to an associate is unsecured, interest-free and has no fixed repayment term.

(c) Compensation of key management personnel of the Group

	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short term employee benefits	7,033	41,028
Post-employment benefits	22	52
Share-based payments	—	3,294
Total compensation paid to key management personnel	<u>7,055</u>	<u>44,374</u>

22. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 8 November 2010.

INDEPENDENT AUDITORS' REPORT



To the shareholders of
China South City Holdings Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of China South City Holdings Limited set out on pages F-20 to F-63, which comprise the consolidated and company statements of financial position as at 31 March 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F., Two International Finance Centre
8 Finance Street
Central
Hong Kong

13 July 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2010

		Year ended 31 March 2010	Year ended 31 March 2009
	Notes	HK\$'000	HK\$'000
REVENUE	5	1,570,229	224,399
Cost of sales		(587,522)	(153,640)
Gross profit		982,707	70,759
Other income and gains	5	150,434	19,077
Fair value gains on investment properties	5	1,308,543	1,153,903
Selling and distribution costs		(83,573)	(89,531)
Administrative expenses		(187,696)	(109,249)
Other expenses		(25,427)	(13,188)
Finance costs	8	(32,982)	(6,824)
Share of profits and losses of:			
Jointly-controlled entities		1,287	1,120
An associate		(302)	(327)
PROFIT BEFORE TAX	6	2,112,991	1,025,740
Income tax expense	9	(785,345)	(272,170)
PROFIT FOR THE YEAR		1,327,646	753,570
Attributable to:			
Owners of the parent		1,329,593	754,048
Minority interests		(1,947)	(478)
		1,327,646	753,570
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	12		
Basic		25.32	16.76
Diluted		25.10	16.76

Details of the dividends proposed for the year are disclosed in note 11 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2010

	Year ended 31 March 2010	Year ended 31 March 2009
	HK\$'000	HK\$'000
PROFIT FOR THE YEAR	1,327,646	753,570
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	19,072	93,249
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,346,718	846,819
Attributable to:		
Owners of the parent	1,348,565	846,596
Minority interests	(1,847)	223
	1,346,718	846,819

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2010

	Notes	2010	2009
		HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	157,684	260,302
Investment properties	14	9,077,250	6,543,757
Properties under development	15	1,978,789	1,404,571
Prepaid land premiums	16	6,911	7,051
Goodwill	17	20,066	20,066
Interests in jointly-controlled entities	19	8,980	5,740
Interests in associates	20	(803)	(1,106)
Loan receivables	21	625	4,414
Finance lease receivables	22	54,250	65,952
Deposits paid for purchase of land	23	—	74,663
Deferred tax assets	32	75,413	12,599
Total non-current assets		11,379,165	8,398,009
CURRENT ASSETS			
Properties held for finance lease		96,116	101,743
Properties held for sale		677,346	481,821
Trade receivables	24	234,155	25,530
Prepayments, deposits and other receivables	25	86,077	68,128
Held for trading investments at fair value through profit or loss	26	123,932	—
Cash and bank balances	27	3,702,977	246,084
Total current assets		4,920,603	923,306
CURRENT LIABILITIES			
Bills payable	30	—	237,332
Other payables, accruals and deposits received	28	824,459	777,966
Interest-bearing bank borrowings	29	1,558,417	470,652
Tax payable		470,832	79,695
Total current liabilities		2,853,708	1,565,645
NET CURRENT ASSETS/(LIABILITIES)		2,066,895	(642,339)
TOTAL ASSETS LESS CURRENT LIABILITIES		13,446,060	7,755,670
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	29	2,644,308	898,774
Interest-bearing notes	31	—	915,790
Deferred tax liabilities	32	1,775,067	1,359,348
Due to shareholders	33	—	85,800
Total non-current liabilities		4,419,375	3,259,712
Net assets		9,026,685	4,495,958
EQUITY			
Equity attributable to owners of the parent			
Issued capital	34	60,000	200
Reserves	36(a)	8,733,433	4,461,763
Proposed final dividends	11	119,591	—
		8,913,024	4,461,963
Minority interests		113,661	33,995
Total equity		9,026,685	4,495,958

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2010

Attributable to owners of the parent									
Note	Issued	Statutory surplus reserve <i>(note i)</i>	Capital reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	200	27,072	182,768	57,639	484,076	2,857,025	3,608,780	33,772	3,642,552
Total comprehensive income for the year . . .	—	590	—	—	91,958	754,048	846,596	223	846,819
Equity-settled share option arrangement	35	—	—	6,587	—	—	6,587	—	6,587
At 31 March 2009	<u>200</u>	<u>27,662*</u>	<u>182,768*</u>	<u>64,226*</u>	<u>576,034*</u>	<u>3,611,073*</u>	<u>4,461,963</u>	<u>33,995</u>	<u>4,495,958</u>

Attributable to owners of the parent											
Notes	Issued	Statutory Surplus Reserve <i>(note i)</i>	Capital reserve	Share premium	Share option reserve	Exchange fluctuation reserve	Retained profits	Proposed final Dividends	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2009	200	27,662	182,768	—	64,226	576,034	3,611,073	—	4,461,963	33,995	4,495,958
Total comprehensive income for the year . . .	—	186	—	—	—	18,786	1,329,593	—	1,348,565	(1,847)	1,346,718
Capital contributions to a subsidiary from a minority shareholder	—	—	—	—	—	—	—	—	—	81,513	81,513
Equity-settled share option arrangement . . .	35	—	—	—	3,294	—	—	—	3,294	—	3,294
Issue of shares at a premium through initial public offering	—	15,000	—	3,135,000	—	—	—	—	3,150,000	—	3,150,000
Issue of shares by capitalisation of shareholders' loan . . .	33	44,800	—	41,000	—	—	—	—	85,800	—	85,800
Share issue expenses . . .	—	—	—	(136,598)	—	—	—	—	(136,598)	—	(136,598)
Proposed final 2010 dividend.	11	—	—	—	—	—	(119,591)	119,591	—	—	—
Transfer from/(to) retained profits	—	58,421	(182,768)	—	—	—	124,347	—	—	—	—
At 31 March 2010	<u>60,000</u>	<u>86,269*</u>	<u>—*</u>	<u>3,039,402*</u>	<u>67,520*</u>	<u>594,820*</u>	<u>4,945,422*</u>	<u>119,591</u>	<u>8,913,024</u>	<u>113,661</u>	<u>9,026,685</u>

* These reserve accounts comprise the consolidated reserves of HK\$8,733,433,000 and HK\$4,461,763,000 in the consolidated statement of financial position as at 31 March 2010 and 2009, respectively.

Note:

- (i) In accordance with the PRC Company Law, the Group's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of the reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of registered capital after such usages.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2010

	Notes	Year ended 31 March 2010 HK\$'000	Year ended 31 March 2009 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,112,991	1,025,740
Adjustments for:			
Finance costs	8	32,982	6,824
Share of profits and losses of jointly-controlled entities and an associate		(985)	(793)
Bank interest income	5	(1,049)	(2,860)
Loss on disposal of items of property, plant and equipment	6	369	645
Depreciation	6	37,294	36,919
Amortisation of prepaid land premiums	6	162	262
Changes in fair value of investment properties	5	(1,308,543)	(1,153,903)
Provision for impairment of trade receivables	6	25,468	—
Written off of trade receivables as uncollectible	6	—	4,321
(Written back)/impairment of interests in jointly-controlled entities	6	(41)	2,037
Gain on restructure and buying back of interest-bearing notes	5	(136,709)	—
Gains on held for trading investments at fair value through profit or loss	5	(2,630)	—
Equity-settled share option expense	6	3,294	6,587
		762,603	(74,221)
Decrease in properties held for sale		310,955	20,932
Decrease in properties held for finance lease		5,932	4,080
Decrease in loan receivables		3,803	3,020
Decrease in finance lease receivables		11,899	10,690
Increase in trade receivables		(234,016)	(18,643)
Decrease in prepayments, deposits and other receivables		48,531	6,141
Increase in other payables, accruals and deposits received		31,322	127,595
Decrease in amounts due to directors		—	(5,926)
		941,029	73,668
Cash generated from operations		941,029	73,668
Overseas taxes paid		(46,839)	(1,821)
		894,190	71,847
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(8,736)	(4,922)
Proceeds from disposal of items of property, plant and equipment		1,375	3,217
Investments in an associate		(600)	—
Purchase of held for trading investments at fair value through profit and loss		(101,400)	—
Capital contributions to a subsidiary from a minority shareholder		81,513	—
Net advances (to)/from jointly-controlled entities		(1,829)	3,888
Additions to properties under development		(2,199,354)	(1,104,598)
Interest received		5,953	14,970
		(2,223,078)	(1,087,445)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		2,995,902	—
New bank loans		3,997,175	713,259
Repayment of bank loans		(1,167,981)	(541,549)
Payment for buying back and repayment of interest-bearing notes		(851,662)	—
Interest paid		(188,984)	(160,316)
		4,784,450	11,394

	Notes	Year ended 31 March 2010	Year ended 31 March 2009
		HK\$'000	HK\$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,455,562	(1,004,204)
Cash and cash equivalents at beginning of year	27	246,084	1,228,898
Effect of foreign exchange rate changes, net		1,331	21,390
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>3,702,977</u>	<u>246,084</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	<u>3,702,977</u>	<u>246,084</u>

STATEMENT OF FINANCIAL POSITION

31 March 2010

		2010	2009
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,439	2,204
Interests in subsidiaries	18	1,453,675	1,009,675
Total non-current assets		<u>1,455,114</u>	<u>1,011,879</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		1,099	23,314
Due from subsidiaries	18	698,098	283,473
Cash and bank balances	27	1,505,842	39,016
Total current assets		<u>2,205,039</u>	<u>345,803</u>
CURRENT LIABILITIES			
Due to subsidiaries	18	899	51,307
Other payables, accruals and deposits received		20,474	4,496
Total current liabilities		<u>21,373</u>	<u>55,803</u>
NET CURRENT ASSETS		<u>2,183,666</u>	<u>290,000</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,638,780</u>	<u>1,301,879</u>
NON-CURRENT LIABILITIES			
Interest-bearing notes	31	—	915,790
Due to shareholders	33	—	85,800
Total non-current liabilities		—	1,001,590
Net assets		<u>3,638,780</u>	<u>300,289</u>
EQUITY			
Issued capital	34	60,000	200
Reserves	36(b)	3,459,189	300,089
Proposed final dividends	11	119,591	—
Total equity		<u>3,638,780</u>	<u>300,289</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 March 2010

1. CORPORATE INFORMATION

China South City Holdings Limited (the “Company”) is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at Room 2205, 22/F, Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

During the year, the Group is principally engaged in developing and managing integrated logistic trade centers, property development, property investment, property management and operation of hotel.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and held for trading investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2010. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of a subsidiary is accounted for using the purchase method of accounting. This method involves allocating the cost of the business combination to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment — Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 <i>Revenue — Determining whether an entity is acting as a principal or as an agent</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HK AS 32 <i>Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC) — Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) — Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement — Embedded Derivatives</i>
HK(IFRIC) — Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC) — Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC) — Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC) — Int 18	<i>Transfers of Assets from Customers</i> (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* Included in Improvements to HKFRSs 2009 (as issued in May 2009).

Other than as further explained below regarding the impact of HKAS 1 (Revised), HKFRS 8 and the Improvements to HKFRSs (October 2008), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

(a) HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(b) HKFRS 8 Operating Segments

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

(c) HKAS 40 Investment Property

HKAS 40 has been amended to include within its scope properties under construction or development for future use as investment properties and to require such properties to be measured at fair value (where the fair value is reliably measured). The directors of the Company determined that the portion for lease of properties under construction has not been finalised up to the reporting date and these properties are measured at cost less impairment as properties under development (note 15) as at 31 March 2010.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i> ¹
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters</i> ²
HKFRS 1 Amendment	<i>Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards— Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ⁴
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment— Group Cash-settled Share-based Payment Transactions</i> ²
HKFRS 3 (Revised)	<i>Business Combinations</i> ¹
HKFRS 9	<i>Financial Instruments</i> ⁶
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ⁵
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ¹
HKAS 32 Amendment	<i>Amendment to HK AS 32 Financial Instruments: Presentation— Classification of Rights Issues</i> ³
HKAS 39 Amendment	<i>Amendment to HK AS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i> ¹
HK(IFRIC) — Int 14 Amendments	<i>Amendments to HK(IFRIC) — Int 14 Prepayments of a Minimum Funding Requirement</i> ⁵
HK(IFRIC) — Int 17	<i>Distributions of Non-cash Assets to Owners</i> ¹
HK(IFRIC) — Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary</i> ¹
HK Interpretation 4 (Revised in December 2009)	<i>Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> ²

Apart from the above, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) has issued *Improvements to HKFRSs 2009* and *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC) — Int 9 and HK(IFRIC) — Int 16 are effective for annual periods beginning on or after 1 July 2009, the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 while the amendments HKFRS 7, HKAS 1, HKAS 34 and HK(IFRS) — Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

- ¹ Effective for annual periods beginning on or after 1 July 2009
- ² Effective for annual periods beginning on or after 1 January 2010
- ³ Effective for annual periods beginning on or after 1 February 2010
- ⁴ Effective for annual periods beginning on or after 1 July 2010
- ⁵ Effective for annual periods beginning on or after 1 January 2011
- ⁶ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interest in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statement and consolidated reserves, respectively.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at March 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3%
Hotel properties	4.5% to 20%
Furniture, fixtures and equipment	9% to 18%
Motor vehicles	9% to 18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Properties under development

Properties under development are stated at cost less impairment losses and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Properties under development are transferred to the appropriate category of property, plant and equipment, investment properties or properties held for sale or properties held for finance lease when completed and ready for use.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the lessee are accounted for as finance leases. At the inception of a finance lease, the sales revenue is recognised at the fair value of the assets, or if lower, the present value of the minimum lease payments accruing to the Group, computed at a market rate of interest. The cost of sales recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sales is the selling profit, which is recognised in accordance with the entity's policy for outright sales.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, loan receivables, finance lease receivables and quoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;
- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including amount due to an associate, other payables, bills payable, interest-bearing notes and interest bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in other income/(other expenses) in the income statement.

Properties held for sale and held for finance lease

Properties held for sale and held for finance lease are classified as current assets and are stated at the lower of cost and net realisable value on an individual property basis. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices, on an individual property basis.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of completed properties, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the properties sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) finance lease income, when the significant risks and rewards incidental to ownership of the properties have been transferred to the lessee;
- (d) property management service and other fee income, when the services have been rendered;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (f) revenue from hotel operation and the provision of related services, when the services have been rendered.

Employee benefits

Share-based payment transactions

The Company has granted certain share options for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 35 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 9% of their respective payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

The financial statements are presented in Hong Kong dollars, which is the Company’s functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

In the process of applying the Group’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Judgements

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 March 2010 was HK\$20,066,000 (2009: HK\$20,066,000). More details are given in note 17.

