

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should obtain independent professional advice.

If you have sold or transferred all your shares in Greentown China Holdings Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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



**GREENTOWN CHINA HOLDINGS LIMITED**

**綠城中國控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 03900)**

**CONNECTED TRANSACTION  
IN RELATION TO THE ISSUE OF NEW SHARES AND  
PERPETUAL SUBORDINATED CONVERTIBLE CALLABLE SECURITIES  
PURSUANT TO AN INVESTMENT AGREEMENT  
RE-ELECTION AND APPOINTMENT OF DIRECTORS  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

*Sole financial adviser to the Company*



*Independent Financial Adviser to*

*the Independent Board Committee and the Independent Shareholders*



A letter from the Board is set out on pages 8 to 40 of this circular and a letter from the Independent Board Committee is set out on pages 41 to 42 of this circular. A letter from Investec, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 43 to 74 of this circular.

A notice convening an extraordinary general meeting ("EGM") of Greentown China Holdings Limited (the "Company") to be held at 10:30 a.m. on Wednesday, 1 August 2012 at Hangzhou Rose Garden Resort & Spa, 128 Zhijiang Road, West Lake District, Hangzhou, Zhejiang Province, the People's Republic of China is set out on pages 83 to 85 of this circular. A form of proxy for appointing proxy to attend the EGM is also enclosed. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.greentownchina.com](http://www.greentownchina.com)).

Whether or not you are able to attend, you should complete and return the form of proxy in accordance with the instructions stated thereon and return it to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event by not later than 48 hours before the time appointed for holding such meeting or any adjournment thereof.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so wish, in which case the form of proxy shall be deemed to be revoked.

# CONTENTS

	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	8
<b>Letter from the Independent Board Committee</b> .....	41
<b>Letter from the Independent Financial Adviser</b> .....	43
<b>Appendix – General Information</b> .....	75
<b>Notice of the EGM</b> .....	83

## DEFINITIONS

*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

- “Announcement” : the announcement of the Company dated 8 June 2012 in relation to, among other things, the Subscription Agreement and the Investment Agreement
- “associate” : has the meaning ascribed to it in the Listing Rules
- “Board” : the board of Directors
- “Breach Event” : occurs when (i) the Gearing Ratio is 100% or more; and (ii) a member of the Group carries out any acquisition of land or investment in any property development project without the prior written consent from the majority of the members of the investment committee of the Company (which shall comprise the written consent of the representative appointed by the Share Investor)
- “Business Day” : a day, other than a Saturday or Sunday or public holiday, on which commercial banks are generally open for normal banking business in Hong Kong
- “Capital Distribution” : (i) any distribution of assets in specie by the Company for any financial period whenever paid or made and however described (and for these purposes a distribution of assets in specie includes without limitation an issue of Shares or other securities credited as fully or partly paid (other than Shares credited as fully paid) by way of capitalisation of reserves, but excludes a Scrip Dividend adjusted for under (ii)); and (ii) any cash dividend or distribution (including, without limitation, a Scrip Dividend) of any kind by the Company for any financial period (whenever paid and however described) unless:
- (a) (and to the extent that) in the case of a Relevant Cash Dividend, such dividend does not, when taken together with any other Relevant Cash Dividends previously made or paid in respect of the same fiscal year, on a per Share basis exceed 50% of the Company’s most recently published annual or interim consolidated net income; or

## DEFINITIONS

- (b) it comprises a purchase or redemption of Shares by or on behalf of the Company (or a purchase of Shares by or on behalf of a subsidiary of the Company) where the weighted average price (before expenses) on any one day in respect of such purchases does not exceed the average closing market price of the Shares as quoted by the Stock Exchange or, as the case may be, an alternative stock exchange, by more than 105% either (1) for the five trading days on which transactions in the Shares were recorded preceding the day of the purchase, or (2) where an announcement has been made of the intention to purchase Shares at some future date at a specified price, on the trading day immediately preceding the date of such announcement (excluding, for the avoidance of doubt, general authority for such purchases given by a Shareholders' meeting of the Company, or any notice convening such meeting)

- “Company” : Greentown China Holdings Limited (綠城中國控股有限公司\*), an exempted company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange
- “connected person” : has the meaning ascribed to it in the Listing Rules
- “Conversion Price” : the price per Share at which Shares will be allotted and issued upon conversion of the Convertible Securities, such price initially being HK\$7.40 per Share but subject to adjustment in accordance with the terms and conditions of the Convertible Securities
- “Conversion Shares” : the Shares to be allotted and issued by the Company upon conversion of the Convertible Securities
- “Convertible Securities” : the Hong Kong dollar denominated perpetual subordinated convertible callable securities of the Issuer with an aggregate principal amount of HK\$2,550 million to be issued pursuant to the Investment Agreement

## DEFINITIONS

“Director(s)”	:	the director(s) of the Company
“EGM”	:	an extraordinary general meeting to be held by the Company to consider and, if thought fit, approve the Transactions, and the re-election of Mr Ng and the appointment of Mr Tsui as non-executive Directors
“First Tranche Shares”	:	the 327,849,579 Shares allotted and issued to the Share Investor under the Subscription Agreement
“First Tranche Subscription”	:	the allotment and issue of the First Tranche Shares to the Share Investor under the Subscription Agreement
“Gearing Ratio”	:	the gearing ratio of the Company as measured by the net debt divided by net assets as disclosed in the latest published annual or interim financial results of the Company (whichever is more recent) from time to time
“Group”	:	the Company and its subsidiaries
“Guarantee”	:	the guarantee given by the Company on a subordinated basis in respect of the due payment of all sums expressed to be payable by the Issuer under the Convertible Securities
“HK\$”	:	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	:	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	:	a board committee comprising all of the independent non-executive Directors to advise the Independent Shareholders in respect of the Transactions
“Independent Financial Adviser” or “Investec”	:	Investec Capital Asia Limited, a corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the Transactions
“Independent Shareholders”	:	Shareholders who are not required to abstain from voting on the resolutions to approve the Transactions under the Listing Rules

## DEFINITIONS

- “Initial Spread” : 8.4%, which is calculated based on the distribution rate of 9% for the first five years of the Convertible Securities less the U.S. five year treasury rate as at the Latest Practicable Date
- “Investment Agreement” : the investment agreement among the Company, the Issuer, the Share Investor, the PSCS Investor and Wharf dated 8 June 2012 in relation to the subscription and issue of the Second Tranche Shares and the Convertible Securities, as amended and supplemented by the Supplemental Agreement and by the parties to the Investment Agreement from time to time
- “Issue Date” : the date of issue of the Convertible Securities under the Investment Agreement
- “Issuer” : Active Way Development Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
- “Last Trading Day” : 7 June 2012, being the last full trading day of the Shares on the Stock Exchange immediately prior to the publication of the Announcement
- “Latest Practicable Date” : 13 July 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
- “Listing Rules” : Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
- “Mr Luo” : Mr Luo Zhaoming, the vice chairman of the Board and an executive Director
- “Mr Ng” : Mr Ng Tin Hoi, Stephen, a non-executive Director
- “Mr Shou” : Mr Shou Bainian, the executive vice chairman of the Board, the chief executive officer of the Company and an executive Director
- “Mr Song” : Mr Song Weiping, the chairman of the Board and an executive Director
- “Mr Tsui” : Mr Tsui Yiu Cheung, a proposed non-executive Director
- “Ms Xia” : Ms Xia Yibo, the spouse of Mr Song

## DEFINITIONS

- “Note Holders” : the holders of the US\$400 million 9.00% senior notes due 2013, 90.3% of the notes was repurchased by the Company in May 2009 as more particularly disclosed in the Company’s announcements dated 21 April 2009 and 20 May 2009
- “Option Holders” : the holders of the share options granted by the Company
- “Parity Securities” : in respect of the Issuer and the Company, as the case may be: (i) any security issued or guaranteed by the Issuer which ranks or is expressed to rank *pari passu* with the Convertible Securities; (ii) any securities issued by the Company which ranks or is expressed to rank *pari passu* with the Company’s obligation under the Guarantee; and (iii) any security guaranteed by the Company or for which the Company has otherwise assumed liability where the Company’s obligations under the relevant guarantee or other assumption of liability rank or are expressed to rank *pari passu* with the Company’s obligations under the Guarantee
- “parties acting in concert” : shall have the meaning ascribed to it in the Takeovers Code, and the terms “concert parties” shall be construed accordingly
- “PRC” : the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
- “PSCS Investor” : Enzio Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Wharf
- “Public Float Issues” : has the meaning ascribed to it under “Restrictions on conversion” in the paragraph headed “Letter from the Board — 2. The Investment Agreement — The Convertible Securities — Principal terms of the Convertible Securities” in this circular
- “Relevant Cash Dividend” : the aggregate cash dividend or distribution declared by the Company, including any cash dividend in respect of which there is any Scrip Dividend (which, for the avoidance of doubt, shall exclude a purchase or redemption of Shares, but include the Relevant Cash Dividend component of a Scrip Dividend)

## DEFINITIONS

- “Reset Date” : the fifth anniversary of the Issue Date and each day falling on the expiry of every five calendar years after the fifth anniversary of the Issue Date
- “Scrip Dividend” : any Shares issued in lieu of the whole or any part of any Relevant Cash Dividend being a dividend which the Shareholders concerned would or could otherwise have received and which would not have constituted a Capital Distribution (and for the avoidance of doubt, no adjustment is to be made under the conditions as specified in the terms and conditions of the Convertible Securities)
- “Second Tranche Shares” : the 162,113,714 Shares to be allotted and issued to the Share Investor under the Investment Agreement
- “Second Tranche Subscription” : the allotment and issue of the Second Tranche Shares to the Share Investor under the Investment Agreement
- “SFO” : the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
- “Share Investor” : Target Smart Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Wharf
- “Share Option Scheme” : the share option scheme of the Company adopted by the Shareholders on 22 June 2006 and any other similar option scheme(s) to be adopted by the Company from time to time
- “Share(s)” : ordinary share(s) of HK\$0.10 each in the capital of the Company
- “Shareholder(s)” : the registered holder(s) of the Share(s)
- “Stock Exchange” : The Stock Exchange of Hong Kong Limited
- “Subscription Agreement” : the subscription agreement among the Company, the Share Investor and Wharf dated 8 June 2012 in relation to the subscription and issue of the First Tranche Shares
- “Subscription Price” : HK\$5.20 per Share



## DEFINITIONS

- “Supplemental Agreement” : the supplemental agreement to the Investment Agreement among the Company, the Issuer, the Share Investor, the PSCS Investor and Wharf dated 16 July 2012
- “Takeovers Code” : The Codes on Takeovers and Mergers and Share Repurchase
- “Transactions” : the transactions contemplated under the Investment Agreement
- “VWAP” : in respect of the Convertible Securities, the order book volume-weighted average price of a Share appearing on or derived from Bloomberg screen 3900 HK Equity VAP on a particular day, provided that where such price is not available or cannot otherwise be determined as provided above, VWAP shall be:
- (a) the closing price on such day; and
  - (b) if the closing price is not available, the VWAP determined as provided above, on the immediately preceding Stock Exchange trading day on which the same can be so determined
- “Wharf” : The Wharf (Holdings) Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange (stock code: 00004), and a subsidiary of Wheelock
- “Wharf Group” : Wharf and its subsidiaries including the Share Investor and the PSCS Investor
- “Wheelock” : Wheelock and Company Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange (stock code: 00020)
- “Winding-up” : with respect to the Issuer or the Company, a final and effective order or resolution for the bankruptcy, winding up, liquidation, receivership or similar proceedings in respect of the Issuer or the Company, as the case may be
- “%” : per cent.

\* For identification purposes only



**GREENTOWN CHINA HOLDINGS LIMITED**

**綠城中國控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 03900)**

*Executive Directors:*

Mr Song Weiping (*Chairman*)  
Mr Shou Bainian (*Executive Vice-Chairman*)  
Mr Luo Zhaoming (*Vice-Chairman*)  
Mr Guo Jiafeng  
Mr Cao Zhounan

*Registered office:*

M&C Corporate Services Limited  
PO Box 309GT, Uglan House  
South Church Street  
George Town, Grand Cayman  
Cayman Islands

*Non-Executive Director:*

Mr Ng Tin Hoi, Stephen

*Principal place of business in Hong Kong:*

Room 1406-8, 14th Floor  
New World Tower 1

*Independent Non-Executive Directors:*

Mr Jia Shenghua  
Mr Jiang Wei  
Mr Sze Tsai Ping, Michael  
Mr Tang Shiding  
Mr Ke Huanzhang  
Mr Hui Wan Fai

16-18 Queen's Road Central  
Hong Kong

17 July 2012

*To the Shareholders and, for information only, the Note Holders and the Option Holders*

Dear Sir or Madam,

**CONNECTED TRANSACTION  
IN RELATION TO THE ISSUE OF NEW SHARES AND  
PERPETUAL SUBORDINATED CONVERTIBLE CALLABLE SECURITIES  
PURSUANT TO AN INVESTMENT AGREEMENT  
RE-ELECTION AND APPOINTMENT OF DIRECTORS**

**1. INTRODUCTION**

On 8 June 2012, the Board announced that the Company has entered into the Subscription Agreement with the Share Investor (a wholly-owned subsidiary of Wharf) and Wharf pursuant to which the Company conditionally agreed to allot and issue, and the Share Investor conditionally agreed to subscribe for, the First Tranche Shares each at the Subscription Price in cash. Completion of the First Tranche Subscription took place on 15 June 2012.

\* *For identification purposes only*

## LETTER FROM THE BOARD

The Board also announced that, on the same day, the Company and the Issuer, a wholly-owned subsidiary of the Company, entered into the Investment Agreement with the Share Investor, the PSCS Investor (a wholly-owned subsidiary of Wharf) and Wharf pursuant to which (i) the Company has conditionally agreed to allot and issue, and the Share Investor has conditionally agreed to subscribe for, the Second Tranche Shares each at the Subscription Price in cash; and (ii) the Issuer has conditionally agreed to issue the Convertible Securities, and the PSCS Investor has conditionally agreed to subscribe for the Convertible Securities in the principal amount of HK\$2,550 million in cash. As subsequently announced by the Company on 16 July 2012, the Investment Agreement was amended and supplemented by the Supplemental Agreement dated 16 July 2012, in which the parties have conditionally agreed on certain amendments to the terms and conditions of the Convertible Securities.

As at the date of the Announcement, Wharf was interested in 34,888,500 Shares. As at the Latest Practicable Date, the Share Investor and its associates were interested in an aggregate of 362,738,079 Shares (including the First Tranche Shares), representing approximately 18.4% of the entire issued share capital of the Company as enlarged by the First Tranche Subscription. Accordingly, the Share Investor is a substantial Shareholder and hence the allotment and issue of the Second Tranche Shares and the issue of the Convertible Securities under the Investment Agreement and the allotment and issue of the Conversion Shares (if any) will constitute a connected transaction and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Any connected person or Shareholder with a material interest in the Transactions and its respective associates shall abstain from voting on the resolutions with respect to the Transactions. Given that the Share Investor and the PSCS Investor (both of whom are wholly-owned subsidiaries of Wharf) and Wharf are parties to the Investment Agreement, Wharf and its associates are required under the Listing Rules to abstain from voting on the resolutions with respect to the Transactions.

An Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the Transactions. Investec has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

The purpose of this circular is to provide, among other things, (i) further details of the Investment Agreement and the proposed re-election of Mr Ng and appointment of Mr Tsui as non-executive Directors; (ii) a letter from the Independent Board Committee; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the Transactions; (iv) a notice of the EGM; and (v) other information concerning the Company as required under the Listing Rules.

Macquarie Capital (Hong Kong) Limited has been appointed as the sole financial adviser to the Company with respect to the Subscription Agreement and the Investment Agreement.

## LETTER FROM THE BOARD

### 2. THE INVESTMENT AGREEMENT

The principal terms of the Investment Agreement are as follows:

Date: 8 June 2012

Parties: (1) The Company  
(2) The Issuer, a wholly-owned subsidiary of the Company  
(3) The Share Investor, a wholly-owned subsidiary of Wharf  
(4) The PSCS Investor, a wholly-owned subsidiary of Wharf  
(5) Wharf

Pursuant to the Investment Agreement: (i) the Company has conditionally agreed to allot and issue, and the Share Investor has conditionally agreed to subscribe for, the Second Tranche Shares; and (ii) the Issuer has conditionally agreed to issue, and the PSCS Investor has agreed to subscribe for, the Convertible Securities.

The Company has agreed to guarantee on a subordinated basis the due payment of all sums expressed to be payable by the Issuer under the Convertible Securities. Wharf has, among other things, guaranteed the punctual and due performance and observation of the obligations, commitments, undertakings and covenants of the Share Investor and the PSCS Investor under and pursuant to the Investment Agreement.