Estimation of fair value of investment properties

The Group engaged Savills Valuation and Professional Services Limited (“Savills”), independent professionally qualified valuers, to perform the valuation of the Group’s investment properties at the end of the reporting period.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- (a) the property development segment engages in the development of integrated logistics and trade centers and supporting residential properties;
- (b) the property investment segment invests in integrated logistics and trade centres and supporting facilities;
- (c) the property management segment engages in the management of the Group’s developed properties;
- (d) the hotel operation segment engages in the provision of hotel services; and
- (e) the “others” segment comprises, principally, the provision of exhibition and other services.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group’s profit before tax except that interest income, finance costs, fair value gains from the Group’s financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude cash and bank balances, equity investments at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 March 2010	Property development	Property investment	Property management	Hotel operation	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	1,419,353	101,277	24,523	22,930	2,146	1,570,229
Intersegment sales	—	—	—	4,994	—	4,994
	<u>1,419,353</u>	<u>101,277</u>	<u>24,523</u>	<u>27,924</u>	<u>2,146</u>	<u>1,575,223</u>
Elimination of intersegment sales						(4,994)
Revenue						<u>1,570,229</u>
Segment results before increase in fair value of investment properties						
	991,400	30,126	(24,656)	(16,309)	2,146	982,707
Increase in fair value of investment properties	—	1,308,543	—	—	—	1,308,543
Segment results after increase in fair value of investment properties						
	<u>991,400</u>	<u>1,338,669</u>	<u>(24,656)</u>	<u>(16,309)</u>	<u>2,146</u>	2,291,250
Interest income						6,449
Unallocated income						143,985
Unallocated expense						(296,696)
Finance costs						(32,982)
Share of profits and losses of jointly-controlled entities						1,287
Share of loss of an associate.						(302)
Profit before tax						<u>2,112,991</u>
Segment assets	1,139,450	11,065,178	2,666	75,828	1,278	12,284,400
<i>Reconciliation:</i>						
Interests in jointly-controlled entities						8,980
Interest in associates.						(803)
Unallocated assets						4,007,191
Total assets						<u>16,299,768</u>
Segment liabilities	22,505	2,261,885	6,197	7	5,268	2,295,862
<i>Reconciliation:</i>						
Unallocated liabilities						4,977,221
Total liabilities						<u>7,273,083</u>
Other segment information:						
Depreciation and amortisation	—	254	645	18,852	216	19,967
Corporate and other unallocated amounts						17,327
						<u>37,294</u>
Increase in fair value of investment properties	<u>—</u>	<u>1,308,543</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,308,543</u>

Year ended 31 March 2009	Property development	Property investment	Property management	Hotel operation	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	77,671	100,167	20,426	25,505	630	224,399
Intersegment sales	—	—	—	3,737	—	3,737
	<u>77,671</u>	<u>100,167</u>	<u>20,426</u>	<u>29,242</u>	<u>630</u>	<u>228,136</u>
Elimination of intersegment sales						(3,737)
Revenue						<u>224,399</u>
Segment results before increase in fair value of investment properties	51,332	30,526	2,406	(14,135)	630	70,759
Increase in fair value of investment properties	—	1,153,903	—	—	—	1,153,903
Segment results after increase in fair value of investment properties	<u>51,332</u>	<u>1,184,429</u>	<u>2,406</u>	<u>(14,135)</u>	<u>630</u>	<u>1,224,662</u>
Interest income						10,664
Unallocated income						8,413
Unallocated expense						(211,968)
Finance costs						(6,824)
Share of profits and losses of jointly-controlled entities						1,120
Share of loss of an associate						(327)
Profit before tax						<u>1,025,740</u>
Segment assets	670,578	8,029,987	477	94,158	671	8,795,871
<i>Reconciliation:</i>						
Interests in jointly-controlled entities						5,740
Interest in an associate						(1,106)
Unallocated assets						<u>520,810</u>
Total assets						<u>9,321,315</u>
Segment liabilities	183,480	1,421,028	442	—	926	1,605,876
<i>Reconciliation:</i>						
Unallocated liabilities						<u>3,219,481</u>
Total liabilities						<u>4,825,357</u>
Other segment information:						
Depreciation and amortisation	—	62	343	21,771	360	22,536
Corporate and other unallocated amounts						<u>14,383</u>
						<u>36,919</u>
Increase in fair value of investment properties	<u>—</u>	<u>1,153,903</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,153,903</u>

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net sales of completed properties, finance lease income, rental income, hotel income and income from the provision of property management services and other fee income, net of business tax.

An analysis of revenue, other income and gains is as follows:

	Notes	Year ended 31 March 2010 <u>HK\$'000</u>	Year ended 31 March 2009 <u>HK\$'000</u>
Revenue			
Sale of properties		1,408,108	67,758
Finance lease income		11,245	9,913
Rental income		101,277	100,167
Hotel income		22,930	25,505
Property management service income		24,523	20,426
Other fee income		2,146	630
		<u>1,570,229</u>	<u>224,399</u>
Other income			
Interest income from:			
Banks		1,049	2,860
Loan receivables		5,400	7,804
Others		4,646	8,413
		<u>11,095</u>	<u>19,077</u>
Gains			
Fair value gains on investment properties	14	1,308,543	1,153,903
Fair value gains on held for trading investments at fair value through profit or loss		2,630	—
Gain on restructure and buying back of interest-bearing notes	31	136,709	—
		<u>1,447,882</u>	<u>1,153,903</u>
		<u>1,458,977</u>	<u>1,172,980</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/ (crediting):

	Notes	Year ended	Year ended
		31 March 2010	31 March 2009
		HK\$'000	HK\$'000
Cost of properties sold		422,031	21,333
Cost of properties under finance lease		5,922	5,006
Cost of services provided		159,569	127,301
Depreciation	13	37,355	37,352
Less: Depreciation capitalised in respect of properties under development		(61)	(433)
		<u>37,294</u>	<u>36,919</u>
Amortisation of prepaid land premiums	16	162	262
Minimum lease payments under operating leases in respect of land and buildings and vehicles		7,414	8,317
Auditors' remuneration		2,330	950
Employee benefit expense (including directors' remuneration):			
Wages and salaries*		109,633	64,224
Equity-settled share option expense	35	3,294	6,587
Pension scheme contributions		3,070	3,508
		<u>115,997</u>	<u>74,319</u>
Foreign exchange differences, net		(3,931)	87
Provision for impairment of trade receivables**	24	25,468	—
Loss on disposal of items of property, plant and equipment		369	645
Written off of trade receivables as uncollectible**		—	4,321
(Written back)/impairment of interests in a jointly-controlled entity**		(41)	2,037
		<u><u>115,997</u></u>	<u><u>74,319</u></u>

* Included amounts of HK\$7,076,000 and HK\$7,072,000 for the years ended 31 March 2010 and 2009 respectively, which were capitalised under properties under development.

** Included in "other expenses" in the consolidated income statement.

7. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended	Year ended
	31 March 2010	31 March 2009
	HK\$'000	HK\$'000
Fees	1,350	600
Other emoluments:		
Salaries, allowances, and benefits in kind	9,163	9,227
Performance related bonuses	6,714	—
Equity-settled share option benefits	2,416	4,830
Pension scheme contributions	24	24
	<u>19,667</u>	<u>14,681</u>

Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the Group's consolidated net profit after taxation and minority interests but before extraordinary items of the financial year.

Year ended 31 March 2010

	Fees	Salaries, allowances, and benefits in kind	Performance related bonuses	Equity-settled share option benefits	Pension scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:						
Cheng Chung Hing	—	3,900	3,357	1,208	12	8,477
Leung Moon Lam	—	3,900	3,357	1,208	12	8,477
Xu Yang	—	1,363	—	—	—	1,363
	—	9,163	6,714	2,416	24	18,317
Non-executive directors:						
Ma Kai Cheung	300	—	—	—	—	300
Sun Kai Lit Cliff	300	—	—	—	—	300
Ma Wai Mo	300	—	—	—	—	300
	900	—	—	—	—	900
Independent non-executive directors:						
Shi Wan Peng	150	—	—	—	—	150
Leung Kwan Yuen Andrew	150	—	—	—	—	150
Li Wai Keung	150	—	—	—	—	150
	450	—	—	—	—	450
	1,350	9,163	6,714	2,416	24	19,667

Year ended 31 March 2009

	Fees	Salaries, allowances, and benefits in kind	Performance related bonuses	Equity-settled share option benefits	Pension scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:						
Cheng Chung Hing	—	3,934	—	2,415	12	6,361
Leung Moon Lam	—	3,934	—	2,415	12	6,361
Xu Yang	—	1,359	—	—	—	1,359
	—	9,227	—	4,830	24	14,081
Non-executive directors:						
Ma Kai Cheung	300	—	—	—	—	300
Sun Kai Lit Cliff	300	—	—	—	—	300
	600	—	—	—	—	600
	600	9,227	—	4,830	24	14,681

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three directors (2009: three), whose emoluments are reflected in the analysis presented above. The emoluments to the remaining highest paid individuals for the year are as follows:

	Year ended 31 March 2010	Year ended 31 March 2009
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	5,139	4,341
Bonuses	33,500	—
Equity-settled share option expenses	878	1,757
Pension scheme contributions	24	24
Total	39,541	6,122

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2010	2009
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$4,000,001 to HK\$4,500,000	—	1
HK\$5,000,001 to HK\$5,500,000	1	—
HK\$34,000,001 to HK\$34,500,000	1	—
	<u>2</u>	<u>2</u>

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 March 2010	Year ended 31 March 2009
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years, net	184,080	92,066
Interest on interest-bearing notes	72,581	188,269
Less: Interest capitalised	(223,679)	(273,511)
Total	<u>32,982</u>	<u>6,824</u>

9. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year. Major subsidiaries of the Group operate in Shenzhen, Mainland China, which were subject to the PRC corporate income tax rates of 22% and 20% for the years ended 31 March 2010 and 2009, respectively.

During the 5th session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law was approved. It became effective on 1 January 2008. The PRC Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of income tax rates for domestic-invested and foreign-invested enterprises at 25%. Accordingly, the deferred taxes as at 31 March 2010 and 2009 have been provided at the enacted corporate tax rates.

The PRC land appreciation tax ("LAT") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures. Amounts of LAT of HK\$269,619,000 and HK\$17,713,000 were charged to the consolidated income statement for the years ended 31 March 2010 and 2009, respectively.

The major components of income tax expense for the year are as follows:

	Year ended 31 March 2010	Year ended 31 March 2009
	HK\$'000	HK\$'000
Current — Mainland China corporate income tax	170,243	22,500
Current — LAT in Mainland China	269,619	17,713
Deferred (note 32)	<u>345,483</u>	<u>231,957</u>
Total tax charge for the year	<u>785,345</u>	<u>272,170</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	Year ended 31 March 2010	Year ended 31 March 2009
	HK\$'000	HK\$'000
Profit before tax	2,112,991	1,025,740
Tax at the statutory tax rate of 16.5%	348,643	169,247
Higher tax rates enacted by local authorities	113,878	36,076
Income not subject to tax	(26,502)	(2,496)
Expenses not deductible for tax	1,060	8,049
Tax losses utilised from previous years	(262)	(292)
(Profit)/loss attributable to jointly-controlled entities and an associate . .	(226)	249
Tax losses not recognised	27,857	5,456
LAT	269,619	17,713
Tax effect of LAT	(59,316)	(3,543)
Effect of change in tax rate	40,953	41,711
Withholding tax effect	69,641	—
Tax charge at the Group's effective rate	<u>785,345</u>	<u>272,170</u>

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 March 2010 includes a profit of HK\$44,852,000 (loss for the year ended 31 March 2009: HK\$26,837,000) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	Year ended 31 March 2010	Year ended 31 March 2009
	HK\$'000	HK\$'000
Proposed final dividends — HK\$2 cents per ordinary share	<u>119,591</u>	<u>—</u>

The proposed final dividend for the year is calculated based on the number of outstanding issued shares at the date of approval of the financial statements, taking into consideration of the 20,436,000 shares cancelled on 22 June 2010 (note 45). The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 5,252,054,795 in issue during the year, as adjusted to reflect the capitalization issue during the year as detailed in note 34.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2010	2009
	HK\$'000	HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>1,329,593</u>	<u>754,048</u>

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	5,252,054,795	4,500,000,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	45,957,447	—
	5,298,012,242	4,500,000,000

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Hotel properties	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 March 2010					
At 1 April 2009:					
Cost	185,632	114,322	49,621	9,227	358,802
Accumulated depreciation	(32,620)	(36,625)	(24,960)	(4,295)	(98,500)
Net carrying amount	153,012	77,697	24,661	4,932	260,302
At 1 April 2009, net of accumulated depreciation					
	153,012	77,697	24,661	4,932	260,302
Additions	—	296	3,139	5,301	8,736
Transfer to properties held for sale	(73,014)	—	—	—	(73,014)
Disposals	—	—	(571)	(1,173)	(1,744)
Depreciation provided during the year (note 6)	(12,893)	(17,620)	(5,267)	(1,575)	(37,355)
Exchange realignment	443	234	71	11	759
At 31 March 2010, net of accumulated depreciation	67,548	60,607	22,033	7,496	157,684
At 31 March 2010:					
Cost	110,314	115,023	51,715	13,134	290,186
Accumulated depreciation	(42,766)	(54,416)	(29,682)	(5,638)	(132,502)
Net carrying amount	67,548	60,607	22,033	7,496	157,684
31 March 2009					
At 1 April 2008:					
Cost	115,273	111,117	51,167	7,889	285,446
Accumulated depreciation	(23,569)	(15,734)	(19,346)	(3,748)	(62,397)
Net carrying amount	91,704	95,383	31,821	4,141	223,049
At 1 April 2008, net of accumulated depreciation					
	91,704	95,383	31,821	4,141	223,049
Additions	—	325	1,501	3,096	4,922
Transfer from properties under development (note 15)	75,647	—	—	—	75,647
Transfer to properties held for finance lease	(6,928)	—	—	—	(6,928)
Disposals	(659)	—	(2,205)	(998)	(3,862)
Depreciation provided during the year (note 6)	(8,751)	(20,091)	(7,146)	(1,364)	(37,352)
Exchange realignment	1,999	2,080	690	57	4,826
At 31 March 2009, net of accumulated depreciation	153,012	77,697	24,661	4,932	260,302
At 31 March 2009:					
Cost	185,632	114,322	49,621	9,227	358,802
Accumulated depreciation	(32,620)	(36,625)	(24,960)	(4,295)	(98,500)
Net carrying amount	153,012	77,697	24,661	4,932	260,302

Certain of the Group's buildings and hotel properties with aggregate carrying values of approximately HK\$41,723,000 and HK\$66,588,000 as at 31 March 2010 and 2009, respectively, were pledged to secure general banking facilities granted to the Group (note 29).

At 31 March 2010, certificates of ownership in respect of certain buildings of the Group in the PRC with an aggregate net book value of HK\$9,182,000 (2009: HK\$9,489,000) had not been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates of ownership.

14. INVESTMENT PROPERTIES

	Notes	2010	2009
		HK\$'000	HK\$'000
Carrying amount at 1 April		6,543,757	4,522,843
Transfer from properties under development	15	1,203,181	766,562
Net gain from a fair value adjustment	5	1,308,543	1,153,903
Exchange realignment		21,769	100,449
Carrying amount at 31 March		<u>9,077,250</u>	<u>6,543,757</u>

The above investment properties are held under medium term leases and are situated in Mainland China.

The Group's investment properties were revalued on 31 March 2010 and 2009 by Savills Valuation and Professional Services Limited ("Savills"), independent professionally qualified valuers, at RMB7,980,000,000 and RMB5,770,000,000, respectively, (equivalent to HK\$9,077,250,000 and HK\$6,543,757,000, respectively) on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 39(a) to the financial statements.

The Group's investment properties with aggregate carrying values of approximately HK\$9,077,250,000 and HK\$3,524,783,000 as at 31 March 2010 and 2009, respectively, were pledged to secure general banking facilities granted to the Group (note 29).

The Group's investment properties with aggregate carrying values of approximately HK\$9,077,250,000 and HK\$6,543,757,000 as at 31 March 2010 and 2009, respectively, are restricted for sales (note 18).

15. PROPERTIES UNDER DEVELOPMENT

	Notes	2010	2009
		HK\$'000	HK\$'000
Carrying amount at 1 April		1,404,571	818,815
Additions		2,314,326	1,789,167
Transfer to property, plant and equipment	13	—	(75,647)
Transfer to investment properties	14	(1,203,181)	(766,562)
Transfer to properties held for sale		(542,250)	(378,172)
Exchange realignment		5,323	16,970
Carrying amount at 31 March		<u>1,978,789</u>	<u>1,404,571</u>

The above properties under development are held under medium term leases and are situated in Mainland China.

Certain of the Group's properties under development with aggregate carrying values of approximately HK\$93,905,000 and HK\$140,549,000 and as at 31 March 2010 and 2009, respectively, were pledged to secure general banking facilities granted to the Group (note 29).