On 16 July 2012, the Company and the Issuer entered into the Supplemental Agreement with the Share Investor, the PSCS Investor and Wharf, pursuant to which the parties have conditionally agreed on certain amendments to the terms and conditions of the Convertible Securities. Please refer to the principal terms of the Convertible Securities headed "Restrictions on conversion", "Transferability" and "Listing" under "Letter from the Board — 2. The Investment Agreement — The Convertible Securities — Principal terms of the Convertible Securities" for further details of such amendments.

#### **The Second Tranche Shares**

*Total number of Second Tranche Shares to be allotted and issued under the Investment Agreement*

162,113,714 Shares of HK\$0.10 each, representing (i) approximately 8.2% of the entire issued share capital of the Company at the Latest Practicable Date; and (ii) approximately 7.6% of the entire issued share capital of the Company as enlarged by the Second Tranche Subscription (assuming that there will be no other issue of Shares).

## LETTER FROM THE BOARD

### *Subscription Price*

The total subscription price for the Second Tranche Shares amounts to approximately HK\$843 million. The Subscription Price of HK\$5.20 per Share represents:

- (i) a discount of approximately 2.8% to the closing price of HK\$5.35 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 4.1% to the average of the closing price of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$4.99 per Share;
- (iii) a premium of approximately 5.2% to the average of the closing price of the Shares as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.95 per Share;
- (iv) a discount of approximately 42.3% to the closing price of HK\$9.01 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a discount of approximately 41.9% to the net asset value per Share of RMB7.28 (or HK\$8.95 at the exchange rate of RMB1.00 to HK\$1.23) as at 31 December 2011.

The Subscription Price was determined by the Company, the Share Investor and Wharf after arm's length negotiations. When determining the Subscription Price, the Company has taken into account, among other things, the trading prices of the Shares prior to the entering into of the Investment Agreement (which, for the purpose of this sentence, excludes the Supplemental Agreement) on 8 June 2012, the prevailing market price of the Shares and the strategic value of the investment.

### *Ranking*

The Second Tranche Shares, when issued and fully paid, will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Second Tranche Shares.

### *Application for listing*

Application will be made to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Second Tranche Shares on the Stock Exchange.

## LETTER FROM THE BOARD

### The Convertible Securities

#### *Principal terms of the Convertible Securities*

- Issuer : the Issuer, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.
- Guarantor : the Company.
- Principal amount of the Convertible Securities : HK\$2,550 million.
- Form and denomination : The Convertible Securities will be issued in registered form in the denomination of HK\$10,000,000 each.
- Guarantee : The Company has agreed to guarantee on a subordinated basis the due payment of all sums expressed to be payable by the Issuer under the Convertible Securities.
- Status and subordination of the Convertible Securities : The Convertible Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves. In the event of the Winding-up of the Issuer, the rights and claims of a holder of the Convertible Securities shall rank ahead of those persons whose claims are in respect of any class of share capital (including preference shares) of the Issuer, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Issuer other than the claims of holders of the Parity Securities.
- Status and subordination of the Guarantee : In the event of the Winding-up of the Company, the rights and claims of a holder of the Convertible Securities in respect of the Guarantee shall rank ahead of those persons whose claims are in respect of any class of share capital (including preference shares) of the Company, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Company, other than the claims of holders of the Parity Securities.
- Issue price : 100% of the principal amount of the Convertible Securities.

## LETTER FROM THE BOARD

- Maturity date : There is no maturity date.
- Distribution : The Convertible Securities confer the holders a right to receive distribution (each a “**Distribution**”) at the applicable distribution rate from and including the Issue Date to but excluding and payable, on the first anniversary from the Issue Date, thereafter semi-annually in arrear.
- Rate of distribution : The distribution rate shall be (i) in respect of the period from, and including the Issue Date to, but excluding the 5th anniversary from the Issue Date, 9% per annum and (ii) in respect of the period from and including the 5th anniversary from the Issue Date to, but excluding the 10th anniversary from the Issue Date, 9% per annum plus 2% per annum and from, and including, each Reset Date falling after the 5th anniversary from the Issue Date to, but excluding, the immediately following Reset Date, the Initial Spread plus the applicable 5-year U.S. Treasury Rate plus 2% per annum. The applicable 5-year U.S. Treasury Rate refers to the prevailing rate that represents the average for the week immediately prior to the date on which the reset is calculated as published by the Board of Governors of the U.S. Federal Reserve.
- Optional deferral of distribution : The Issuer may at its sole discretion elect to defer any scheduled Distribution (the “**Arrears of Distribution**”) to the next scheduled Distribution payment date by giving prior written notice. The Issuer may further defer any Arrears of Distribution following the foregoing notice requirement and is not subject to any limits as to the number of times Distributions and Arrears of Distribution can be deferred.

Any Arrears of Distribution and any Additional Distribution Amount (as defined below) shall be extinguished upon any voluntary conversion by the holders of the Convertible Securities.

## LETTER FROM THE BOARD

Each amount of Arrears of Distribution (as defined below) shall bear interest as if it constituted the principal of the Convertible Securities at the prevailing Distribution Rate and the amount of such interest (the “**Additional Distribution Amount**”) with respect to Arrears of Distribution shall be due and payable and shall be calculated by applying the Distribution Rate to the amount of the Arrears of Distribution.

Distributions are cumulative subject to limited exceptions set forth under the terms and conditions of the Convertible Securities, whereby arrears of distribution and additional distribution amounts due in respect of the Convertible Securities are extinguished through the delivery by the Company of Shares on conversion of the Convertible Securities (unless this is a result of a forced conversion). The Additional Distribution Amount accrued up to any payment date for any Distribution shall be added to the amount of Arrears of Distribution remaining unpaid on such payment date for any Distribution so that it will itself become Arrears of Distribution.

- Dividend and capital distribution stopper : Unless and until the Issuer or the Company satisfies in full all outstanding Arrears of Distribution and any Additional Distribution Amount, the Issuer and the Company shall not declare or pay any dividends, distributions or make payment on, and will procure that no dividend or other payment is made on or redeem, reduce, cancel, buy-back or acquire for any consideration any share capital thereof (including preference shares) or Parity Securities.
- Conversion period : The Convertible Securities are convertible at any time after the expiry of three years from the Issue Date, except if an offer is made to Shareholders for all the outstanding Shares of the Company or if a Breach Event occurs, in which case, the Convertible Securities may be converted at any time on or after the offer is formally announced in compliance with applicable rules and regulations or for so long as the Breach Event is continuing, as the case may be.



## LETTER FROM THE BOARD

- Restrictions on conversion : A holder of the Convertible Securities may only convert such number of Convertible Securities as would not cause the Company not to comply with the minimum public float requirement under the Listing Rules, following the conversion (the “**Public Float Issues**”).
- Initial conversion price : HK\$7.40 per Share, represents (i) a premium of approximately 38.3% to the closing price of HK\$5.35 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of approximately 48.2% to the average of the closing price of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$4.99 per Share; (iii) a premium of approximately 49.7% to the average of the closing price of the Shares as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.95 per Share; (iv) a discount of approximately 17.9% to the closing price of HK\$9.01 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (v) a discount of approximately 17.3% to the net asset value per Share of RMB7.28 (or HK\$8.95 at the exchange rate of RMB1.00 to HK\$1.23) as at 31 December 2011.

The initial Conversion Price was determined by the Company, the PSCS Investor and Wharf after arm’s length negotiations. When determining the initial Conversion Price, the Company has taken into account, among other things, the trading prices of the Shares prior to the entering into of the Investment Agreement (which, for the purpose of this sentence, excludes the Supplemental Agreement) on 8 June 2012, the prevailing market price of the Shares, the valuation metrics of the Company’s listed comparable companies and the strategic value of the investment.

## LETTER FROM THE BOARD

Conversion price adjustment : The Conversion Price will be subject to adjustment for, among other things, the following dilutive events:

- consolidation, subdivision or reclassification
- capitalisation of profits or reserves
- capital distributions
- rights issues of Shares or options over Shares
- rights issues of other securities
- issues at less than 92% of the then prevailing market price
- modification of rights of conversion
- other offers to Shareholders
- other events

Conversion price adjustment upon consolidation, subdivision or reclassification : If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

## LETTER FROM THE BOARD

Conversion price adjustment upon capitalisation of profits or reserves : (a) If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account) including, Shares paid up out of distributable profits or reserves and/or share premium account (except any Scrip Dividend) and which would not have constituted a Capital Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares or if the number of such Shares is fixed on announcement and a record date is fixed therefor, immediately after such record date.

(b) In the case of an issue of Shares by way of a Scrip Dividend where the aggregate then prevailing market price on the date of announcement of the terms of such issue of such Shares multiplied by the number of such Shares issued exceeds 105% of the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Capital Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A+B}{A+C}$$

## LETTER FROM THE BOARD

where:

A is the number of Shares in issue immediately before such Scrip Dividend;

B is the number of Shares which the Relevant Cash Dividend would purchase at such then prevailing market price; and

C is the number of Shares to be issued pursuant to such Scrip Dividend;

or by making such other adjustment as an independent investment bank shall certify to the holders is fair and reasonable.

Such adjustment shall become effective on the date of issue of such Shares or if the number of such Shares is fixed on announcement and a record date is fixed therefor, immediately after such record date.

Conversion price adjustment upon capital distributions : If and whenever the Company shall pay or make any Capital Distribution to the Shareholders (except to the extent the Conversion Price falls to be adjusted under other provisions of the terms and conditions of the Convertible Securities that would otherwise require an adjustment), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Capital Distribution by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the then prevailing market price of one Share on the date on which the Capital Distribution is first publicly announced; and

B is the fair market value on the date of such announcement of the portion of the Capital Distribution attributable to one Share.

## LETTER FROM THE BOARD

Such adjustment shall become effective on the date that such Capital Distribution is actually made or if a record date is fixed therefor, immediately after such record date. For the avoidance of doubt, when the Capital Distribution is by means of a distribution of cash dividend, only such portion of the cash dividend which exceeds the threshold referred to in proviso (a) of the definition of Capital Distribution (the “**excess portion**”) shall be regarded as Capital Distribution and only the excess portion shall be taken into account in determining the fair market value of the portion of the Capital Distribution attributable to one Share.

Conversion price  
adjustment upon rights  
issues of shares or  
options over shares

: If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase or otherwise acquire any Shares, in each case at less than 92% of the then prevailing market price per Share on the date of the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued or granted by way of rights and for the total number of Shares comprised therein would subscribe, purchase or otherwise acquire at the then prevailing market price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

## LETTER FROM THE BOARD

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants as the case may be.

Conversion price adjustment upon rights issues of other securities : If and whenever the Company shall issue any securities (other than Shares or options, warrants or other rights to subscribe, purchase or otherwise acquire any Shares) to all or substantially all Shareholders as a class by way of rights or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the then prevailing market price of one Share on the date on which such issue or grant is publicly announced; and

B is the fair market value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or the issue or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants as the case may be on the relevant stock exchange.

## LETTER FROM THE BOARD

Conversion price adjustment upon issues at less than current market price : If and whenever the Company shall issue any Shares (other than Shares issued on the exercise of conversion rights or on the exercise of any other rights of conversion into, or exchange or subscription for Shares) or issue or grant any options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at a price per Share which is less than 92% of the then prevailing market price on the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe, purchase or otherwise acquire any Shares;

B is the number of Shares which the aggregate consideration (if any) receivable for the issue of such additional Shares or would purchase at the then prevailing market price; and

C is the number of Shares to be issued pursuant to such issue of Shares or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue or grant of such options, warrants or rights.

References to additional Shares in the above formula shall, in the case of an issue by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

## LETTER FROM THE BOARD

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the grant of such options, warrants or other rights.

Conversion price adjustment upon other issues at less than the then prevailing market price

: Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this provision, if and whenever the Company or any of its subsidiaries, or (at the direction or request of or pursuant to any arrangements with the Company or any of its subsidiaries), any other company, person or entity shall issue any securities (other than the Convertible Securities) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares at a consideration per Share which is less than 92% of the then prevailing market price on the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before such issue;

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at the then prevailing market price; and

C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of issue of such securities.



## LETTER FROM THE BOARD

Conversion price adjustment upon modification of rights of conversion : If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities which are issued at less than 92% of the then prevailing market price (other than in accordance with the terms of such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 92% of the then prevailing market price on the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before such modification;

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at such prevailing market price or, if lower, the existing conversion, exchange or subscription price of such securities; and

C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of the right of subscription attached thereto at the modified conversion, exchange or subscription or purchase price or rate but giving credit in such manner as an independent investment bank, considers appropriate (if at all) for any previous adjustment under this condition or the condition where the Conversion Price is subject to adjustment for issues at less than 92% of the then prevailing market price.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

## LETTER FROM THE BOARD

Conversion price adjustment upon other offers to Shareholders : If and whenever the Group or (at the direction or request of or pursuant to any arrangements with the Group) any other company, person or entity issues, sells or distributes any securities in connection with which an offer pursuant to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under the adjustment provisions pertaining to (i) rights issues of Shares or options over Shares at less than 92% of the then prevailing market price; (ii) rights issues of other securities; (iii) issues at less than 92% of the then prevailing market price; or (iv) other issues at less than the then prevailing market price) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the then prevailing market price of one Share on the date on which such issue is publicly announced; and

B is the fair market value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue, sale or delivery of the securities.

## LETTER FROM THE BOARD

Conversion price adjustment upon other events : If the Company determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in any of the conditions as specified in the terms and conditions of the Convertible Securities, the Company shall, at its own expense, consult an independent investment bank to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination by the independent investment bank such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that where the events or circumstances giving rise to any adjustment pursuant to the Conversion Price adjustment conditions as specified in the terms of the Convertible Securities have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of events or circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of the Conversion Price adjustment conditions as specified in the terms of the Convertible Securities as may be advised by the independent investment bank to be in its opinion appropriate to give the intended result.

This is a common term included in the terms and conditions of the Convertible Securities without referring to any specific circumstances. It is expected the circumstances in which the Company would seek to avail itself to this flexibility to be extremely limited. As summarised above, there is a requirement to consult an independent investment bank in making this adjustment, and the determination would be made by this independent investment bank not by the Company.

The Conversion Price may not be reduced so that, on conversion of the Convertible Securities, Shares would fall to be issued at a discount to their par value.

## LETTER FROM THE BOARD

- Issuer call : At any time after the Issue Date, the Issuer may redeem all or some of the Convertible Securities together with all outstanding Arrears of Distribution and any Additional Distribution Amount (if any) and the Distribution accrued to the date fixed for redemption at the following prices as a percentage of the principal amount:
- (a) from, and including, the Issue Date to, but excluding, the 1st anniversary of the Issue Date, at 103.5% of the principal amount;
  - (b) from, and including the 1st anniversary of the Issue Date to, but excluding, the 2nd anniversary of the Issue Date, at 107.0% of the principal amount;
  - (c) from, and including the 2nd anniversary of the Issue Date to, but excluding, the 3rd anniversary of the Issue Date, at 110.5% of the principal amount;
  - (d) from, and including the 3rd anniversary of the Issue Date to, but excluding, the 4th anniversary of the Issue Date, at 114.0% of the principal amount; and
  - (e) from, and including the 4th anniversary of the Issue Date, at 117.5% of the principal amount.
- Issuer's option to force conversion : On or at any time after three years from the Issue Date, the Issuer may, at its sole discretion and subject to certain conditions (including but not limited to the condition that VWAP of the Shares for each of the 30 consecutive trading days ending on a date which is no more than three business days immediately prior to the date upon which notice of such Conversion is given, was at least 130% of the applicable Conversion Price then in effect) under the terms of the Convertible Securities, elect to convert the Convertible Securities in whole but not in part into Conversion Shares.

## LETTER FROM THE BOARD

- Clean-up call : If at any time the aggregate principal amount of the Convertible Securities outstanding is less than 10% of the aggregate principal amount originally issued, the Issuer shall have the option to redeem such outstanding Convertible Securities in whole but not in part at their principal amount together with all outstanding Arrears of Distribution, any Additional Distribution Amount (if any) and the Distribution accrued to the date fixed for redemption.
- Tax call : If there is any change to British Virgin Islands or Cayman Islands tax law which would result in the Issuer or the Company becoming liable to pay additional tax amounts, the Issuer shall have the option to redeem such outstanding Convertible Securities in whole but not in part at their principal amount together with all outstanding Arrears of Distribution, any Additional Distribution Amount (if any) and any Distribution accrued to the date fixed for redemption. Holders have the right to elect for their Convertible Securities not to be redeemed but with no entitlement to any gross up for the additional tax amounts.
- Accounting call : If there is any change or amendment to International Financial Reporting Standards which would result in the Convertible Securities ceasing to qualify as equity securities in the financial statements of the Guarantor, the Issuer shall have the option to redeem such outstanding Convertible Securities in whole but not in part at their principal amount together with all outstanding Arrears of Distribution, any Additional Distribution Amount (if any) and any Distribution accrued to the date fixed for redemption.
- Delisting or suspension : When the Shares cease to be listed or admitted to trading or the trading of which is suspended for a period of more than 180 consecutive stock exchange business days, Holders shall have the option to require the Issuer to redeem all, or some only, of the outstanding Convertible Securities at their principal amount together with all outstanding Arrears of Distribution and any Additional Distribution Amount (if any) and the Distribution accrued to the date fixed for redemption.