16. PREPAID LAND PREMIUMS

	Note	2010	2009
		HK\$'000	HK\$'000
Carrying amount at 1 April		7,223	7,326
Recognised during the year	6	(162)	(262)
Exchange realignment		21	159
Carrying amount at 31 March		<u>7,082</u>	<u>7,223</u>
Current portion included in prepayments, deposits and other receivables		(171)	(172)
Non-current portion		<u>6,911</u>	<u>7,051</u>

The leasehold land is held under a medium term lease and is situated in Mainland China.

Certain of the Group's leasehold lands with aggregate carrying values of approximately HK\$2,437,000 and HK\$2,486,000 as at 31 March 2010 and 2009, respectively, were pledged to secure general banking facilities granted to the Group (note 29).

17. GOODWILL

Group

	HK\$'000
At 31 March 2010 and 2009:	
Cost and net carrying amount	20,066

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the hotel operation cash-generating unit for impairment testing. The recoverable amount of the hotel operation cash-generating unit is determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to the cash flow projection is 8%. The growth rates used to extrapolate the cash flows of the hotel operation beyond the five-year period is assumed to be 3%.

18. INTERESTS IN SUBSIDIARIES

Company

	2010	2009
	HK\$'000	HK\$'000
Unlisted investments, at cost	1,001,275	401,275
Loan to a subsidiary	452,400	608,400
Due from subsidiaries	698,098	283,473
Due to subsidiaries	(899)	(51,307)
	<u>2,150,874</u>	<u>1,241,841</u>

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of HK\$698,098,000 (2009: HK\$283,473,000) and HK\$899,000 (2009: HK\$51,307,000) are unsecured, interest-free and are repayable on demand or within one year.

Loan to a subsidiary bears fixed interest of 8%, and is unsecured and repayable in 2012. The carrying amount of loan to a subsidiary approximates to its fair value.

Particulars of the subsidiaries are as follows:

Name of Company	Place of incorporation and operations	Issued and fully paid capital	Date of incorporation	Percentage of equity attributable to the Company		Principal activities	Note(s)
				Direct	Indirect		
China South International Industrial Materials City (Shenzhen) Co. Ltd.	PRC	HK\$1,000,000,000	18-12-2002	100%	—	Property development and investment	(ii) (vi) (vii)
Shenzhen First Asia Pacific Property Management Co. Ltd.	PRC	RMB5,000,000	31-12-2003	25%	75%	Provision of property management services	(i) (vi)
Shenzhen International Electronics Procurement Centre Co. Ltd.	PRC	RMB20,000,000	06-11-2003	—	95%	Dormant	(iii) (vi)
Shenzhen China South Import and Export Trading Co. Ltd.	PRC	RMB1,500,000	20-07-2004	—	100%	Dormant	(iii) (vi)
Shenzhen China South City Advertising Co. Ltd.	PRC	RMB1,500,000	20-07-2004	—	100%	Provision of advertising services	(iii) (vi)
China South City Enterprise (Heyuan) Co. Ltd.	PRC	HK\$100,000,000	24-04-2006	—	70%	Property development and investment	(i) (vi)

Name of Company	Place of incorporation and operations	Issued and fully paid capital	Date of incorporation	Percentage of equity attributable to the Company		Principal activities	Note(s)
				Direct	Indirect		
Shenzhen China South International Convention and Exhibition Centre Co. Ltd.	PRC	RMB2,000,000	10-02-2006	—	100%	Provision of exhibition services	(iii) (vi)
Grand City Hotel (Shenzhen) Co. Ltd.	PRC	RMB40,000,000	16-06-2005	—	100%	Hotel operations	(i) (vi)
Grand City Hotel Investment Limited	Hong Kong	HK\$10,000	09-04-2005	100%	—	Investment holding	(v)
Nanchang China South City Company Limited	PRC	RMB150,000,000	16-11-2007	—	100%	Property development and investment	(iii) (vi) (viii)
Zhuji Pan-Asia Property Management Enterprise Ltd.	PRC	RMB500,000	08-11-2007	—	80%	Dormant	(iii) (v)
Tieling First Asia Pacific Property Management Co. Ltd.	PRC	RMB500,000	26-12-2007	—	100%	Dormant	(iii) (v)
China Central City (BVI) Limited	British Virgin Islands	US\$1	23-10-2007	100%	—	Investment holding	(v)
ASEAN City (BVI) Limited	British Virgin Islands	US\$1	23-10-2007	100%	—	Investment holding	(v)
China Central City (Hong Kong) Limited	Hong Kong	HK\$1	09-11-2007	—	100%	Dormant	(v)
ASEAN City (Hong Kong) Limited	Hong Kong	HK\$1	09-11-2007	—	100%	Dormant	(v)
Nanning China South City Company Limited	PRC	RMB150,000,000	28-08-2009	—	100%	Property development and investment	(iii) (vi) (viii)
Xi'an China South City Company Limited	PRC	US\$30,000,000	12-11-2009	—	65%	Property development and investment	(i) (iv)
Andarton Investments Limited	British Virgin Islands	US\$1	23-11-2009	—	100%	Investment holding	(iv)
Grow Rich Holdings Limited	British Virgin Islands	US\$1	16-10-2009	100%	—	Investment holding	(iv)

Notes:

- (i) Sino-foreign equity joint ventures under the PRC law.
- (ii) A wholly-foreign-owned enterprise under the PRC law.
- (iii) Limited companies under the PRC law.
- (iv) No audited financial statements have been prepared for these companies as they were newly incorporated/registered and had not conducted any business since the dates of their incorporation/registration.
- (v) No audited financial statements have been issued for these companies till the date of the financial statements of the Group.

- (vi) The financial statements of these companies for the year since their respective dates of establishment were prepared in accordance with PRC GAAP, and were audited by Shenzhen Yida Certified Public Accountants, Jiangxi Huawei Certified Public Accountants or Xianghao Certified Public Accountants, which are registered in the PRC.
- (vii) Pursuant to several land grant contracts entered by China South International Industrial Materials City (Shenzhen) Co. Ltd, the saleable gross floor area of properties built on these parcels of land is limited to 30% of the total gross floor area that can be built. The Group holds and constructs the properties with sales restriction for leases and self use.
- (viii) Pursuant to the land grant contracts entered by Nanchang China South City Company Limited and Nanning China South City Company Limited, respectively, the saleable gross floor area of trade centers and storage built on these parcels of land are limited to 60% of the total gross floor area that is built for such purpose. This restriction does not apply to the properties that are built for residential, commercial and other uses. Despite the restriction, the Group plans to hold not less than 50% of the total gross floor area of such properties for leases.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	2010	2009
	HK\$'000	HK\$'000
Share of net assets	4,713	3,414
Due from jointly-controlled entities	11,034	9,114
	15,747	12,528
Provision for impairment.	(6,767)	(6,788)
	<u>8,980</u>	<u>5,740</u>

The amounts due from the jointly-controlled entities included in the interests in jointly-controlled entities above are unsecured, have no fixed terms of repayment and bear interest at 7%. The carrying amounts of these amounts due from jointly-controlled entities approximate to their fair values.

Particulars of the jointly-controlled entities are as follows:

Name of Company	Place of incorporation and operations	Issued and fully paid capital	Date of incorporation	Percentage of equity attributable to the Group		Principal activities
				2010	2009	
China South National Express Logistics (Shenzhen) Co. Ltd. [#]	PRC	RMB3,000,000	02-07-2004	51%	51%	Provision of logistics services
China South Royal Restaurant (Shenzhen) Co. Ltd. ^{# (i)}	PRC	RMB5,000,000	16-06-2005	50.5%	50.5%	Restaurant operations

Notes:

[#] The Company holds the jointly-controlled entities indirectly. The Group holds 51% and 50.5% of registered capital of China South National Express Logistics (Shenzhen) Co. Ltd. and China South Royal Restaurant (Shenzhen) Co. Ltd., respectively. Pursuant to memorandums of the shareholders' agreements and articles of association of the jointly-controlled entities, none of the parties has unilateral control or unanimous consent over the operating and financing decisions of these jointly-controlled entities. Accordingly, the directors consider it appropriate to continue to account for the Group's interests therein as interests in jointly-controlled entities.

(i) Sino-foreign equity joint venture under the PRC law.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Share of jointly-controlled entities' assets and liabilities:		
Current assets	5,158	4,325
Non-current assets	282	427
Current liabilities	(727)	(1,338)
Net assets	<u>4,713</u>	<u>3,414</u>
Share of jointly-controlled entities' results:		
Revenue	4,127	3,379
Expenses	(2,840)	(2,259)
Profit for the year	<u>1,287</u>	<u>1,120</u>

20. INTERESTS IN ASSOCIATES

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Share of net assets	2,055	1,751
Due to an associate	(2,858)	(2,857)
	<u>(803)</u>	<u>(1,106)</u>

The amount due to an associate included in the interest in associates above is unsecured, interest-free and has no fixed repayment terms.

Particulars of the associate are as follows:

Name of Company	Place of incorporation and operations	Issued and fully paid capital	Date of incorporation	Percentage of equity attributable to the Group		Principal activities
				2010	2009	
China South Intimex Technology (Shenzhen) Co. Ltd. ⁽ⁱ⁾⁽ⁱⁱ⁾	PRC	RMB10,000,000	18-01-2004	30%	30%	Website development and construction, maintenance and development of software, provision of consultancy services and trading of e-commerce hardware and software
China South City Pico Exhibition (Shenzhen) Co. Ltd. ⁽ⁱ⁾⁽ⁱⁱ⁾	PRC	HK\$2,000,000	13-10-2009	30%	—	Provision of exhibition services

Notes:

(i) Sino-foreign equity joint venture under the PRC law

The following table illustrates the summarised financial information of the Group's associates:

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Assets	9,191	7,874
Liabilities	2,341	2,037
Revenue	92	103
Loss	<u>(1,007)</u>	<u>(1,089)</u>

(ii) The Company holds the associates indirectly.

21. LOAN RECEIVABLES

The balances represent entrusted loans provided by the Group to purchasers through Shanghai Pudong Development Bank in connection with the sale of its properties. The loan receivables, which bear interest at a rate of 6.435% per annum, are secured by the properties sold and are repayable by monthly instalments within five years. The carrying amounts of the loan receivables approximate to their fair values. The amounts of the current portion of the loan receivables of HK\$3,124,000 and HK\$3,032,000 were included in prepayments, deposits and other receivables as at 31 March 2010 and 2009, respectively.

22. FINANCE LEASE RECEIVABLES

The balance represents entrusted loans provided by the Group to lessees through Shanghai Pudong Development Bank in connection with the finance lease of its properties. The finance lease receivables, which bear interest at a rate between 6.336% to 6.435% per annum, are repayable by monthly instalments within 10 years. The carrying amounts of the finance lease receivables approximate to their fair values. The amounts of the current portion of the finance lease receivables of HK\$7,015,000 and HK\$9,202,000 were included in prepayments, deposits and other receivables as at 31 March 2010 and 2009, respectively.

23. DEPOSITS PAID FOR PURCHASE OF LAND

The balances represent deposits paid for acquisitions of parcels of land in Mainland China. The carrying amounts of the deposits paid for the purchase of land approximate to their fair values.

24. TRADE RECEIVABLES

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Trade receivables	259,667	25,530
Impairment	(25,512)	—
	<u>234,155</u>	<u>25,530</u>

Trade receivables represent rentals receivable from tenants, sales income and service income receivables from customers which are payable on presentation of invoices or in accordance with the terms of the related sales and purchase agreements. Overdue balances are reviewed regularly by senior management. In view of this and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. The carrying amounts of the trade receivables approximate to their fair values.

An aged analysis of the trade receivables as at the end of the reporting period, based on the payment due date and net of provision, is as follows:

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Current	86,663	22,992
1 to 2 months	34,308	494
2 to 3 months	71,774	681
Over 3 months	41,410	1,363
	<u>234,155</u>	<u>25,530</u>

Receivables that were neither past due nor impaired and past due but not impaired relate to a large number of diversified customers for whom there was no recent history of default. The Group has retained the legal ownership of the property sold to purchasers for debtor balances.

The movements in provision for impairment of trade receivables are as follows:

	HK\$'000
Carrying amount at 1 April 2009	—
Impairment losses recognised (note 6)	25,468
Exchange realignment	44
Carrying amount at 31 March 2010	<u>25,512</u>

During the year ended 31 March 2009, the Group wrote off trade receivables as uncollectible of HK\$4,321,000 directly to the consolidated income statement (note 6).

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**Group**

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Prepayments	12,089	22,790
Deposits and other receivables	73,988	45,338
	<u>86,077</u>	<u>68,128</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

26. HELD FOR TRADING INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Listed investment funds at market value	123,932	—

The above listed investment fund at 31 March 2010 were classified as held for trading upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss since they were acquired or incurred principally for the purpose of selling or repurchasing in the near term.

27. CASH AND BANK BALANCES**Group**

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Cash and bank balances	3,702,977	246,084

Company

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Cash and bank balances	1,505,842	39,016

The cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$1,999,179,000 and HK\$205,331,000 as at 31 March 2010 and 2009, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks. The carrying amounts of the cash and bank balances approximate to their fair values.

28. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Other payables	198,763	79,288
Receipts in advance	162,017	243,473
Rental deposits	29,904	16,585
Construction fee and retention payables	395,735	419,087
Accruals	36,585	11,752
Co-operative deposits	1,455	7,781
	<u>824,459</u>	<u>777,966</u>

The other payables are non-interest-bearing.

29. INTEREST-BEARING BANK BORROWINGS

		2010	2009
	Maturity	HK\$'000	HK\$'000
Current			
Bank loans — unsecured		944,504	8,506
Bank loans — secured		613,913	462,146
		<u>1,558,417</u>	<u>470,652</u>
Non-current			
Bank loans — unsecured	2011–2013	426,183	—
Bank loans — secured	2011–2017	2,218,125	898,774
		<u>2,644,308</u>	<u>898,774</u>
Analysed into:			
Within one year or on demand		1,558,417	470,652
In the second year		829,996	603,908
In the third to fifth years, inclusive		1,330,875	294,866
Beyond five years		483,437	—
		<u>4,202,725</u>	<u>1,369,426</u>

Certain of the Group's bank loans are secured by:

- (i) Certain of the Group's buildings and hotel properties with aggregate carrying values of approximately HK\$41,723,000 and HK\$66,588,000 as at 31 March 2010 and 2009, respectively (note 13);
- (ii) Certain of the Group's investment properties situated in Mainland China with aggregate carrying values of approximately HK\$9,077,250,000 and HK\$3,524,783,000 as at 31 March 2010 and 2009, respectively (note 14);
- (iii) Certain of the Group's properties under development situated in Mainland China with aggregate carrying values of approximately HK\$93,905,000 and HK\$140,549,000 as at 31 March 2010 and 2009, respectively (note 15);
- (iv) Certain of the Group's leasehold land with aggregate carrying values of approximately HK\$2,437,000 and HK\$2,486,000 as at 31 March 2010 and 2009, respectively (note 16); and
- (v) Certain of the Group's properties held for sale with aggregate carrying values of approximately HK\$44,762,000 and HK\$45,255,000 as at 31 March 2010 and 2009, respectively.

As at 31 March 2009, Tak Sing Alliance Holdings Limited, a beneficial shareholder of the Company, and certain of the Company's directors have guaranteed certain of the Group's bank loans up to HK\$8,506,000. During the year ended 31 March 2010, the guarantees have been released.

All interest-bearing bank loans bear interest at floating rates ranging from 4.78% to 5.76% per annum and are denominated in RMB.

30. BILLS PAYABLE

	2010	2009
	HK\$'000	HK\$'000
Bills payable	—	237,332
	<u>—</u>	<u>237,332</u>

31. INTEREST-BEARING NOTES

On 11 July 2007, the Company issued US\$125 million convertible notes (the "Convertible Notes") bearing interest at coupon rates ranging from 7% to 11% per annum, subject to the success and the date of the initial public offering (the "IPO") of the Company, to independent financial institutions (herein after referred to as the "Noteholders" for the ultimate beneficial holders of the Convertible Notes). The Convertible Notes will mature on 11 July 2012. Prior to the amendments discussed below, the Convertible Notes were convertible into a certain percentage of the Company's shares and the conversion price was subject to anti-dilution adjustments. The Noteholders had the right to convert the Convertible Notes into shares of the Company from the IPO date to their maturity date.

On 28 March 2008, the Company entered into an agreement with the Noteholders, pursuant to which certain terms and conditions of the Convertible Notes and the trust deed that constitutes the Convertible Notes were amended and replaced with the revised terms and conditions. As a result, the conversion feature attached to the Convertible Notes was removed and the Convertible Notes became a pure debt (the "Interest-bearing Notes"). The Convertible Notes are no longer convertible into the Company's shares. In addition, the existing shareholders of the Company at that date (Accurate Gain

Developments Limited, Proficient Success Limited, Carrianna Development Limited, Kings Faith International Limited, Kinoh Holdings Limited and Luk Ka International Limited collectively referred to as the “Existing Shareholders”) will transfer certain of the Company’s shares currently held by the Existing Shareholders, which is subject to adjustment and finalisation, to the Noteholders upon the Company’s IPO.

As a result of the above transactions, the liability portion and embedded financial derivatives of the Convertible Notes totaling HK\$979 million have been derecognised, simultaneously the Interest-bearing Notes of HK\$796 million and capital reserve of HK\$183 million, representing the fair value of the shares to be transferred by the Existing Shareholders imposed to the Group, have been recognised. The fair value of the embedded financial derivatives of the Convertible Notes and the shares to be transferred by the Existing Shareholders were estimated by Vigers Appraisal & Consulting Ltd. (“Vigers”), an independent firm of professional qualified valuers. The fair value of the embedded financial derivatives was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions for the conversion option. The resulted gain net of the imputed cost of the shares to be transferred arose from the derecognition of the liability portion and embedded financial derivatives of the Convertible Notes is not significant.

On 26 June 2009, the Group entered into an amended agreement with the Noteholders to reduce the coupon interest rates of the Interest-bearing Notes from 9%, 11% and 11% to 0%, 3% and 6% for each of the three years ending 10 July 2010, 2011 and 2012, respectively. In addition, the early redemption option of the Interest-bearing Notes was removed. On the same date, the Existing Shareholders entered into supplemental agreements with the Noteholders to change certain terms in the share transfer agreements. As a result of the transactions incurred in June 2009, the existing Interest-bearing Notes of HK\$972 million have been derecognised and a new Interest-bearing Notes of HK\$921 million, representing the fair value of the new Interest-bearing Notes, estimated by Vigers, have been recognised simultaneously. The fair value of the new Interest-bearing Notes was estimated as at the date of restructure and the amount of HK\$50,778,000 was recognised as a gain on the second restructure of the Interest-bearing Notes.

On 6 July 2009 and 22 July 2009, the Group entered into agreements with three of the Noteholders to buy back the outstanding principal amount of the Interest-bearing Notes beneficially owned by them (US\$94.5 million) together with all accrued and unpaid interest, if any, at a consideration of US\$78.53 million. After the Group completed the buying back of these Interest-bearing Notes, they were cancelled and the outstanding principal amount of the Interest-bearing Notes has been reduced from US\$125 million to US\$30.5 million, the related obligation for the Existing Shareholders to transfer shares to the Noteholders was also released. The amount of HK\$85,931,000 was recognised as a gain on the buying back of the Interest-bearing Notes after deduction of any transaction costs related.

On 30 September 2009, the IPO date of the Company, the Group has redeemed the remaining outstanding principal amount of the Interest-bearing Notes in accordance with the terms and conditions.

Upon the completion of the buying back and redemption of the Interest-bearing Notes, the outstanding balance was derecognised to nil and the capital reserve of HK\$183 million was transferred to retained profits accordingly.

32. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Accelerated tax depreciation	Revaluation of investment properties	Withholding tax	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2009	23,486	1,335,862	—	1,359,348
Deferred tax charged to the income statement during the year (note 9)	14,143	327,136	69,641	410,920
Exchange realignment.	95	4,581	123	4,799
At 31 March 2010	<u>37,724</u>	<u>1,667,579</u>	<u>69,764</u>	<u>1,775,067</u>

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. In current year, the Group made accrual of withholding tax of HK\$69,641,000 for China South International Industrial Materials City (Shenzhen) Co. Ltd, a wholly owned subsidiary of the Group.

Deferred tax assets

	Tax effect of LAT	Loss available for offsetting against future taxable profits	Provision for impairment of accounts receivable	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2009	12,599	—	—	12,599
Deferred tax realised to the income statement during the year	(2,770)	—	—	(2,770)
Deferred tax debited to the income statement during the year (note 9)	59,316	517	5,604	65,437
Exchange realignment	137	1	9	147
At 31 March 2010	<u>69,282</u>	<u>518</u>	<u>5,613</u>	<u>75,413</u>

The Group's deferred tax assets related to the LAT available for offsetting against future profits and were credited to the consolidated results. During the year ended 31 March 2010, the amount of deferred tax assets of HK\$2,770,000 was realised in the current corporate income tax.

Deferred tax liabilities

	Accelerated tax depreciation	Revaluation of investment properties	Finance lease of West Garden	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	17,746	1,024,587	54,808	1,097,141
Deferred tax charged to the income statement during the year (note 9)	5,345	288,475	(55,914)	237,906
Exchange realignment	395	22,800	1,106	24,301
At 31 March 2009	<u>23,486</u>	<u>1,335,862</u>	<u>—</u>	<u>1,359,348</u>

Deferred tax assets

	Tax effect of LAT
	HK\$'000
At 1 April 2008	6,499
Deferred tax credited to the income statement during the year (note 9)	5,949
Exchange realignment	151
At 31 March 2009	<u>12,599</u>

33. DUE TO SHAREHOLDERS

On 4 September 2009, the Existing Shareholders of the Company unanimously passed the resolution of the capitalisation of an aggregate amount of HK\$85,800,000 shareholders' loan made by the Existing Shareholders to the Company according to their proportionate shareholding at the IPO date, whereby HK\$44,800,000 would be paid up in full at par value for the allotment and issuance of an aggregate number of 4,480,000,000 shares of HK\$0.01 each to these Existing Shareholders (or their nominees), with the remaining HK\$41,000,000 to be credited to the share premium account of the Company.

On 30 September 2009, the IPO date of the Company, the shareholders' loan have been capitalised in accordance with the resolution.

The shares allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares.

34. SHARE CAPITAL

	<u>2010</u>	<u>2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Authorised:		
30,000,000,000 (31 March 2009: 1,000,000,000) ordinary shares of HK\$0.01 each	300,000	10,000
Issued and fully paid:		
6,000,000,000 (31 March 2009: 20,000,000) ordinary shares of HK\$0.01 each	60,000	200

During the year ended 31 March 2010, the movements in issued capital were as follows:

	Notes	Number of Shares in issue	Issued capital
		<u>HK\$'000</u>	
At 1 April 2009		20,000,000	200
Capitalisation of shareholders' loan	33	4,480,000,000	44,800
Issuance of new shares	(i)	1,500,000,000	15,000
At 31 March 2010		6,000,000,000	60,000

- (i) On 30 September 2009, the Company issued 1,500,000,000 ordinary shares of HK\$0.01 each for cash at the price of HK\$2.1 per share, totalling HK\$3,150,000,000 pursuant to the Company's initial public offering for the listing of those shares on the Stock Exchange.

35. SHARE OPTIONS

The Company has granted certain share options for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Grantees of the share options include Directors and certain employees of the Group. The share options were approved by the Company on 13 October 2006.

The number of share options upon their exercise was equal to 3% of the Company's issued ordinary shares for IPO of the listing on the Stock Exchange that was of 180,000,000 ordinary shares. The options must be exercised within two to three years following the IPO of the Company, and the exercise price shall be 50% of the offer price of each share in the IPO as at HK\$1.05.

All share options were granted in prior year and remained outstanding as at the financial year end date. The fair value of the share options granted of HK\$67,521,000 was estimated by Vigers. Share option expenses of HK\$3,294,000 and HK\$6,587,000 were recognised for the year ended 31 March 2010 and 2009, respectively.

The following share options were outstanding during the year:

At 31 March 2010 and 2009:

Number of options	Exercise price	Exercise period
'000	HK\$ per share	
132,000	1.05	30-9-2009 to 29-9-2012
48,000	1.05	30-9-2009 to 29-9-2011
<u>180,000</u>		

The fair value of equity-settled share options granted was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Value of the Company's shares	By reference to similar companies
Estimated exercise price	50% of stock price at grant date
Dividend yield (%)	0.00
Expected volatility (%)	40.00
Risk-free interest rate (%)	3.90
Expected life of options (year)	2.40

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The exercise price is 50% of the offer price of each share at the IPO. The expected volatility is determined by reference to similar companies in the market. The expected life of the options is based on directors' estimation on the date of the IPO.

No other feature of the options granted was incorporated into the measurement of fair value.

36. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and the prior year are presented in the consolidated statement of changes in equity on pages 79 to 80 of the financial statements.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to the statutory reserve which is restricted as to use.

(b) Company

	Capital reserve	Share option reserve	Share premium	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2008	182,768	57,639	—	59,824	300,231
Total comprehensive income for the year	—	—	—	(6,729)	(6,729)
Equity-settled share option arrangement (note 35)	—	6,587	—	—	6,587
At 31 March 2009	182,768	64,226	—	53,095	300,089
Total comprehensive income for the year	—	—	—	235,995	235,995
Equity-settled share option arrangement (note 35)	—	3,294	—	—	3,294
Transfer to retained profits	(182,768)	—	—	182,768	—
Issue of shares at a premium through initial public offering	—	—	3,135,000	—	3,135,000
Issue of shares by capitalisation of shareholders' loan (note 33)	—	—	41,000	—	41,000
Transaction costs attributable to issue of shares	—	—	(136,598)	—	(136,598)
Proposed final dividends (note 11)	—	—	—	(119,591)	(119,591)
At 31 March 2010	—	67,520	3,039,402	352,267	3,459,189

37. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in notes 13, 14, 15, 16 and 29 to the financial statements.

38. CONTINGENT LIABILITIES

At the end of each reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	—	—	250,250	—
Third parties	217,921	95,915	—	—
	217,921	95,915	250,250	—

As at 31 March 2010, the banking facilities granted to a subsidiary subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$250,250,000 (2009: Nil).

The Group has provided guarantees in respect of banking facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's trade centers and bank loans entered into by lessees of the Group's residential properties. Pursuant to the terms of the guarantees, if there is default of the loan payments by these purchasers and lessees, the Group is responsible to repay the outstanding loans together with accrued interests thereon and any penalty owed by the defaulted purchasers and lessees to banks. The Group is then entitled to take over the legal title and usage rights of the related properties. For trade centre units sold, the guarantee period commences from the dates of grant of the relevant loans and ends when the purchasers obtain the building ownership certificate which will then be pledged with the banks. For leased residential properties, the guarantees will be released accordingly along with the repayment of loan principals by the lessees.

The Group did not incur any material losses during the financial years in respect of the guarantees provided for mortgage facilities granted to purchasers and lessees of the Group's properties. The Directors consider that in case of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty, and therefore no provision has been made in connection with the guarantees.

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) and properties sold with cooperation arrangements and leasing arrangements under operating lease arrangements negotiated for terms ranging from 1 to 10 years. The terms of the leases also require the tenants to pay security deposits.

At the end of each reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Within one year	70,663	65,564
In the second to fifth years, inclusive	61,435	46,695
After five years.	13,713	13,795
	<u>145,811</u>	<u>126,054</u>

(b) As lessee

The Group leases certain of its offices, staff quarters and properties sold under operating lease arrangements. Leases are negotiated for terms ranging from 1 to 5 years.

At the end of reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	48,094	73,578	383	383
In the second to fifth years, inclusive	2,521	61,033	—	—
After five years.	—	2,972	—	—
Total	<u>50,615</u>	<u>137,583</u>	<u>383</u>	<u>383</u>

40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39(b) above, the Group had the following capital commitments at the end of each reporting period:

Group

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Contracted, but not provided for:		
Properties under development	48,411	304,065
Purchase of land	—	28,541
Capital contribution to an associate/subsidiaries	450	67,228
	<u>48,861</u>	<u>399,834</u>

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Authorised, but not contracted for:		
Properties under development	5,641,374	—

41. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	Year ended 31 March 2010	Year ended 31 March 2009
		HK\$'000	HK\$'000
Companies in which a director of the Company is a controlling shareholder:			
Purchases of products	(i)	—	81
Consultancy fees paid	(ii)	300	600
Rental expense and related service fees for office building	(iii)	1,898	1,406
Rental expense for trade centres	(iv)	874	871

Notes:

- (i) The purchases of products from related companies were made according to the published prices and conditions offered by the related companies to their major customers.
- (ii) The consultancy fees were related to the consultancy and management services provided to the Group by a related company and were based on terms mutually agreed between both parties.
- (iii) The rental expense and related service fees for office building were related to the leasing of office space provided to the Group by a related company. The fees were based on terms mutually agreed between both parties.
- (iv) The rental expense was related to leasing of trade centres provided to the Group by related parties. The rental was based on terms mutually agreed between the parties.
- (b) Other transactions with related parties:

As at 31 March 2009, the Company's directors and a related company have guaranteed certain of the Group's bank loans up to HK\$8,506,000 (note 29). During the year ended 31 March 2010, the guarantees have been released.

- (c) Outstanding balances with related parties:

Details of the Group's amounts due from/to its jointly- controlled entities and an associate as at the end of each reporting period are disclosed in notes 19 and 20, respectively.

- (d) Compensation of key management personnel of the Group:

	Year ended 31 March 2010	Year ended 31 March 2009
	HK\$'000	HK\$'000
Short term employee benefits	51,745	16,010
Post-employment benefits	36	132
Share-based payments	3,074	6,587
Total compensation paid to key management personnel	54,855	22,729

Further details of directors' emoluments are included in note 7 to the financial statements.

42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

2010

	Group		
	Loans and receivables	Financial assets at fair value through profit or loss	Total
	HK\$'000	HK\$'000	HK\$'000
Amounts due from jointly- controlled entities (note 19)	11,034	—	11,034
Loan receivables	625	—	625
Finance lease receivables	54,250	—	54,250
Held for trading investments (note 26)	—	123,932	123,932
Trade receivables	234,155	—	234,155
Financial assets included in prepayments, deposits and other receivables	70,021	—	70,021
Cash and bank balances	3,702,977	—	3,702,977
	<u>4,073,062</u>	<u>123,932</u>	<u>4,196,994</u>

2009

Group	Loans and receivables
	HK\$'000
Amounts due from jointly-controlled entities (note 19)	9,114
Loan receivables	4,414
Finance lease receivables	65,952
Trade receivables	25,530
Financial assets included in prepayments, deposits and other receivables	43,417
Cash and bank balances	246,084
	<u>394,511</u>

Financial liabilities at amortised cost

	Group	
	2010	2009
	HK\$'000	HK\$'000
Amount due to an associate (note 20)	2,858	2,857
Financial liabilities included in other payables (note 28)	594,498	498,375
Bills payable	—	237,332
Interest-bearing notes	—	915,790
Interest-bearing bank borrowings	4,202,725	1,369,426
	<u>4,800,081</u>	<u>3,023,780</u>

Financial assets

	Company	
	Loans and receivables	
	2010	2009
	HK\$'000	HK\$'000
Loan to a subsidiary (note 18)	452,400	608,400
Due from subsidiaries (note 18)	698,098	283,473
Financial assets included in prepayments, deposits and other receivables	1,099	524
Cash and bank balances (note 27)	1,505,842	39,016
	<u>2,657,439</u>	<u>931,413</u>

Financial liabilities at amortised cost

	Company	
	2010	2009
	HK\$'000	HK\$'000
Due to subsidiaries (note 18)	899	51,307
Financial liabilities included in other payables and accruals	20,474	4,496
Interest-bearing notes (note 31)	—	915,790
	<u>21,373</u>	<u>971,593</u>

43. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 March 2010, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 March 2010:

	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 March 2010				
Held for trading investments at fair value through profit or loss (note 26)	<u>123,932</u>	<u>—</u>	<u>—</u>	<u>123,932</u>

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets such as trade receivables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign exchange risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's borrowings. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 29 to the financial statements. The Group's policy is to obtain the most favourable interest rates available for its borrowings.