## LETTER FROM THE BOARD

Conversion Shares : Based on the initial Conversion Price, a maximum of 344,594,594 Conversion Shares will be issued by the Company upon the full conversion of the Convertible Securities, representing (i) approximately 21.0% of the entire issued share capital of the Company as at the date of the Announcement (prior to the enlargement of the share capital of the Company by the issue and allotment of the First Tranche Shares pursuant to the First Tranche Subscription); (ii) approximately 17.5% of the entire issued share capital of the Company as at the Latest Practicable Date (subsequent to the share capital of the Company having been enlarged by the issue and allotment of the First Tranche Shares pursuant to the First Tranche Subscription); (iii) approximately 16.2% of the entire issued share capital of the Company as enlarged by the issue and allotment of the Second Tranche Shares pursuant to the Second Tranche Subscription; and (iv) approximately 13.9% of the entire issued share capital of the Company as further enlarged by a full conversion of the Convertible Securities (based on the initial Conversion Price) under the Investment Agreement (in each case assuming no other issue of Shares is made).

The Conversion Shares will rank, upon issue, *pari passu* in all respects with the Shares in issue on the date of allotment and issue of such Conversion Shares.

Transferability : The Convertible Securities are freely transferable.

Voting : Holder of the Convertible Securities will not be entitled to attend or vote at any meetings of the Company or the Issuer by reason only of its being a holder.

Listing : Save as required in the manner set out below, no application will be made for the listing of the Convertible Securities on the Stock Exchange or any other stock exchange. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. Pursuant to the Supplemental Agreement, at any time after the third anniversary of the Issue Date, holder(s) of the then outstanding Convertible Securities may require the Issuer to use its best endeavours to effect the listing of the Convertible Securities within three months (or such longer period of time as such holder(s) may agree) after the date on which the relevant request is made.

## LETTER FROM THE BOARD

### **Specific mandate**

The Company will seek a specific mandate from the Independent Shareholders for the allotment and issue of the Second Tranche Shares to be issued under the Investment Agreement and the Conversion Shares issuable upon the conversion of the Convertible Securities at the EGM.

### **Conditions precedent**

Completion of the Second Tranche Subscription and the issue of the Convertible Securities under the Investment Agreement is conditional upon the fulfilment of the following conditions:

- (a) the passing by the Independent Shareholders at the EGM of the necessary resolutions to approve the Investment Agreement and the Transactions;
- (b) the Listing Committee of the Stock Exchange granting the approval for the listing of and permission to deal in the Second Tranche Shares and the Conversion Shares issuable upon the conversion of the Convertible Securities;
- (c) Wharf and Wheelock having obtained all necessary approvals, consents and waivers from the Stock Exchange and its shareholders for the transactions contemplated under the Subscription Agreement and the Investment Agreement;
- (d) there shall not have occurred any change, event, circumstance or other matter that has, either individually or in the aggregate, a material adverse effect on the business, operations, financial condition, assets or liabilities of the Group taken as a whole which results in a net decrease in the Group's consolidated net asset value by more than 30% of its consolidated net asset value as shown in the audited financial statements of the Group for the year ended 31 December 2011;
- (e) the warranties given by the Company and the Issuer to the Share Investor and the PSCS Investor under the Investment Agreement being true, accurate and not misleading in all material respects as at the date of the Investment Agreement and as at the date of completion of the Second Tranche Subscription and the issue of the Convertible Securities; and
- (f) the warranties given by the Share Investor, the PSCS Investor and Wharf to the Company and the Issuer under the Investment Agreement being true, accurate and not misleading in all material respects as at the date of the Investment Agreement and as at the date of completion of the Second Tranche Subscription and the issue of the Convertible Securities.

## LETTER FROM THE BOARD

The Share Investor and the PSCS Investor, on the one hand, may waive any of the conditions precedent set out in items (d) and (e) at any time by notice in writing to the Company, while the Company, on the other hand, may waive condition precedent set out in item (f) at any time by notice in writing to the Share Investor and the PSCS Investor. The date on which all the conditions precedent set out above have been (and continue to be) satisfied (or waived pursuant to the terms set out in the Investment Agreement) shall be the unconditional date (the “**Unconditional Date**”). If the Unconditional Date has not occurred within 180 days after the date of the Investment Agreement or such other date as may be agreed between the Company and the Issuer, on the one hand, and the Share Investor and the PSCS Investor, on the other hand in writing, the Investment Agreement shall terminate save as otherwise provided therein and (without prejudice to the rights and/or obligations of any party in respect of any antecedent breach) the parties to the Investment Agreement shall be released and discharged from their respective obligations under the Investment Agreement.

As at the Latest Practicable Date, condition (c) has been satisfied.

### **Completion**

Completion of the Second Tranche Subscription and the issue of the Convertible Securities under the Investment Agreement shall take place simultaneously and shall occur on the second Business Day after the Unconditional Date.

### **Undertakings given by the Share Investor**

#### *Non-disposal undertaking*

Each of the Share Investor and Wharf undertakes to the Company that during the period from the date of the Investment Agreement and until the expiry of two years from the date of completion of the Second Tranche Subscription (the “**Non-disposal Period**”), it will not, without the Company’s prior written consent offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right, interest, encumbrance or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Second Tranche Shares (or any other shares, securities or interest of the Company deriving from the Second Tranche Shares) or the shares of the Share Investor or any of its holding companies or enter into any arrangement or agreement in respect of the voting rights attached to any of the Second Tranche Shares (or any such other shares, securities or interest) or the shares of the Share Investor or any of its holding companies, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise. The aforesaid non-disposal undertaking shall cease to be effective upon the occurrence of one or more of the following events during the Non-disposal Period:

- (a) either Mr Song or Mr Shou terminates his service with the Group as a member of its senior management or an employee of the Group;



## LETTER FROM THE BOARD

- (b) Mr Song, Mr Shou and Mr Luo together cease to control 30% or more of the voting power of the Company, other than as a result of (i) a transfer or sale of any Shares to the Share Investor, Wharf or any of their respective associates; or (ii) the conversion of the Convertible Securities pursuant to its terms;
- (c) occurrence of a Breach Event; and
- (d) any resolution is passed or order made for the winding up, dissolution, administration or reorganisation of any member of the Group or a moratorium is declared in relation to any indebtedness of any member of the Group, the appointment of any liquidator, receiver, administrator, administrative receiver, compulsory manager or other similar officer in respect of any member of the Group or any of its assets, or any analogous procedure or step in respect of any member of the Group is taken in any jurisdiction, in each case which would have a material adverse effect on the financial condition, operations, business or properties of the Group taken as a whole.

### *Non-acquisition undertaking*

Each of the Share Investor and Wharf undertakes to the Company that, during the period from the date of the Investment Agreement and until the expiry of five years from the date of completion of the Second Tranche Subscription (the “**Non-acquisition Period**”), each of the Share Investor and Wharf will not, and will procure that parties acting in concert with it will not, directly or indirectly, acquire or agree to acquire any additional Shares, the economic consequences of ownership of any additional Shares, or any additional voting power or control to exercise any additional voting power in the Company (or enter into any arrangement or agreement to give such effect including with respect to the voting rights attached the Shares), whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, such that it and parties acting in concert with it (whether alone or together) will come to hold or control more Shares or voting power of the Company than any other single Shareholder from time to time, save that the Share Investor and Wharf shall be deemed not to be in breach of the aforesaid undertaking if the Share Investor, Wharf and their respective concert parties (whether alone or together) have come to hold or control more Shares or voting power of the Company than any other single Shareholder from time to time solely as a result of the occurrence any of the following events:

- (a) the conversion of the Convertible Securities pursuant to its terms;
- (b) any disposal of Shares by any Shareholder who, immediately following the completion of the Second Tranche Subscription, holds more Shares or voting power than the Share Investor (and its concert parties), to a person other than the Share Investor, Wharf or any of their respective concert parties; or

## LETTER FROM THE BOARD

- (c) any dilution of the shareholding interest in the Company held by any of the Shareholders described in (ii) above (other than the Share Investor, Wharf and their respective concert parties),

provided that once the Share Investor, Wharf and their respective concert parties (whether alone or together) come to hold or control more Shares or voting power of the Company than any other single Shareholder pursuant to any of the above permitted exceptions, each of the Share Investor and Wharf undertakes that it will not during the Non-acquisition Period, directly or indirectly, acquire or agree to acquire any additional Shares, the economic consequences of ownership of any additional Shares, or any voting power or the control to exercise any additional voting power in the Company (or enter into any arrangement or agreement to give such effect including with respect to the voting rights attached the Shares), whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise.

### **Anti-dilution rights given to the Share Investor**

For so long as the Share Investor holds at least 23.0% of the issued share capital of the Company from time to time and subject to (i) the proviso below; (ii) compliance with the then applicable Listing Rules, provisions of the constitutional documents of the Company and laws and regulations by the Company; and (iii) compliance with the non-acquisition undertaking by the Share Investor as described above, if the Company at any time from the date of completion of the Second Tranche Subscription up to five years therefrom, issues or offers any new Shares (including securities convertible into Shares), the Share Investor shall be entitled to subscribe for or purchase, at the same time as and on the same terms (including price) offered to other investors, such Shares (and/or securities, as the case may be) in such number as is necessary for the Share Investor to maintain its pre-offering percentage shareholding in the Company. The Share Investor shall not be entitled to the aforesaid anti-dilution rights in the issue or offering of new Shares (including securities convertible or exchangeable into Shares) pursuant to: (i) any rights issue; (ii) the exercise of any options which may be granted or exercise of rights of subscription or conversion of under the terms of any bonds, notes, warrants, debentures or other securities (including the Convertible Securities) which carry right to subscribe for or are convertible into Shares and are existing as at the date of the completion of the Second Tranche Subscription; (iii) any scrip dividend, bonus issue or similar arrangement; (iv) the exercise of any options granted or which may be granted under the Share Option Scheme; or (v) any transaction by any members of the Group pursuant to which such new Shares (including securities convertible into Shares) are to be issued by the Company as consideration. The aforesaid anti-dilution rights shall terminate and be of no effect immediately upon the Share Investor ceasing to hold at least 23.0% of the then issued share capital of the Company.

## LETTER FROM THE BOARD

### 3. BOARD RESOLUTIONS AND UNDERTAKINGS FROM MR SONG, MR SHOU AND MR LUO

With a view to better managing any Public Float Issues that may arise, the Board has passed certain board resolutions in relation to, among other things, any future share repurchase and share placement, and each of Mr Song, Mr Shou and Mr Luo has given an undertaking to the Company in relation to, among other things, any future increment of the Shares and/or share options of the Company held by him and/or his associates during the period when the Convertible Securities remain outstanding.

#### **Board resolutions**

- (a) the Company shall not conduct any share repurchase, whether by way of purchase or redemption of Shares (so long as any such proposed share repurchase, if conducted, would result in any of the Convertible Securities being prohibited from conversion into Conversion Shares due to any Public Float Issues) without the prior approval duly passed by the majority of a committee of the Board comprising all of the non-executive Directors and independent non-executive Directors (the “**Special Committee**”), provided that such restriction shall not affect the approval of any general repurchase mandate by the Shareholders at any annual general meeting of the Company;
- (b) if the rights of any holder(s) of the Convertible Securities to convert the Convertible Securities into Conversion Shares is prohibited due to any Public Float Issues and the relevant holder(s) shall have notified the Company in writing of its/their intention to exercise its/their conversion rights attaching to the Convertible Securities, the Company shall as soon as reasonably practicable eliminate the relevant Public Float Issues, including but not limited to conducting placement of new Shares to party or parties not being the Company’s connected person(s) at a price reasonably acceptable to the Board for the purpose of (among other things) maintaining the necessary public float of the Company, subject to compliance with the then applicable Listing Rules, then funding needs of the Company as well as the Directors’ fiduciary duties in making any such placement decisions; and
- (c) the duly passed resolutions of the Board referred to in (a) and (b) above shall not be revised or revoked without the prior approval duly passed by the majority of the Special Committee, unless the amendments to the terms and conditions of the Convertible Securities pursuant to the Supplemental Agreement do not become effective.

## LETTER FROM THE BOARD

### **Undertakings from Mr Song, Mr Shou and Mr Luo**

Each of Mr Song, Mr Shou and Mr Luo has undertaken to the Company to the effect that he shall not, and shall procure his associates not to, (i) increase their shareholding in the Company including but not limited to subscribing for new Shares or acquiring issued Shares (so long as (a) the Company does not comply with the minimum public float requirement under the Listing Rules at the relevant time; or (b) any such proposed increment, if conducted, would result in any of the Convertible Securities being prohibited from conversion due to insufficient public float of the Company); or (ii) accept any grant of additional share options (which are convertible into Shares) to him and/or his associates by the Group, without the prior approval duly passed by the majority of the Special Committee. For the avoidance of doubt, the aforesaid undertakings shall not restrict any of Mr Song, Mr Shou, Mr Luo and their respective associates from acquiring or subscribing for further Shares under the following circumstances: (a) the exercise of any share options granted by the Company to any of them on or prior to 8 June 2012 for the allotment and issue of an aggregate of 16,698,000 Shares; and (b) the subscription for or acquisition of Shares by any of them unless this will result in any of the following: (i) an increase in their aggregate percentage shareholding in the Company; (ii) a dilution of the aggregate percentage shareholding of Wharf and its associates in the Company; and (iii) a decrease in the then prevailing available buffer for the holder(s) of the Convertible Securities to exercise its/their conversion rights without being prohibited by the Public Float Issues. The aforesaid undertakings will be terminated and of no effect once none of the Convertible Securities remains outstanding.

#### **4. PROPOSED RE-ELECTION AND APPOINTMENT OF NON-EXECUTIVE DIRECTORS**

##### **Mr Ng**

Pursuant to the Subscription Agreement, the Board has appointed Mr Ng, a candidate nominated by the Share Investor, as a non-executive Director with effect from 15 June 2012. The Company entered into an appointment letter with Mr Ng regarding his appointment commencing from 15 June 2012 for an initial term of three years subject to the terms and conditions of the appointment letter. Under the appointment letter, Mr Ng will be entitled to a director's fee of RMB260,000 per year, which was determined by reference to, among other things, his responsibilities and the prevailing market terms. Mr Ng's appointment as a non-executive Director is also subject to retirement by rotation and he shall be eligible for re-election in accordance with the Company's articles of association. In this regard, Mr Ng has taken this opportunity to retire and make himself available, and the Company has agreed to propose Mr Ng, for re-election by the Shareholders at the EGM as a non-executive Director.

## LETTER FROM THE BOARD

Mr Ng, aged 59, has been deputy chairman and managing director of Wharf since 1994. He joined the Wharf Group in 1981 and became director and chief financial officer in 1987. He was appointed managing director in May 1989 and deputy chairman in June 1994. Among the Wharf Group's principal subsidiaries, he is chairman of publicly-listed Harbour Centre Development Limited (stock code: 00051.HK), publicly-listed i-CABLE Communications Limited (stock code: 01097.HK), Modern Terminals Limited, Wharf T&T Limited and The "Star" Ferry Company Limited. Mr Ng is also deputy chairman of Wheelock (owner of over 50% of Wharf) and Chairman of Joyce Boutique Holdings Limited (stock code: 00647.HK), both publicly listed in Hong Kong.

Mr Ng was born in Hong Kong in 1952 and grew up in Hong Kong. He attended Ripon College in Ripon, Wisconsin, U.S.A. and the University of Bonn, Germany, from 1971 to 1975, and graduated with a major in mathematics. He is vice chairman of The Hong Kong General Chamber of Commerce and a council member of the Employers' Federation of Hong Kong. He is also a member of the Hong Kong Port Development Council and the Port Development Advisory Group.

Save as disclosed above, Mr Ng has not held any other directorship in other listed public companies in the last three years and does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company, nor does he hold any interest in the Shares which is required to be disclosed pursuant to Part XV of the SFO.

Save as disclosed above, there are no other matters concerning the proposed re-election of Mr Ng as a non-executive Director that need to be brought to the attention of the Shareholders and there is no information relating to Mr Ng that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

### **Mr Tsui**

Pursuant to the Investment Agreement, the Company has agreed to propose Mr Tsui, being another candidate nominated by the Share Investor, for election by the Shareholders at the EGM as a non-executive Director.