Because interest expenses related to the Group's borrowings were utilized primarily for property construction, and were capitalised when incurred, management does not anticipate any significant impact resulting from changes in interest rates for the year.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral except for the loan receivables provided to the purchasers as disclosed in note 21 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2010			
	Within one year	One to five years	Beyond five years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities included in other payables	594,498	—	—	594,498
Interest-bearing bank borrowings	1,612,020	2,445,343	514,941	4,572,304
Total	<u>2,206,518</u>	<u>2,445,343</u>	<u>514,941</u>	<u>5,166,802</u>

	2009		
	Within one year	One to five years	Total
	HK\$'000	HK\$'000	HK\$'000
Financial liabilities included in other payables	498,375	—	498,375
Interest-bearing Notes	78,000	1,233,375	1,311,375
Interest-bearing bank borrowings	470,652	898,774	1,369,426
Bills payable	237,332	—	237,332
Total	<u>1,284,359</u>	<u>2,132,149</u>	<u>3,416,508</u>

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Company

	2010		
	On demand	Within one year	Total
	HK\$'000	HK\$'000	HK\$'000
Due to subsidiaries	899	—	899
Financial liabilities included in other payables	—	20,474	20,474
Total	<u>899</u>	<u>20,474</u>	<u>21,373</u>

	2009			
	On demand	Within one year	One to five years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due to subsidiaries	51,307	—	—	51,307
Financial liabilities included in other payables	—	4,496	—	4,496
Interest-bearing Notes	—	78,000	1,233,375	1,311,375
Total	<u>51,307</u>	<u>82,496</u>	<u>1,233,375</u>	<u>1,367,178</u>

Foreign exchange risk

The Group's only investment in China remains its operating vehicle, which solely conducts business within Mainland China. Except for interest payables, repayment of foreign currency loans obtained to finance the Group's operations and any potential future dividend its subsidiaries might declare to its shareholders, the bulk of its revenue, capital investment and expenses are denominated in RMB. At the date of approval of the financial statements, the Group had not experienced any difficulties in obtaining government approval for its necessary foreign exchange purchases. During the year, the Group did not issue any financial instruments for hedging purposes.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Changes in RMB rate	Increase/ (decrease) in profit before tax
	%	HK\$'000
2009		
If Hong Kong dollar weakens against RMB	5	52,629
If Hong Kong dollar strengthens against RMB	3	(31,577)
2010		
If Hong Kong dollar weakens against RMB	5	103,407
If Hong Kong dollar strengthens against RMB	3	(52,044)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders for managing capital or issue new shares. No changes were made in the objectives, policies or processes during the years.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity. Net debt includes interest-bearing bank borrowings, Interest-bearing Notes, bills payable, less cash and cash equivalents. The gearing ratios as at the end of the reporting period were as follows:

Group	2010	2009
	HK\$'000	HK\$'000
Interest-bearing notes (note 31)	—	915,790
Interest-bearing bank borrowings (note 29)	4,202,725	1,369,426
Bills payable (note 30)	—	237,332
Less: Cash and bank balances	(3,702,977)	(246,084)
Net debt	499,748	2,276,464
Total equity	9,026,685	4,495,958
Gearing ratio	6%	51%

45. EVENTS AFTER THE REPORTING PERIOD

On 17, 18, 19 and 20 May 2010, the Company repurchased 3,856,000, 6,744,000, 3,668,000 and 6,168,000 of its own shares on the Stock Exchange at market prices, totalling 20,436,000 shares and cancelled on 22 June 2010, representing 0.3406% of issued share capital of the Company. On 13 July 2010, the number of existing issued shares is 5,979,564,000.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 July 2010.

INDEPENDENT AUDITORS' REPORT



To the shareholders of China South City Holdings Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of China South City Holdings Limited set out on pages F-66 to F-103, which comprise the consolidated and company balance sheets as at 31 March 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F., Two International Finance Centre
8 Finance Street
Central
Hong Kong

27 June 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2009

	Notes	Year ended 31 March 2009	Year ended 31 March 2008
		HK\$'000	HK\$'000
REVENUE	5	224,399	562,880
Cost of sales		(153,640)	(285,976)
GROSS PROFIT		70,759	276,904
Other income	5	19,077	21,701
Change in fair value of investment properties	5	1,153,903	670,871
Selling and distribution costs		(89,531)	(45,270)
Administrative expenses		(109,249)	(117,491)
Fair value change in embedded derivative financial instruments		—	(1,167)
Other expenses		(13,188)	(7,911)
Finance costs	8	(6,824)	(960)
Share of profits and losses of:			
Jointly-controlled entities		1,120	502
An associate		(327)	(329)
PROFIT BEFORE TAX	6	1,025,740	796,850
Tax	9	(272,170)	(241,726)
PROFIT FOR THE YEAR		753,570	555,124
Attributable to:			
Equity holders of the parent		754,048	556,075
Minority interests		(478)	(951)
		753,570	555,124

CONSOLIDATED BALANCE SHEET

31 March 2009

	Notes	2009	2008
		HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	260,302	223,049
Investment properties	12	6,543,757	4,522,843
Properties under development	13	1,404,571	818,815
Prepaid land premiums	14	7,051	7,164
Goodwill	15	20,066	20,066
Interests in jointly-controlled entities	17	5,740	10,526
Interest in an associate	18	(1,106)	(755)
Loan receivables	19	4,414	7,275
Finance lease receivables	20	65,952	75,007
Deposits paid for the purchase of land	21	74,663	84,401
Deferred tax assets	30	12,599	6,499
Total non-current assets		8,398,009	5,774,890
CURRENT ASSETS			
Properties held for finance lease		101,743	96,785
Properties held for sale		481,821	121,922
Trade receivables	22	25,530	10,970
Prepayments, deposits and other receivables	23	68,128	72,803
Cash and cash equivalents	24	246,084	1,228,898
Total current assets		923,306	1,531,378
CURRENT LIABILITIES			
Other payables, accruals and deposits received	25	777,966	466,043
Interest-bearing bank borrowings	26	470,652	422,975
Bills payable	27	237,332	—
Due to directors	28	—	5,926
Tax payable		79,695	40,535
Total current liabilities		1,565,645	935,479
NET CURRENT ASSETS/(LIABILITIES)		(642,339)	595,899
TOTAL ASSETS LESS CURRENT LIABILITIES		7,755,670	6,370,789
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	898,774	749,183
Interest-bearing notes	29	915,790	796,113
Deferred tax liabilities	30	1,359,348	1,097,141
Due to shareholders	31	85,800	85,800
Total non-current liabilities		3,259,712	2,728,237
Net assets		4,495,958	3,642,552
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	32	200	200
Reserves	34(a)	4,461,763	3,608,580
Minority interests		4,461,963	3,608,780
Total equity		33,995	33,772
Total equity		4,495,958	3,642,552

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2009

		Attributable to equity holders of the parent								
		Issued capital	Statutory surplus reserve (note i)	Capital reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total Equity
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	At 1 April 2007	200	24,672	—	18,115	156,868	2,300,950	2,500,805	21,624	2,522,429
	Exchange realignment and total income and expense recognised directly in equity	—	2,400	—	—	327,208	—	329,608	2,047	331,655
	Acquisition of an additional equity interest in a subsidiary from minority shareholders	—	—	—	—	—	—	—	(158)	(158)
	Capital contributions to subsidiaries from minority shareholders	—	—	—	—	—	—	—	11,210	11,210
	Equity-settled share option arrangements	33	—	—	39,524	—	—	39,524	—	39,524
	Equity contribution from shareholders	29	—	182,768	—	—	—	182,768	—	182,768
	Profit for the year	—	—	—	—	—	556,075	556,075	(951)	555,124
	At 31 March 2008	200	27,072*	182,768*	57,639*	484,076*	2,857,025*	3,608,780	33,772	3,642,552

		Attributable to equity holders of the parent								
		Issued capital	Statutory surplus reserve (note i)	Capital reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total Equity
Note		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	At 31 March 2008 and 1 April 2008	200	27,072	182,768	57,639	484,076	2,857,025	3,608,780	33,772	3,642,552
	Exchange realignment and total income and expense recognised directly in equity	—	590	—	—	91,958	—	92,548	701	93,249
	Equity-settled share option arrangements	33	—	—	6,587	—	—	6,587	—	6,587
	Profit for the year	—	—	—	—	—	754,048	754,048	(478)	753,570
	At 31 March 2009	200	27,662*	182,768*	64,226*	576,034*	3,611,073*	4,461,963	33,995	4,495,958

* These reserve accounts comprise the consolidated reserves of HK\$3,608,580,000 and HK\$4,461,763,000 in the consolidated balance sheets as at March 31, 2008 and 2009, respectively.

Note:

- (i) In accordance with the PRC Company Law, the Group's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of the reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of registered capital after such usages.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2009

	Notes	Year ended 31 March 2009	Year ended 31 March 2008
		HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,025,740	796,850
Adjustments for:			
Finance costs	8	6,824	960
Share of profits and losses of jointly-controlled entities and an associate		(793)	(173)
Interest income	5	(2,860)	(59)
Loss on disposal of property, plant and equipment		645	155
Depreciation	6	36,919	29,608
Amortisation of prepaid land premiums	6	262	188
Changes in fair value of investment properties	5	(1,153,903)	(670,871)
Impairment of trade receivables	6	4,321	699
Impairment of interests in jointly-controlled entities	6	2,037	5,587
Fair value change in embedded derivative financial instruments		—	1,167
Equity-settled share option expense	6	6,587	39,524
		(74,221)	203,635
Decrease in properties held for sale		20,932	8,116
Decrease in properties held for finance lease		4,080	231,504
Decrease in loan receivables		3,020	5,490
Decrease/(Increase) in finance lease receivables		10,690	(75,007)
Increase in trade receivables		(18,643)	(3,262)
Decrease/(Increase) in prepayments, deposits and other receivables		6,141	(56,838)
Increase/(Decrease) in other payables, accruals and deposits received		127,595	(5,515)
(Decrease)/Increase in amounts due to directors		(5,926)	2,057
Cash generated from operations		73,668	310,180
Overseas taxes paid		(1,821)	(1,191)
Net cash inflow from operating activities		71,847	308,989

	Note	Year ended 31 March 2009	Year ended 31 March 2008
		HK\$'000	HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of a subsidiary		—	6,407
Purchases of items of property, plant and equipment		(4,922)	(3,155)
Proceeds from disposal of property, plant and equipment		3,217	942
Net advances to an associate		—	(119)
Net advances from jointly-controlled entities		3,888	36,217
Acquisition of an additional interest in a subsidiary from minority shareholders		—	(158)
Capital contributions to subsidiaries from minority shareholders		—	11,210
Additions to properties under development		(1,104,598)	(600,365)
Interest received		14,970	24,227
Net cash outflow from investing activities		<u>(1,087,445)</u>	<u>(524,794)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		713,259	654,841
Repayment of bank loans		(541,549)	(390,658)
Proceeds from issuance of convertible notes		—	926,531
Interest paid		(160,316)	(110,851)
Net cash inflow from financing activities		<u>11,394</u>	<u>1,079,863</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(1,004,204)	864,058
Cash and cash equivalents at beginning of year		1,228,898	292,123
Effect of foreign exchange rate changes, net		21,390	72,717
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>246,084</u></u>	<u><u>1,228,898</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	<u><u>246,084</u></u>	<u><u>1,228,898</u></u>

BALANCE SHEET

31 March 2009

	Notes	2009	2008
		HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,204	1,696
Interests in subsidiaries	16	1,009,675	1,009,120
Total non-current assets		1,011,879	1,010,816
CURRENT ASSETS			
Prepayments, deposits and other receivables		23,314	5,125
Due from subsidiaries	16	283,473	98,216
Cash and cash equivalents	24	39,016	148,653
Total current assets		345,803	251,994
CURRENT LIABILITIES			
Due to subsidiaries	16	51,307	65,400
Other payables, accruals and deposits received		4,496	9,140
Due to directors	28	—	5,926
Total current liabilities		55,803	80,466
NET CURRENT ASSETS		290,000	171,528
TOTAL ASSETS LESS CURRENT LIABILITIES		1,301,879	1,182,344
NON-CURRENT LIABILITIES			
Interest-bearing notes	29	915,790	796,113
Due to shareholders	31	85,800	85,800
Total non-current liabilities		1,001,590	881,913
Net assets		300,289	300,431
EQUITY			
Issued capital	32	200	200
Reserves	34(b)	300,089	300,231
Total equity		300,289	300,431

II. NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Group is principally engaged in developing and managing China South International Industrial Materials City, which is an integrated logistic trade centre situated in Shenzhen, the People's Republic of China (the "PRC"), providing property management services and operating a hotel.

The Company was incorporated in Hong Kong on May 8, 2002 as a company with limited liability under the Hong Kong Companies Ordinance. The address of its registered office is Room 2205, 22/F, Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

2.1 BASIS OF PREPARATION

For the purpose of this report, the financial statements for the year have been prepared on a consolidated basis. All significant intra-group transactions and balances have been eliminated on consideration.

The financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, except for investment properties and a derivative financial instrument which have been measured at fair value. The financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except where otherwise indicated.

As at March 31, 2009, the Group's current liabilities exceeded its current assets by HK\$642 million. The Directors have prepared the financial statements on a going concern basis notwithstanding the net current liabilities position because the Group has obtained new loans amounting to HK\$1,506 million and has obtained unutilised bank facilities of HK\$2,100 million subsequent to March 31, 2009.

2.2 ADOPTION OF NEW AND REVISED HKFRSs

For the purpose of these financial statements, the Group has adopted, at the beginning of the year, all the new and revised HKFRSs applicable to the year.

2.3 IMPACT OF NEW AND REVISED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards and HKAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> ¹
HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i> ⁴
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment — Vesting Conditions and Cancellations</i> ¹
HKFRS 3 (Revised)	<i>Business Combinations</i> ⁴
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments</i> ¹
HKFRS 8	<i>Operating Segments</i> ¹
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> ¹
HKAS 23 (Revised)	<i>Borrowing Costs</i> ¹
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ⁴
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation</i> ¹
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i> ⁴
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement — Embedded Derivatives</i> ³
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> ²
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i> ¹
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i> ⁵
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners</i> ⁴
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers</i> ⁶

Apart from the above, in October 2008, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after July 1, 2009, the amendments are effective for annual periods beginning on or after January 1, 2009 although there are separate transitional provisions for each standard.

The HKICPA has also issued *Improvements to HKFRSs*** in May 2009. Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 which are effective for annual periods beginning on or after July 1, 2009 and no transitional provisions for amendment to Appendix to HKAS 18 has been specified, other amendments are effective for annual periods beginning on or after January 1, 2010 although there are separate transitional provisions for each standard.

- ¹ Effective for annual periods beginning on or after January 1, 2009
- ² Effective for annual periods beginning on or after July 1, 2008
- ³ Effective for annual periods ending on or after June 30, 2009
- ⁴ Effective for annual periods beginning on or after July 1, 2009
- ⁵ Effective for annual periods beginning on or after October 1, 2008
- ⁶ Effective for transfers of assets from customers received on or after July 1, 2009
- * *Improvements to HKFRSs* issued in October 2008 contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.
- ** *Improvements to HKFRSs* issued in May 2009 contains amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, Appendix to HKAS 18, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expense and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combination to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheets at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively.

Associate

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interest in an associate is stated in the consolidated balance sheets at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statements and consolidated reserves, respectively.

The Company's interest in an associate is treated as a non-current asset and is stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheets as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at March 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statements in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3%
Hotel properties	4.5% to 20%
Furniture, fixtures and equipment	9% to 18%
Motor vehicles	9% to 18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Properties under development

Properties under development are stated at cost less impairment losses and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Properties under development are transferred to the appropriate category of property, plant and equipment, investment properties or properties held for sale or properties held for finance lease when completed and ready for use.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the lessee are accounted for as finance leases. At the inception of a finance lease, the revenue is recognised at the fair value of the assets, or if lower, the present value of the minimum lease payments accruing to the Group, computed at a market rate of interest. The cost of sales recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sales is the selling profit, which is recognised in accordance with the entity's policy for outright sales.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statements on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet dates.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statements when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statements.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Convertible notes

If the conversion option of convertible notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible notes based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. 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 the income statements.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statements.

Derivative financial instrument

A derivative financial instrument is initially recognised at fair value on the date on which a derivative contract is entered into and is subsequently remeasured at fair value. A derivative is carried as an asset when the fair value is positive and as a liability when the fair value is negative. Any gains or losses arising from changes in fair value on a derivative is taken directly to the income statements.

Properties held for sale and held for finance lease

Properties held for sale and held for finance lease are classified as current assets and are stated at the lower of cost and net realisable value on an individual property basis. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices, on an individual property basis.

Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "finance costs" in the income statements.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statements, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and an associate and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an associate and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet dates.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of completed properties, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the properties sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) property management service and other fee income, when the services have been rendered;
- (d) penalty income, on a cash receipt basis;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (f) revenue from hotel operation and the provision of related services, when the services have been rendered.

Employee benefits

Share-based payment transactions

The Company has granted certain share options for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 33 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet dates is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the period by the employees and carried forward.

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 9% of their respective payroll costs to the central pension scheme. The contributions are charged to the income statements as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company’s functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet dates. All differences are taken to the income statements. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of subsidiaries, jointly-controlled entities and an associate not operating in Hong Kong are currencies other than the Hong Kong dollar. As at the balance sheet dates, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet dates, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statements.

For the purpose of the consolidated cash flow statements, the cash flows of non-Hong Kong subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-Hong Kong subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in these financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainties at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at March 31, 2008 and 2009 was HK\$20,066,000.

Estimation of fair value of investment properties

The Group engaged Savills (Hong Kong) Limited ("Savills"), independent professionally qualified valuers, to perform the valuation of the Group's investment properties at the balance sheet dates.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

Summary details of the business segments are as follows:

- (a) the property development segment engages in the development of integrated logistic and trade centres and supporting residential properties;
- (b) the property investment segment invests in integrated logistic and trade centres and supporting facilities;
- (c) the property management segment engages in the management of the Group's developed properties; and
- (d) the hotel operation segment engages in the provision of hotel services.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the year:

Year ended March 31, 2009	Property development	Property investment	Property management	Hotel operation	Others	Eliminations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:							
Sales to customers	77,671	100,167	20,426	25,505	630	—	224,399
Intersegment sales	—	—	—	3,737	—	(3,737)	—
Total	77,671	100,167	20,426	29,242	630	(3,737)	224,399
Segment results before increase in fair value of investment properties							
Increase in fair value of investment properties.. . . .	—	1,153,903	—	—	—	—	1,153,903
Segment results after increase in fair value of investment properties	51,332	1,184,429	2,406	(10,803)	630	(3,332)	1,224,662
Unallocated income							19,077
Unallocated expenses							(211,968)
Finance costs..							(6,824)
Share of profits and losses of jointly- controlled entities	—	—	—	—	1,120	—	1,120
Share of loss of an associate	—	—	—	—	(327)	—	(327)
Profit before tax							1,025,740
Tax							(272,170)
Profit for the year							753,570
Assets and liabilities							
Segment assets.	670,578	8,029,987	477	94,158	671	—	8,795,871
Interests in jointly-controlled entities.	—	—	—	—	5,740	—	5,740
Interest in an associate	—	—	—	—	(1,106)	—	(1,106)
Unallocated assets							520,810
Total assets							9,321,315
Segment liabilities	183,480	1,421,028	442	—	926	—	1,605,876
Unallocated liabilities							3,219,481
Total liabilities.							4,825,357
Other segment information:							
Depreciation	—	62	343	21,771	360	—	22,536
Corporate and other unallocated amounts.. . . .							14,383
							36,919
Impairment of trade receivables recognised in the income statement.	—	4,321	—	—	—	—	4,321
Increase in fair value of investment properties	—	1,153,903	—	—	—	—	1,153,903

Year ended March 31, 2008	Property development	Property investment	Property management	Hotel operation	Others	Eliminations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:							
Sales to customers	449,937	77,451	14,267	19,596	1,629	—	562,880
Other revenue	—	—	—	—	—	—	—
Total	<u>449,937</u>	<u>77,451</u>	<u>14,267</u>	<u>19,596</u>	<u>1,629</u>	<u>—</u>	<u>562,880</u>
Segment results before increase in fair value of investment properties	223,642	56,098	2,580	(6,445)	1,029	—	276,904
Increase in fair value of investment properties.. . . .	—	670,871	—	—	—	—	670,871
Segment results after increase in fair value of investment properties	<u>223,642</u>	<u>726,969</u>	<u>2,580</u>	<u>(6,445)</u>	<u>1,029</u>	<u>—</u>	<u>947,775</u>
Unallocated income							24,433
Unallocated expenses							(174,571)
Finance costs..							(960)
Share of profits and losses of jointly- controlled entities							502
Share of loss of an associate							(329)
Profit before tax							796,850
Tax							(241,726)
Profit for the year							<u>555,124</u>
Assets and liabilities							
Segment assets.	304,684	5,426,059	1,034	64,935	1,136	—	5,797,848
Interests in jointly-controlled entities.	—	—	—	—	10,526	—	10,526
Interest in an associate	—	—	—	—	(755)	—	(755)
Unallocated assets							1,498,649
Total assets							<u>7,306,268</u>
Segment liabilities	86,934	1,325,990	946	—	1,477	—	1,415,347
Unallocated liabilities							2,248,369
Total liabilities.							<u>3,663,716</u>
Other segment information:							
Depreciation.	—	14	13	367	326	—	720
Corporate and other unallocated amounts.. . . .							28,888
							<u>29,608</u>
Increase in fair value of investment properties	—	670,871	—	—	—	—	<u>670,871</u>

Geographical segments

No geographical segment analysis is presented as all of the Group's assets and operations were located in Mainland China during the year.

5. REVENUE, OTHER INCOME AND A GAIN

Revenue, which is also the Group's turnover, represents the net sales of completed properties, rental income, hotel income and income from the provision of property management services and other fee income.

An analysis of revenue, other income and a gain is as follows:

	Note	Year ended 31 March 2009 HK\$'000	Year ended 31 March 2008 HK\$'000
Revenue			
Sale of properties		67,758	46,759
Finance lease income		9,913	403,178
Rental income		100,167	77,451
Hotel income		25,505	19,596
Property management service income		20,426	14,267
Other fee income		630	1,629
		224,399	562,880
Other income			
Interest income from:			
Banks		2,860	59
Loan receivables		7,804	746
Penalty income		830	13,890
Others		7,583	7,006
		19,077	21,701
Gain			
Change in fair value of investment properties	12	1,153,903	670,871
		1,172,980	692,572

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 March 2009 HK\$'000	Year ended 31 March 2008 HK\$'000
Cost of properties sold		21,333	7,652
Cost of properties under finance lease		5,006	217,638
Cost of services provided		127,301	60,686
Depreciation	11	37,352	29,830
Less: Depreciation capitalised in respect of properties under development		(433)	(222)
		36,919	29,608
Amortisation of prepaid land premiums	14	262	188
Minimum lease payments under operating leases in respect of land and buildings and vehicles		8,317	7,332
Auditors' remuneration		950	2,307
Employee benefits expense (including directors' remuneration (note 7)):			
Wages and salaries*		64,224	51,736
Equity-settled share option expense	33	6,587	39,524
Pension scheme contributions		3,508	1,199
		74,319	92,459
Foreign exchange differences, net		87	(998)
Impairment of trade receivables**		4,321	699
Impairment of interests in jointly-controlled entities**		2,037	5,587
		203,319	1,000,000

* Included an amount of HK\$7,072,000 for the year ended 31 March 2009 which was capitalised under properties under development (2008: HK\$4,983,000).

** Included in "Other expenses" in the consolidated income statement.

7. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Directors' remuneration for the year, disclosed pursuant to the Listing Rules of the Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 March 2009	Year ended 31 March 2008
	HK\$'000	HK\$'000
Fees	600	600
Other emoluments:		
Salaries, allowances and benefits in kind	9,227	8,022
Performance related bonus	—	2,056
Employee share option benefits	4,830	28,985
Pension scheme contributions	24	24
Total	<u>14,681</u>	<u>39,687</u>

Year ended March 31, 2009

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Employee share option benefits	Pension scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors						
Cheng Chung Hing	—	3,934	—	2,415	12	6,361
Leung Moon Lam	—	3,934	—	2,415	12	6,361
Xu Yang	—	1,359	—	—	—	1,359
	<u>—</u>	<u>9,227</u>	<u>—</u>	<u>4,830</u>	<u>24</u>	<u>14,081</u>
Non-executive directors						
Ma Kai Cheung	300	—	—	—	—	300
Sun Kai Lit, Cliff	300	—	—	—	—	300
	<u>600</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>600</u>
	<u>600</u>	<u>9,227</u>	<u>—</u>	<u>4,830</u>	<u>24</u>	<u>14,681</u>

Year ended March 31, 2008

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Employee share option benefits	Pension scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors						
Cheng Chung Hing	—	3,912	1,028	14,492	12	19,444
Leung Moon Lam	—	3,912	1,028	14,493	12	19,445
Xu Yang	—	198	—	—	—	198
	<u>—</u>	<u>8,022</u>	<u>2,056</u>	<u>28,985</u>	<u>24</u>	<u>39,087</u>
Non-executive directors						
Ma Kai Cheung	300	—	—	—	—	300
Sun Kai Lit, Cliff	300	—	—	—	—	300
	<u>600</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>600</u>
	<u>600</u>	<u>8,022</u>	<u>2,056</u>	<u>28,985</u>	<u>24</u>	<u>39,687</u>

During the year, no director waived or agreed to waive any emoluments and no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three directors (2008: three), whose emoluments are reflected in the analysis presented above. The emoluments to the remaining highest paid individuals for the year are as follows:

	Year ended 31 March 2009	Year ended 31 March 2008
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	4,341	3,000
Employee share option benefits	1,757	10,540
Pension scheme contributions	24	14
Total	<u>6,122</u>	<u>13,554</u>

8. FINANCE COSTS

	Year ended 31 March 2009	Year ended 31 March 2008
	HK\$'000	HK\$'000
Interest on bank loans, wholly repayable within five years, net	92,066	53,394
Interest on interest-bearing notes (note 29)	188,269	85,308
Less: Interest capitalised	(273,511)	(137,742)
Total	<u>6,824</u>	<u>960</u>

9. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year ended 31 March 2009 (2008: Nil). Major subsidiaries of the Group operate in Shenzhen, Mainland China, which were subject to the PRC corporate income tax rate of 20% for the year ended 31 March 2009 (2008: 18%).

During the 5th session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law was approved. It became effective on 1 January 2008. The PRC Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of income tax rates for domestic-invested and foreign-invested enterprises at 25%. Accordingly, the deferred taxes as at 31 March 2008 and 2009 have been provided at the enacted corporate tax rates.

The PRC land appreciation tax ("LAT") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures. An amount of LAT of HK\$17,713,000 was charged to the consolidated income statement for the year ended 31 March 2009 (2008: HK\$20,423,000).

The major components of income tax expense for the year are as follows:

	Year ended 31 March 2009	Year ended 31 March 2008
	HK\$'000	HK\$'000
Current — Mainland China	22,500	—
LAT in Mainland China	17,713	20,423
Deferred PRC corporate income tax (note 30)	231,957	221,303
Total tax charge for the year	<u>272,170</u>	<u>241,726</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	Year ended 31 March 2009	Year ended 31 March 2008
	HK\$'000	HK\$'000
Profit before tax	1,025,740	796,850
Tax at the statutory tax rate of 17.5%	179,505	139,449
Higher tax rates enacted by local authorities	25,818	4,070
Income not subject to tax	(2,496)	(874)
Expenses not deductible for tax	8,049	13,603
Tax losses utilised from previous years	(292)	(371)
Losses attributable to jointly- controlled entities and an associate	249	975
Tax losses not recognised	5,456	5,287
LAT	17,713	20,423
Tax effect of LAT	(3,543)	(3,676)
Effect of change in tax rate	41,711	62,840
Tax charge at the Group's effective rate	272,170	241,726

10. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion is not considered meaningful which is prepared for the restructuring of the Group in connection with the proposed listing on the Main Board of the Hong Kong Stock Exchange.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Hotel properties	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
March 31, 2008:					
At 1 April 2007:					
Cost	97,374	50,417	16,841	8,909	173,541
Accumulated depreciation	(13,411)	(2,269)	(7,459)	(3,160)	(26,299)
Net carrying amount	83,963	48,148	9,382	5,749	147,242
At 1 April 2007, net of accumulated depreciation	83,963	48,148	9,382	5,749	147,242
Additions	—		2,754	401	3,155
Acquisition of a subsidiary (note 35)		53,729	18,851	431	73,011
Transfer from properties under development (note 13)	8,427	—	2,703	—	11,130
Disposals	—	—	(12)	(1,085)	(1,097)
Depreciation provided during the year (note 6)	(8,853)	(13,245)	(6,118)	(1,614)	(29,830)
Exchange realignment	8,167	6,751	4,261	259	19,438
At 31 March 2008, net of accumulated depreciation	91,704	95,383	31,821	4,141	223,049
At 31 March 2008:					
Cost	115,273	111,117	51,167	7,889	285,446
Accumulated depreciation	(23,569)	(15,734)	(19,346)	(3,748)	(62,397)
Net carrying amount	91,704	95,383	31,821	4,141	223,049

	Buildings	Hotel properties	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
March 31, 2009:					
At 1 April 2008:					
Cost	115,273	111,117	51,167	7,889	285,446
Accumulated depreciation	(23,569)	(15,734)	(19,346)	(3,748)	(62,397)
Net carrying amount	<u>91,704</u>	<u>95,383</u>	<u>31,821</u>	<u>4,141</u>	<u>223,049</u>
At 1 April 2008, net of accumulated depreciation	91,704	95,383	31,821	4,141	223,049
Additions	—	325	1,501	3,096	4,922
Transfer from properties under development (note 13)	75,647	—	—	—	75,647
Transfer to properties held for finance lease	(6,928)	—	—	—	(6,928)
Disposals	(659)	—	(2,205)	(998)	(3,862)
Depreciation provided during the year (note 6)	(8,751)	(20,091)	(7,146)	(1,364)	(37,352)
Exchange realignment	1,999	2,080	690	57	4,826
At 31 March 2009, net of accumulated depreciation	<u>153,012</u>	<u>77,697</u>	<u>24,661</u>	<u>4,932</u>	<u>260,302</u>
At 31 March 2009:					
Cost	185,632	114,322	49,621	9,227	358,802
Accumulated depreciation	(32,620)	(36,625)	(24,960)	(4,295)	(98,500)
Net carrying amount	<u>153,012</u>	<u>77,697</u>	<u>24,661</u>	<u>4,932</u>	<u>260,302</u>

Certain of the Group's buildings and hotel properties with an aggregate carrying value of approximately HK\$66,588,000 as at 31 March 2009 (2008: HK\$42,574,000) were pledged to secure general banking facilities granted to the Group (note 26).

At March 31 2009, certificates of ownership in respect of certain buildings of the Group in the PRC with an aggregate net book value of HK\$9,489,000 had not been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates of ownership.

12. INVESTMENT PROPERTIES

	2009	2008
	HK\$'000	HK\$'000
Carrying amount at beginning of year	4,522,843	3,473,491
Transfer from properties under development (note 13)	766,562	—
Net gain from a fair value adjustment (note 5)	1,153,903	670,871
Exchange realignment	100,449	378,481
Carrying amount at 31 March	<u>6,543,757</u>	<u>4,522,843</u>

The above investment properties are held under medium term leases and are situated in Mainland China.