Mr Tsui, *FCCA, FCPA, FCMA, FCIS, CGA-Canada*, aged 65, is an executive director and the group chief financial officer of Wheelock and also of its listed subsidiary, Wharf. Mr Tsui joined Wheelock/Wharf group in 1996 and is presently a director of certain other subsidiaries of Wheelock, including Harbour Centre Development Limited (stock code: 00051.HK) and i-CABLE Communications Limited (stock code: 01097.HK), both being companies publicly listed in Hong Kong, and Wheelock Properties (Singapore) Limited, which is publicly listed in Singapore. He is also the vice chairman of Wheelock Properties Limited, formerly a publicly-listed company until it became a wholly-owned subsidiary of Wheelock in July 2010. Furthermore, Mr Tsui is a director of publicly-listed Joyce Boutique Holdings Limited (stock code: 00647.HK).

## LETTER FROM THE BOARD

Subject to the approval of Shareholders at the EGM in relation to the Investment Agreement and Mr Tsui's appointment, the Company intends to enter into a service contract with Mr Tsui for an initial term of three years. Mr Tsui will be entitled to a director fee to be determined by the remuneration committee and the Board by reference to, among other things, his responsibilities and the prevailing market terms. Mr Tsui's appointment as a non-executive Director is also subject to retirement by rotation and he shall be eligible for re-election in accordance with the Company's articles of association.

Save as disclosed above, Mr Tsui has not held any other directorship in other listed public companies in the last three years and does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company, nor does he hold any interest in the Shares which is required to be disclosed pursuant to Part XV of the SFO.

Save as disclosed above, there are no other matters concerning the proposed appointment of Mr Tsui as a non-executive Director that need to be brought to the attention of the Shareholders and there is no information relating to Mr Tsui that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

Mr Ng has been appointed as a non-executive Director since 15 June 2012 (being the date of completion of the Subscription Agreement). In light of Mr Ng's relation with the Wharf Group, Mr Ng has abstained from voting on the resolutions of the Board regarding future share repurchase and placement of the Company (as described under "Letter from the board — 4. Board resolutions and undertakings from Mr Song, Mr Shou and Mr Luo") and the Supplemental Agreement. In relation to the Investment Agreement (which, for the purpose of this sentence, excludes the Supplemental Agreement) dated 8 June 2012, no Directors at the time of approving it by the Board had a material interest and therefore no Director abstained from voting on the resolutions of the Board approving the Investment Agreement prior to its signing.

### **5. INFORMATION ON THE GROUP AND THE WHARF GROUP**

The Group is one of the leading property developers in the PRC and is primarily engaged in developing quality properties targeting middle to higher income residents in the PRC.

Wharf is a company listed on the main board of the Stock Exchange. The principal business activities of the Wharf Group are ownership of properties for development and letting, investment holding, container terminals as well as communications, media and entertainment.

## LETTER FROM THE BOARD

### **6. REASONS FOR AND BENEFITS OF ENTERING INTO THE INVESTMENT AGREEMENT**

The Directors believe that the subscription monies from the issue of the Second Tranche Shares and the Convertible Securities pursuant to the Investment Agreement will improve the cash position of the Group, reduce its gearing and hence strengthen the overall balance sheet position of the Company. The subscription monies will also provide additional cash resources for the Group to fund its investments and capital expenditure. The introduction of the Wharf Group as a strategic investor of the Company will create opportunities for enhanced strategic dialogue and cooperation with the Wharf Group in the PRC property sector. As at the Latest Practicable Date, the Company has not identified any specific investment opportunities.

Having considered the aforesaid, the Directors believe that the terms of the Investment Agreement are fair and reasonable and in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend all Shareholders to vote in favour of all the relevant resolutions to be proposed at the EGM.

### **7. USE OF PROCEEDS**

The aggregate amount to be raised pursuant to the Subscription Agreement and the Investment Agreement is approximately HK\$5,098 million (approximately HK\$1,705 million under the Subscription Agreement and approximately HK\$3,393 million under the Investment Agreement). The net proceeds from the aforesaid agreements after deducting the related expenses is approximately HK\$5,087 million. The net price per Share under the Subscription Agreement and the Investment Agreement (based on the initial Conversion Price) after deducting the related expenses is approximately HK\$5.85.

The Company currently intends to apply the net proceeds for general corporate purposes, repayment of loan and/or as general working capital.

### **8. EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY**

Based on the information available to the Directors as at the Latest Practicable Date and on the assumption that the shareholding structure of the Company remains unchanged save as otherwise described in this circular, for illustration purpose only, set out below are the shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) immediately following completion of the Second Tranche Subscription; (iii) immediately upon full conversion of the Convertible Securities (based on the initial



## LETTER FROM THE BOARD

Conversion Price); and (iv) immediately upon conversion of the Convertible Securities (based on the initial Conversion Price) to the extent such conversion is not prohibited by the terms and conditions of the Convertible Securities:

	As at the Latest Practicable Date	% of the issued share capital	Immediately following completion of the Second Tranche Subscription	% of the issued share capital	Immediately upon full conversion of the Convertible Securities <i>(Note 4)</i>	% of the issued share capital	Immediately upon conversion of the Convertible Securities to the extent such conversion is not prohibited by the terms and conditions of the Convertible Securities	% of the issued share capital
Mr Song <i>(Note 1)</i>	540,983,000	27.5	540,983,000	25.4	540,983,000	21.9	540,983,000	23.8
Mr Shou <i>(Note 2)</i>	384,490,500	19.5	384,490,500	18.1	384,490,500	15.6	384,490,500	17.0
Mr Luo <i>(Note 3)</i>	100,000,000	5.1	100,000,000	4.7	100,000,000	4.0	100,000,000	4.4
Other Directors	13,010,000	0.6	13,010,000	0.6	13,010,000	0.5	13,010,000	0.6
Share Investor and its associates	362,738,079	18.4	524,851,793	24.6	869,446,387	35.1	662,336,191	29.2
Public Shareholders	566,939,897	28.8	566,939,897	26.6	566,939,897	22.9	566,939,297	25.0
<b>Total</b>	<b>1,968,161,476</b>	<b>100.0</b>	<b>2,130,275,190</b>	<b>100.0</b>	<b>2,474,869,784</b>	<b>100.0</b>	<b>2,267,759,588</b>	<b>100.0</b>

*Notes:*

- This refers to the Shares held by corporations controlled by Mr Song and also a corporation controlled by his spouse, Ms Xia.
- This refers to the Shares held by a corporation controlled by Mr Shou.
- This refers to the Shares held by a corporation jointly controlled by Mr Luo and his spouse, Ms Ruan Yiling.
- Based on the information available to the Directors as at the Latest Practicable Date and on the assumption that the shareholding structure of the Company remains unchanged save as otherwise described in this circular, following the allotment and issue of the Second Tranche Shares and upon the allotment and issue of the Conversion Shares (based on the initial Conversion Price), the public float of the Company will fall below 25%. Accordingly, the information contained in this column is for illustration purpose only given that under the terms and conditions of the Convertible Securities, a holder of the Convertible Securities may only convert such number of Convertible Securities as would not cause any Public Float Issues.



## LETTER FROM THE BOARD

Based on the information available to the Directors as at the Latest Practicable Date and on the assumption that the shareholding structure of the Company remains unchanged save as otherwise described in this circular, following the allotment and issue of the Second Tranche Shares and upon the allotment and issue of the Conversion Shares (based on the initial Conversion Price) to the Share Investor under the Investment Agreement, the Share Investor and its associate(s) will be interested in an aggregate of 869,446,387 Share, representing approximately 35.1% of the then enlarged issued share capital of the Company, thereby triggering a general offer obligation on the Share Investor and parties acting in concert with it to extend an offer to the other Shareholders pursuant to Rule 26 of the Takeovers Code unless a whitewash waiver is obtained by the Share Investor and parties acting in concert with it pursuant to Rule 26 of the Takeovers Code. The Share Investor will comply with all relevant requirements under the Takeovers Code.

### 9. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 41 to 42 of this circular which contains its recommendation to the Independent Shareholders in relation to the Transactions. Your attention is also drawn to the letter of advice from Investec set out on pages 43 to 74 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Transactions and the principal factors and reasons considered by it in formulating its advice.