The Group's investment properties were revalued on 31 March 2009 by Savills Valuation and Professional Services Limited ("Savills"), independent professionally qualified valuers, at RMB5,770,000,000 (equivalent to HK\$6,543,757,000) on an open market, existing use basis (2008: RMB4,075,000,000 (equivalent to HK\$4,522,843,000)). The investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

Certain of the Group's investment properties with an aggregate carrying value of approximately HK\$3,524,783,000 as at 31 March 2009 (2008: HK\$4,522,843,000) were pledged to secure general banking facilities granted to the Group (note 26).

13. PROPERTIES UNDER DEVELOPMENT

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Carrying amount at beginning of year	818,815	271,557
Additions	1,789,167	924,689
Transfer to property, plant and equipment (note 11)	(75,647)	(11,130)
Transfer to investment properties (note 12)	(766,562)	—
Transfer to properties held for finance lease	—	(328,289)
Transfer to properties held for sale	(378,172)	(64,429)
Exchange realignment	16,970	26,417
Carrying amount at 31 March	<u>1,404,571</u>	<u>818,815</u>

The above properties under development are held under medium term leases and are situated in Mainland China.

Certain of the Group's properties under development with an aggregate carrying value of approximately HK\$140,549,000 as at 31 March 2009 (2008: HK\$182,057,000) were pledged to secure general banking facilities granted to the Group (note 26).

14. PREPAID LAND PREMIUMS

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Carrying amount at beginning of year	7,326	13,378
Decrease in land cost	—	(7,165)
Amortisation recognised during the year (note 6)	(262)	(188)
Exchange realignment	159	1,301
Carrying amount at 31 March	<u>7,223</u>	<u>7,326</u>
Current portion included in prepayments, deposits and other receivables	(172)	(162)
Non-current portion	<u>7,051</u>	<u>7,164</u>

The leasehold lands are held under a medium term lease and are situated in Mainland China.

Certain of the Group's leasehold lands with an aggregate carrying value of approximately HK\$2,486,000 as at 31 March 2009 (2008: HK\$2,488,000) were pledged to secure general banking facilities granted to the Group (note 26).

15. GOODWILL

Group	HK\$'000
Acquisition of a subsidiary (note 35) and at 31 March 2008 and 2009	<u>20,066</u>
At 31 March 2008 and 2009:	
Cost and net carrying amount	<u>20,066</u>

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the hotel operation cash-generating units for impairment testing. The recoverable amount of the hotel operation units is determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to the cash flow projection is 8%. The growth rates used to extrapolate the cash flow of the hotel operation for the fifth to tenth years and for the years beyond the ten-year period are assumed to be 6%—21% and 3%, respectively.

16. INTERESTS IN SUBSIDIARIES

Company

	2009	2008
	HK\$'000	HK\$'000
Unlisted investments, at cost	401,275	400,720
Loan to a subsidiary	608,400	608,400
Due from subsidiaries	283,473	98,216
Due to subsidiaries	(51,307)	(65,400)
	1,241,841	1,041,936
	1,241,841	1,041,936

The amount due to subsidiaries is unsecured, interest-free and repayable on demand. The carrying amount of the amount due to subsidiaries approximates to its fair value.

Particulars of subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up registered capital as at March 31, 2009	Date of incorporation/ registration	Percentage of equity attributable to the Company as at March 31,		Principal activities
				2008	2009	
				%	%	
華南國際工業原料城(深圳)有限公司 China South International Industrial Materials City (Shenzhen) Co. Ltd. * (ii) (iv)	PRC/ Mainland China	HK\$400,000,000	December 18, 2002	100	100	Development and management of China South International Materials City
深圳第一亞太物業管理有限公司 Shenzhen First Asia Pacific Property Management Co. Ltd. (i) (iv)	PRC/ Mainland China	RMB5,000,000	December 31, 2003	100	100	Provision of property management services
深圳跨國電子採購中心有限公司 Shenzhen International Electronics Procurement Centre Co. Ltd. (vi)	PRC/ Mainland China	RMB20,000,000	November 6, 2003	95	95	Dormant
深圳市華南城進出口貿易有限公司 Shenzhen China South Import and Export Trading Co. Ltd. (vi)	PRC/ Mainland China	RMB1,500,000	July 20, 2004	100	100	Dormant
深圳市華南城廣告有限公司 Shenzhen China South City Advertising Co. Ltd. (vi)	PRC/ Mainland China	RMB1,500,000	July 20, 2004	100	100	Provision of advertising services
華南城實業(河源)有限公司 China South City Enterprise (Heyuan) Co. Ltd. (i) (iv)	PRC/ Mainland China	HK\$100,000,000/ HK\$98,496,534	April 24, 2006	70	70	Property development
深圳市華南城國際會展中心有限公司 Shenzhen China South International Convention and Exhibition Centre Co. Ltd. (vi)	PRC/ Mainland China	RMB2,000,000	February 10, 2006	100	100	Provision of exhibition services
華麗城酒店(深圳)有限公司 Grand City Hotel (Shenzhen) Co. Ltd. (iii) (iv)	PRC/ Mainland China	RMB40,000,000	June 16, 2005	100	100	Hotel operations
華麗城酒店投資有限公司 Grand City Hotel Investment Limited (iii) (v)	Hong Kong	HK\$10,000	April 9, 2005	100	100	Investment holding
南昌華南城有限公司 Nanchang China South City Company Limited (vi)	PRC/ Mainland China	RMB150,000,000/ RMB100,000,000	November 16, 2007	100	100	Property development and management
諸暨泛亞物業管理有限公司 Zhuji Pan-Asia Property Management Enterprise Ltd. (v)	PRC/ Mainland China	RMB500,000	November 8, 2007	80	80	Dormant

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up registered capital as at March 31, 2009	Date of incorporation/ registration	Percentage of equity attributable to the Company as at March 31,		Principal activities
				2008	2009	
				%	%	
鐵嶺第一亞太物業管理有限公司 Tieling First Asia Pacific Property Management Co. Ltd. (v)	PRC/ Mainland China	RMB500,000	December 26, 2007	100	100	Dormant
華中城(BVI)有限公司 China Central City (BVI) Limited (v)	British Virgin Islands	US\$1	October 23, 2007	100	100	Investment holding
東盟城(BVI)有限公司 ASEAN City (BVI) Limited (v) .	British Virgin Islands	US\$1	October 23, 2007	100	100	Investment holding
華中城(香港)有限公司 China Central City (Hong Kong) Limited (v)	Hong Kong	HK\$1	November 9, 2007	100	100	Dormant
東盟城(香港)有限公司 ASEAN City (Hong Kong) Limited (v) . .	Hong Kong	HK\$1	November 9, 2007	100	100	Dormant

Notes:

- * The covenants of bank loan agreements of this subsidiary limit its ability to pay dividends to its holding companies.
- (i) Sino-foreign equity joint ventures
- (ii) A wholly-foreign-owned enterprise under PRC Law
- (iii) Acquired on July 27, 2007
- (iv) The financial statements of these companies for the year were prepared in accordance with PRC GAAP, and were audited by Shenzhen Yida Certified Public Accountants, which is registered in the PRC.
- (v) No audited financial statements have been prepared for these companies as they had not conducted any business since the dates of their incorporation/registration.
- (vi) No audited financial statements have been issued for these companies till the date of this Auditors' Report.

17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	2009	2008
	HK\$'000	HK\$'000
Share of net assets	3,414	2,244
Loans to jointly-controlled entities	9,114	12,930
	<u>12,528</u>	<u>15,174</u>
Provision for impairment	(6,788)	(4,648)
	<u>5,740</u>	<u>10,526</u>

The amounts advanced to the jointly-controlled entities included in the interests in jointly-controlled entities above are unsecured, have no fixed terms of repayment and were interest-free until July 2007, and when the amounts started to bear interest at 7%. The carrying amounts of these amounts due from jointly-controlled entities approximate to their fair values.

Particulars of the jointly-controlled entities are as follows:

Company name	Place of registration and operations	Nominal value of issued and fully paid-up registered capital as at March 31, 2009	Date of registration	Percentage of equity attributable to the Company as at March 31,		Principal activities
				2008	2009	
				%	%	
深圳市華南城新國貨物流有限公司 China South National Express Logistics (Shenzhen) Co., Ltd. [#]	PRC/Mainland China	RMB3,000,000	July 2, 2004	51	51	Provision of logistic services
華南富豪酒樓(深圳)有限公司 China South Royal Restaurant (Shenzhen) Co., Ltd. ^{#(i)}	PRC/Mainland China	RMB5,000,000	June 16, 2005	50.5	50.5	Restaurant operations

All of the above investments in jointly-controlled entities are indirectly held by the Company.

Notes:

The Group holds 51% and 50.5% of registered capital of China South National Express Logistics (Shenzhen) Co. Ltd. and China South Royal Restaurant (Shenzhen) Co. Ltd., respectively. Pursuant to memorandums of the shareholders' agreements and articles of association of the jointly-controlled entities, none of the parties has unilateral control or unanimous consent over the operating and financing decisions of these jointly-controlled entities. Accordingly, the Directors consider it appropriate to continue to account for the Group's interests therein as interests in jointly-controlled entities.

(i) Sino-foreign equity joint venture.

The following table illustrates summary financial information of the Group's jointly-controlled entities:

	2009	2008
	HK\$'000	HK\$'000
Share of jointly-controlled entities' assets and liabilities:		
Current assets	4,325	3,616
Non-current assets	427	393
Current liabilities	(1,338)	(1,765)
Non-current liabilities	—	—
Net assets	3,414	2,244
Share of jointly-controlled entities' results:		
Turnover	3,379	9,033
Other revenue	—	10
Total revenue	3,379	9,043
Total expenses	(2,259)	(9,553)
Profit/(Loss) for the year	1,120	(510)

18. INTEREST IN AN ASSOCIATE

	2009	2008
	HK\$'000	HK\$'000
Share of net assets	1,751	2,034
Due to an associate	(2,857)	(2,789)
	(1,106)	(755)

The amount due to an associate included in the interest in an associate above is unsecured, interest-free and has no fixed repayment terms.

Particulars of the associate are as follows:

Company name	Place of registration and operations	Nominal value of registered capital	Date of registration	Percentage of equity attributable to the Company as at March 31,		Principal activities
				2008	2009	
				%	%	
China South Intimex Technology (Shenzhen) Co., Ltd. (i)	PRC/Mainland China	RMB10,000,000	January 18, 2004	30	30	Website development and construction, maintenance and development of software, provision of consultancy service and trading of e-commerce hardware and software

Note:

- (i) Sino-foreign equity joint venture

The following table illustrates summary financial information of the Group's associate extracted from its audited financial statements:

	2009	2008
	HK\$'000	HK\$'000
Assets	7,874	8,426
Liabilities	2,037	1,647
Revenue	103	206
Loss	(1,089)	(1,098)

19. LOAN RECEIVABLES

The balances represent entrusted loans provided by the Group to purchasers through Shanghai Pudong Development Bank in connection with the sale of its properties. The loan receivables, which bear interest at a rate of 6.435% per annum, are secured by the properties sold and are repayable by monthly instalments within five years. The carrying amounts of the loan receivables approximate to their fair values. The amount of the current portion of the loan receivables of HK\$3,032,000 as at 31 March 2009 (2008: HK\$4,472,000) was included in prepayments, deposits and other receivables.

20. FINANCE LEASE RECEIVABLES

The balance represents entrusted loans provided by the Group to lessees through Shanghai Pudong Development Bank in connection with the finance lease of its properties. The finance lease receivables, which bear interest at a rate of 8.613% per annum, are repayable by monthly instalments within 10 years. The carrying amounts of the finance lease receivables approximate to their fair values. The amount of the current portion of the finance lease receivables of HK\$9,202,000 as at 31 March 2009 (2008: HK\$7,330,000) was included in prepayments, deposits and other receivables.

21. DEPOSITS PAID FOR PURCHASE OF LAND

The balances represent deposits paid for future acquisitions of parcels of land in Mainland China. The carrying amounts of the deposits paid for the purchase of land approximate to their fair values.

22. TRADE RECEIVABLES

Trade receivables represent rentals receivable from tenants, sales income and service income receivables from customers which are payable on presentation of invoices. Overdue balances are reviewed regularly by senior management. In view of this and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. The carrying amounts of the trade receivables approximate to their fair values.

An aged analysis of the trade receivables as at the balance sheet date, based on the payment due date, is as follows:

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Current	22,992	2,819
30 to 60 days	494	2,379
61 to 90 days	681	527
Over 90 days	1,363	5,245
	<u>25,530</u>	<u>10,970</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Prepayments	22,790	4,786
Deposits and other receivables	45,338	66,907
Due from minority shareholders (i)	—	1,110
	<u>68,128</u>	<u>72,803</u>

Note

(i) The amounts due from minority shareholders are interest-free, unsecured and repayable on demand.

24. CASH AND CASH EQUIVALENTS

	<u>Group</u>		<u>Company</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank equivalents	246,084	1,228,898	39,016	148,653

The cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$205,331,481 as at 31 March 2009 (2008: HK\$1,106,649,753). The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks. The carrying amounts of the cash and cash equivalents approximate to their fair values.

25. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Other payables	79,288	82,975
Receipts in advance	243,473	104,197
Rental deposits	16,585	14,981
Construction fee and retention payables	419,087	239,695
Accruals	11,752	6,166
Co-operative deposits	7,781	18,029
	<u>777,966</u>	<u>466,043</u>

The other payables are non-interest-bearing.

26. INTEREST-BEARING BANK BORROWINGS

		<u>2009</u>	<u>2008</u>
	Maturity	HK\$'000	HK\$'000
Current			
Bank loans — unsecured		8,506	59,483
Bank loans — secured		462,146	363,492
		<u>470,652</u>	<u>422,975</u>
Non-current			
Bank loans — secured	2010-2013	898,774	749,183
		<u>898,774</u>	<u>749,183</u>
Analysed into:			
Repayable within one year or on demand		470,652	422,975
Repayable in the second to fifth years, inclusive		898,774	749,183
		<u>1,369,426</u>	<u>1,172,158</u>

Certain of the Group's bank loans are secured by:

- (i) Certain of the Group's buildings and hotel properties with an aggregate carrying value of approximately HK\$66,588,000 as at 31 March 2009 (2008: HK\$42,574,000) (note 11);
- (ii) Certain of the Group's investment properties with an aggregate carrying value of approximately HK\$3,524,783,000 as at 31 March 2009 (2008: HK\$4,522,843,000) (note 12);
- (iii) Certain of the Group's properties under development with an aggregate carrying value of approximately HK\$140,549,000 as at 31 March 2009 (2008: HK\$182,057,000) (note 13);
- (iv) Certain of the Group's leasehold land with an aggregate carrying value of approximately HK\$2,486,000 as at 31 March 2009 (2008: HK\$2,488,000) (note 14); and
- (v) Certain of the Group's properties held for sale with aggregate carrying value of approximately HK\$45,255,000 as at 31 March 2009.

In addition, certain of the Company's directors and Tak Sing Alliance Holding Limited a beneficial shareholder of the Company, have guaranteed certain of the Group's bank loans up to HK\$8,506,000 as at 31 March 2009 (2008: HK\$59,483,000).

All interest-bearing bank loans bear interest at floating rates ranging from 5.13% to 7.74% per annum and are denominated in RMB.

27. BILLS PAYABLE

	<u>2008</u>	<u>2009</u>
	HK\$'000	HK\$'000
Bills Payable	—	237,332

28. DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

29. INTEREST-BEARING NOTES

On 11 July 2007, the Company issued US\$125 million convertible notes (the "Convertible Notes") bearing interest at coupon rates ranging from 7% to 11% per annum, subject to the success and the date of the Initial Public Offering ("IPO") of the Company, to independent financial institutions (hereinafter referred to as the "Noteholders" for the ultimate beneficial holders of the Convertible Notes). The Convertible Notes will mature on 11 July 2012. Prior to the amendments discussed below, the Convertible Notes were convertible into a certain percentage of the Company's shares and the conversion price was subject to anti-dilution adjustment. The Noteholders had the right to convert the Convertible Notes into shares of the Company from the IPO date to their maturity date.

On 28 March 2008, the Company entered into an agreement with the Noteholders, pursuant to which certain terms and conditions of the Convertible Notes and the trust deed that constitutes the Convertible Notes were amended and replaced with the revised terms and conditions. As a result, the conversion feature attached to the Convertible Notes was removed and the Convertible Notes became a pure debt (the "Interest-bearing Notes"). The Convertible Notes are no longer not convertible into the Company's shares. In addition, the existing shareholders of the Company (the "Existing

Shareholders”) will transfer certain of the Company’s shares currently held by the Existing Shareholders to the Noteholders upon the Company’s IPO. The number of the Company’s shares to be transferred is subject to adjustment and will not be finalised until the Company’s IPO.

The movements of the embedded financial derivatives and the liability components of the Convertible Notes during the year ended 31 March 2008 were as follows:

	HK\$’000
Derivative component at the issuance date	485,940
Fair value change on an embedded financial derivative	1,167
Derecognition	(487,107)
Derivative component at 31 March 2008	<u>—</u>
Liability component at the issuance date	440,591
Interest expense (note 8)	85,308
Interest paid	(34,125)
Derecognition	(491,774)
Liability component at 31 March 2008	<u><u>—</u></u>

As a result of the above transactions, the liability portion and embedded financial derivatives of the Convertible Notes totalling HK\$978,881,000 have been derecognised, and simultaneously the Interest-bearing Notes of HK\$796,113,000 and capital reserve of HK\$182,768,000, representing the fair value of the shares transferred by the Existing Shareholders to the Group, have been recognised. The fair value of the embedded financial derivatives of the Convertible Notes and the shares to be transferred by the Existing Shareholders were estimated by Vigers Appraisal & Consulting Ltd. (“Vigers”), an independent firm of professional qualified valuers. The fair value of the embedded financial derivatives was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions for the conversion option. The resulting gain net of the imputed cost of the shares to be transferred giving rise to the derecognition of the liability portion and embedded financial derivatives of the Convertible Notes is not significant.

The movements of the Interest-Bearing Notes during the year ended 31 March 2009 were as follows:

	HK\$’000
At 1 April 2008	796,113
Interest expense (note 8)	188,269
Interest paid	(68,592)
At 31 March 2009	<u><u>915,790</u></u>

30. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Accelerated tax depreciation	Revaluation of investment properties	Finance lease of West Garden	Total
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
At 1 April 2007	11,311	771,128	—	782,439
Deferred tax charged to the income statement during the year (note 9) . . .	4,706	168,266	51,682	224,654
Exchange realignment	1,729	85,193	3,126	90,048
At 31 March 2008 and 1 April 2008 . . .	<u>17,746</u>	<u>1,024,587</u>	<u>54,808</u>	<u>1,097,141</u>
Deferred tax charged to the income statement during the year (note 9) . . .	5,345	288,475	(55,914)	237,906
Exchange realignment	395	22,800	1,106	24,301
At 31 March 2009	<u><u>23,486</u></u>	<u><u>1,335,862</u></u>	<u><u>—</u></u>	<u><u>1,359,348</u></u>

The company’s deferred tax assets related to the LAT available for offsetting against future taxable profits and were credited to the consolidated results.

Deferred tax assets

	Tax effect of LAT
	HK\$'000
At 1 April 2007	2,869
Deferred tax credited to the income statement during the year (note 9)	3,351
Exchange realignment	279
At March 31 2008 and 1 April 2008	6,499
Deferred tax credited to the income statement during the year (note 9)	5,949
Exchange realignment	151
At 31 March 2009	12,599

31. DUE TO SHAREHOLDERS

The amounts due to shareholders of the Company are unsecured and interest-free and are not repayable within the next 12 months from the balance sheet date.

32. SHARE CAPITAL

	2009	2008
	HK\$'000	HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.01 each	10,000	10,000
Issued and fully paid:		
20,000,000 ordinary shares of HK\$0.01 each	200	200

33. SHARE OPTIONS

The Company has granted certain share options for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Grantees of the share options include management of the Group. The share options were approved by the Company on 13 October 2006.

The share options upon their exercise, will be equal to 3% of the total ordinary shares in the share capital of the Company upon the IPO of the Company. The options must be exercised within two to three years following the IPO of the Company, and the exercise price shall be 50% of the offer price of per share in the IPO.

During the year, all share options were granted to management, and all of them remained outstanding as at the year end dates. The fair value of the share options granted of HK\$67,521,000 was estimated by Vigers Appraisal & Consulting Ltd., an independent firm of professional qualified valuers. It was recognised as a share option expense of HK\$6,587,000 for the year ended 31 March 2009 (2008: HK\$39,524,000).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Value of the Company's shares	By reference to similar companies
Estimated exercise price	50% of stock price at grant date
Dividend yield (%)	0.00
Expected volatility (%)	40.00
Risk-free interest rate (%)	3.90
Expected life of options (year)	2.40

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Given the Company is not a listed company, the value of its shares is determined by reference to the market price-earning ratios of similar companies. The exercise price is 50% of the offer price of each share at the IPO. As the IPO price was not determinable at the date of approval of the financial statements, the exercise price is taken at 50% of the share price at the date of approval. The expected volatility is determined by reference to similar companies in the market. The expected life of the options is based on directors' estimation on the date of the IPO.

No other feature of the options granted was incorporated into the measurement of fair value.

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page F-68 of the financial statements.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to the statutory reserves which are restricted as to use.

(b) Company

	Capital reserve	Share option reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reserves				
At 1 April 2007	—	18,115	82,295	100,410
Equity-settled share option arrangements (note 33)	—	39,524	—	39,524
Equity contribution from shareholders (note 29)	182,768	—	—	182,768
Loss for the year	—	—	(22,471)	(22,471)
At 31 March 2008 and 1 April 2008 . . .	182,768	57,639	59,824	300,231
Equity-settled share option arrangements (note 33)	—	6,587	—	6,587
Loss for the year	—	—	(6,729)	(6,729)
At 31 March 2009	182,768	64,226	53,095	300,089

35. BUSINESS COMBINATION

On 27 July 2007, the Company acquired a 100% interest in Grand City Hotel Investment Limited at HK\$10,000, which was the joint venture partner of one of the Group's jointly-controlled entities, Grand City Hotel (Shenzhen) Co. Ltd (華麗城酒店(深圳)有限公司.) Subsequent to the acquisition, Grand City Hotel Investment Limited and Grand City Hotel (Shenzhen) Co. Ltd (華麗城酒店(深圳)有限公司) became wholly-owned subsidiaries of the Group.

The fair values of the identifiable assets and liabilities of Grand City Hotel Investment Limited and Grand City Hotel (Shenzhen) Co. Ltd (華麗城酒店(深圳)有限公司) as at the date of acquisition, which approximated to the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition HK\$'000
Net liabilities acquired:		
Property, plant and equipment	11	73,011
Prepayments, deposits and other receivables		3,461
Cash and bank balances		6,417
Interest-bearing bank borrowings		(33,075)
Due to holding companies		(67,508)
Other payables and accruals		(12,012)
		(29,706)
Equity attributable to the Group before acquisition		9,650
Goodwill on acquisition	15	20,066
		10
Satisfied by cash		10

Since its acquisition, Grand City Hotel (Shenzhen) Co. Ltd (華麗城酒店(深圳)有限公司) contributed HK\$19,596,000 to the Group's revenue and caused a loss of HK\$10,832,000 to the consolidated profit for the year ended 31 March 2008.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK\$575,180,000 and HK\$548,347,000, respectively.

36. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in notes 11, 12, 13, 14 and 26 to the financial statements.

37. CONTINGENT LIABILITIES

At the end of each of the year, contingent liabilities not provided for in the financial statements were as follows:

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to third parties	95,915	126,357

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 12) and properties sold accompanied with cooperation arrangements and leasing arrangements under operating lease arrangements negotiated for terms ranging from one to ten years. The terms of the leases also require the tenants to pay security deposits.

At the end of each of the year, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Within one year	65,564	85,388
In the second to fifth years, inclusive	46,695	93,314
After five years	13,795	10,792
Total	<u>126,054</u>	<u>189,494</u>

(b) As lessee

The Group leases certain of its staff quarters and properties sold under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years.

At the end of each of the year, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Within one year	73,195	5,456
In the second to fifth years, inclusive	61,033	20,443
After five years	2,972	9,467
Total	<u>137,200</u>	<u>35,366</u>

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group and the Company had the following commitments at the end of each of the year:

Group	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Contracted, but not provided for:		
Properties under development	304,065	827,026
Purchase of land	28,541	25,353
	<u>332,606</u>	<u>852,379</u>
Company		
Capital contributions to subsidiaries	67,228	76,583

40. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	Year ended 31 March 2009 HK\$'000	Year ended 31 March 2008 HK\$'000
Companies in which a director of the Company is a controlling shareholder:			
Purchases of products	(i)	81	420
Management fee paid	(ii)	—	442
Consultancy fees paid	(iii)	600	600
Rental rate and related services fees paid	(iv)	1,406	—

Notes:

- (i) The purchases of products from related companies were made according to the published prices and conditions offered by the related companies to their major customers.
- (ii) The management fees were related to management and administrative services provided to the Group by a related company. The fees were based on the actual staff costs incurred by the related company.
- (iii) The consultancy fees were related to the consultancy and management services provided to the Group by a related company and were based on terms mutually agreed between both parties.
- (iv) The rental rate and related services fees were related to the leasing of office space provide to the Group by a related company. The fees were based on terms mutually agreed between both parties.

(b) Other transactions with related parties

During the year 2007, Grand City Hotel (Shenzhen) Co. Ltd. (華麗城酒店(深圳)有限公司), and China South Royal Restaurant (Shenzhen) Co. Ltd. (華南富豪酒樓(深圳)有限公司), jointly-controlled entities of the Group, occupied the hotel and restaurant buildings owned by a subsidiary of the Company at nil consideration to operate their hotel and restaurant businesses up to August 2007.

The Company's directors and a related company have guaranteed certain of the Group's bank loans up to HK\$8,506,000 as at 31 March 2009 (2008: HK\$59,483,000) (note 26).

(c) Outstanding balances with related parties:

- (i) Details of the Group's amounts due from minority shareholders as at each of the balance sheet dates are included in note 23.
- (ii) Details of the Group's amounts due from jointly-controlled entities and due to an associate as at each of the balance sheet dates are disclosed in notes 17 and 18, respectively.
- (iii) Details of the Group's amounts due to directors and shareholders as at each of the balance sheet dates are included in notes 28 and 31, respectively.

(d) Compensation of key management personnel of the Company:

	Year ended 31 March 2009 HK\$'000	Year ended 31 March 2008 HK\$'000
Short term employee benefits	16,010	16,058
Post-employment benefits	132	117
Share-based payments	6,587	39,524
Total compensation paid to key management personnel	22,729	55,699

Further details of directors' emoluments are included in note 7 to the financial statements.

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets — Loans and receivables	2009	2008
	HK\$'000	HK\$'000
Amounts due from jointly-controlled entities (note 17)	9,114	12,930
Loan receivables	4,414	7,275
Financial lease receivables	65,952	75,007
Trade receivables	25,530	10,970
Other receivables	43,417	65,149
Cash and cash equivalents	246,084	1,228,898
	<u>394,511</u>	<u>1,400,229</u>
Financial liabilities at amortised cost	2009	2008
	HK\$'000	HK\$'000
Amount due to an associate (note 18)	2,857	2,789
Financial liabilities included in other payables (note 25)	498,375	322,670
Interest-bearing notes	915,790	796,113
Bills payable	237,332	—
Interest-bearing bank borrowings	1,369,426	1,172,158
	<u>3,023,780</u>	<u>2,293,730</u>

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets such as trade receivables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign exchange risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's borrowings. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 26 to the financial statements. The Group's policy is to obtain the most favourable interest rates available for its borrowings.

Because interest expenses related to the Group's borrowings were utilised primarily for property construction and were capitalised when incurred, management does not anticipate any significant impact resulting from changes in interest rates for the years ended 31 March 2008 and 2009.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral except for the loan receivables provided to the purchasers as disclosed in note 19 to these financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The maturity profile of the Group's financial liabilities as at the balance sheet dates, based on the contractual undiscounted payments, was as follows:

Group

	2009		
	Within one year	One to five years	Total
	HK\$'000	HK\$'000	HK\$'000
Financial liabilities included in other payables . . .	498,375	—	498,375
Interest-bearing notes	78,000	1,233,375	1,311,375
Interest-bearing bank borrowings	470,652	898,774	1,369,426
Bills payable	237,332	—	237,332
Total	<u>1,284,359</u>	<u>2,132,149</u>	<u>3,416,508</u>

	2008		
	Within one year	One to five years	Total
	HK\$'000	HK\$'000	HK\$'000
Financial liabilities included in other payables . . .	322,670	—	322,670
Interest-bearing notes	68,250	1,311,375	1,379,625
Interest-bearing bank borrowings	422,975	749,183	1,172,158
Total	<u>813,895</u>	<u>2,060,558</u>	<u>2,874,453</u>

The maturity profile of the Company's financial liabilities as at the balance sheet dates, based on the contractual undiscounted payments, was as follows:

Company

	2009			
	On demand	Within one year	One to five years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due to subsidiaries	51,307	—	—	51,307
Financial liabilities included in other payables	—	4,496	—	4,496
Interest-bearing notes	—	78,000	1,233,375	1,311,375
Total	<u>51,307</u>	<u>82,496</u>	<u>1,233,375</u>	<u>1,367,178</u>

	2008			
	On demand	Within one year	One to five years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due to subsidiaries	65,400	—	—	65,400
Financial liabilities included in other payables	—	9,140	—	9,140
Interest-bearing notes	—	68,250	1,311,375	1,379,625
Total	<u>65,400</u>	<u>77,390</u>	<u>1,311,375</u>	<u>1,454,165</u>

Foreign exchange risk

The Group's only investment in China remains its operating vehicle, which solely conducts business within Mainland China. Leaving aside interest payables, repayment of foreign currency loans obtained to finance the Group's operations and any potential future dividend its subsidiaries might declare to its shareholders, the bulk of its revenue, capital investment and expenses are denominated in RMB. At the time of printing this report, the Group had not experienced any difficulties in obtaining government approval for its necessary foreign exchange purchases. During the years ended 31 March 2008 and 2009 under audit, the Group did not issue any financial instruments for hedging purposes.

The following table demonstrates the sensitivity at the balance sheet dates to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Changes in RMB rate	Increase/ (decrease) in profit before tax
	%	HK\$'000
2009		
If Hong Kong dollar weakens against RMB	5	52,629
If Hong Kong dollar strengthens against RMB	3	(31,577)
2008		
If Hong Kong dollar weakens against RMB	5	41,074
If Hong Kong dollar strengthens against RMB	3	(24,644)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year for managing capital.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity. Net debt includes interest-bearing bank borrowings, interest-bearing notes, bills payable, less cash and cash equivalents. The gearing ratios as at the balance sheet dates were as follows:

Group	2009	2008
	HK\$'000	HK\$'000
Net debt	2,276,464	739,373
Total equity	4,495,958	3,642,552
Gearing ratio	51%	20%

43. POST BALANCE SHEET EVENTS

- (a) On 26 June 2009, the Group entered into a second note amended agreement with the Noteholders to reduce the coupon interest rates of the Interest-Bearing Notes from 9%, 11% and 11% to 0%, 3% and 6% for each of the three years ending 10 July 2010, 2011 and 2012, respectively. In addition, the early redemption option of the Interest-Bearing Notes was removed. On the same date, the Existing Shareholders entered into supplemental agreements with the Noteholders to change certain terms in the Share Transfer Agreements.
- (b) On 6 June 2009, the Group entered into a land-use right transfer agreement with the Zijin County Bureau of Land Resources in relation to 486,530 square meters of land at a total consideration of RMB72,979,500. The prepaid deposit in relation to but not limited to this land was approximately HK\$74.7 million as at 31 March 2009 (note 21).

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 June 2009.

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