The Independent Board Committee, after taking into account the advice of Independent Financial Adviser, is of the opinion that the Transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors consider that the Transactions and the re-election of Mr Ng and appointment of Mr Tsui as non-executive Directors are in the best interest of the Company and the Shareholders as a whole, and accordingly recommend all Shareholders to vote in favour of the resolutions with respect to these matters at the EGM. Each of Mr Song and Mr Shou has undertaken to the Share Investor and the PSCS Investor to vote in favour of the resolutions with respect to these matters at the EGM. Since Wharf has a material interest in the Transactions and in light of Mr Ng's and Mr Tsui's relationship with the Wharf Group, Wharf and its associates shall abstain from voting on the resolutions with respect to the Transactions and the proposed re-election of Mr Ng and appointment of Mr Tsui, each as a non-executive Director.

**LETTER FROM THE BOARD**

**10. ADDITIONAL INFORMATION**

Your attention is also drawn to the additional information set out in the Appendix to this circular.

By Order of the Board  
**Greentown China Holdings Limited**  
**Song Weiping**  
*Chairman*



**GREENTOWN CHINA HOLDINGS LIMITED**

**綠城中國控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 03900)**

17 July 2012

*To the Shareholders and, for information only,  
the Note Holders and the Option Holders*

Dear Sir or Madam

**CONNECTED TRANSACTION  
IN RELATION TO THE ISSUE OF NEW SHARES AND  
PERPETUAL SUBORDINATED CONVERTIBLE CALLABLE SECURITIES  
PURSUANT TO AN INVESTMENT AGREEMENT  
RE-ELECTION AND APPOINTMENT OF DIRECTORS**

We refer to the circular of the Company to the Shareholders dated 17 July 2012 (the “**Circular**”), to which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the Transactions are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

We wish to draw your attention to the letter of advice from Investec, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Transactions, as set out on pages 43 to 74 of the Circular and the letter from the Board set out on pages 8 to 40 of the Circular.

\* *For identification purposes only*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having considered, among other matters, the factors and reasons considered by, and the opinion of, Investec as stated in its letter of advice, we consider that the Transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. We recommend the Independent Shareholders to vote in favour of the resolutions in respect of the Transactions.

Yours faithfully

**The Independent Board Committee of  
Greentown China Holdings Limited**

**Mr Jia Shenghua**

**Mr Jiang Wei**

**Mr Ke Huanzhang**

**Mr Sze Tsai Ping, Michael**

**Mr Tang Shiding**

**Mr Hui Wan Fai**

*Independent non-executive Directors*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the text of the letter of advice from Investec to the Independent Board Committee and the Independent Shareholders in relation to the Investment Agreement prepared for the purpose of incorporation in this circular.*



Investec Capital Asia Limited  
3609, 36/F, Two International Finance Centre  
8 Finance Street, Central, Hong Kong  
香港中環金融街8號國際金融中心二期36樓3609室  
Tel/電話: (852) 3187 5000  
Fax/傳真: (852) 2501 0171  
www.investec.com

17 July 2012

To: *The Independent Board Committee and  
the Independent Shareholders of  
Greentown China Holdings Limited*

Dear Sirs/Madams,

### **CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF NEW SHARES AND PERPETUAL SUBORDINATED CONVERTIBLE CALLABLE SECURITIES PURSUANT TO AN INVESTMENT AGREEMENT**

#### **I. INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the transactions contemplated under the Investment Agreement. Details of the Investment Agreement are contained in the letter from the Board (the "**Letter from the Board**") of the circular to the Shareholders dated 17 July 2012 (the "**Circular**"), of which this letter forms part. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 8 June 2012, the Company entered into the Subscription Agreement with the Share Investor (a wholly-owned subsidiary of Wharf) and Wharf pursuant to which the Company conditionally agreed to allot and issue, and the Share Investor conditionally agreed to subscribe for, the First Tranche Shares each at the Subscription Price in cash. Completion of the First Tranche Subscription took place on 15 June 2012.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Board also announced that, on the same date, the Company and the Issuer, a wholly-owned subsidiary of the Company, entered into the Investment Agreement with the Share Investor, the PSCS Investor (a wholly-owned subsidiary of Wharf) and Wharf pursuant to which (i) the Company has conditionally agreed to allot and issue, and the Share Investor has conditionally agreed to subscribe for, the Second Tranche Shares each at the Subscription Price; and (ii) the Issuer has conditionally agreed to issue the Convertible Securities, and the PSCS Investor has conditionally agreed to subscribe for the Convertible Securities in the principal amount of HK\$2,550 million in cash. The Investment Agreement was amended and supplemented by the Supplemental Agreement dated 16 July 2012, in which the parties have conditionally agreed on certain amendments to the terms and conditions of the Convertible Securities.

The Company will seek a specific mandate from the Independent Shareholders for the allotment and issue of the Second Tranche Shares to be issued under the Investment Agreement and the Conversion Shares issuable upon the conversion of the Convertible Securities at the EGM.

As at the date of the Announcement, Wharf had an interest in 34,888,500 Shares. As at the Latest Practicable Date, the Share Investor and its associates were interested in an aggregate of 362,738,079 Shares (including the First Tranche Shares), representing approximately 18.4% of the entire issued share capital of the Company as enlarged by the First Tranche Subscription. Accordingly, the Share Investor is a substantial Shareholder and hence the allotment and issue of the Second Tranche Shares and the issue of the Convertible Securities under the Investment Agreement and the allotment and issue of the Conversion Shares (if any) will constitute a connected transaction of the Company subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board currently consists of twelve Directors, namely Mr Song Weiping, Mr Shou Bainan, Mr Luo Zhaoming, Mr Guo Jiafeng and Mr Cao Zhounan as executive Directors; Mr Ng, Tin Hoi Stephen as a non-executive Director, and Mr Jia Shenghua, Mr Jiang Wei, Mr Ke Huanzhang, Mr Sze Tsai Ping, Michael, Mr Tang Shiding and Mr Hui Wan Fai as independent non-executive Directors.

The Independent Board Committee comprising all of the independent non-executive Directors, namely, Mr Jia Shenghua, Mr Jiang Wei, Mr Ke Huanzhang, Mr Sze Tsai Ping, Michael, Mr Tang Shiding and Mr Hui Wan Fai, has been established to consider the Investment Agreement and the transactions contemplated thereunder. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Investment Agreement and the transactions contemplated thereunder are in the interests of the Company and Shareholders as a whole; (ii) whether or not the terms of the Investment Agreement are on normal commercial terms and are fair and reasonable; and (iii) whether the Independent Shareholders should vote in favour of the resolutions to approve the Investment Agreement and the transactions contemplated thereunder at the EGM.

## **II. BASIS AND ASSUMPTIONS OF THE ADVICE**

In formulating our advice, we have relied solely on the statements, information, opinions and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Group and/or its senior management staff and/or the Directors. We have assumed that all such statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular or otherwise provided or made or given by the Group and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate in all material respects at the time they were made and given and continued to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations for matters relating to the Group made or provided by the Directors and/or the senior management staff of the Group contained in the Circular have been made on a reasonable basis after due and careful enquiries. We have also sought and obtained confirmation from the Group and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular, the omission of which would render any statement in the Circular misleading.

We consider that we have reviewed all currently available information and documents to enable us to reach an informed view and to justify our reliance on the information provided so as to form a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group and Wharf and their respective subsidiaries or the prospects of the markets in which they respectively operate.

## **III. PRINCIPAL FACTORS CONSIDERED**

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

### **1. Background information and reasons for the Investment Agreement**

The Group is one of the leading property developers in the PRC and is primarily engaged in developing quality properties targeting middle to higher income residents in the PRC.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the operating results of the Group for each of the two years ended 31 December 2011, extracted from the annual report of the Company for the year ended 31 December 2011 (the “2011 Annual Report”):

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2011</b>	<b>2010</b>
	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>
	<i>(audited)</i>	<i>(audited)</i>
Revenue		
– Property development	21,071.1	10,816.0
– Hotel operations	251.0	193.0
– Property investment	90.1	33.0
– Others	551.6	119.2
	21,963.7	11,161.3
Total Group revenue		
	21,963.7	11,161.3
Profit for the year	4,117.9	1,915.6
Attributable to		
– Owners of the Company	2,574.6	1,531.8
– Non-controlling interests	1,543.3	383.8

*For the two years ended 31 December 2011*

The Group derived revenue of approximately RMB21,071.1 million from its property development segment for the year ended 31 December 2011, an increase of approximately 94.8% from approximately RMB10,816.0 million for the year ended 31 December 2010. Profit for the year ended 31 December 2011 was approximately RMB4,117.9 million, representing a year-on-year increase of approximately 115.0% from approximately RMB1,915.6 million for the year ended 31 December 2010.

As per the segmental analysis set out in the 2011 Annual Report, the aforesaid increase in profit for the year ended 31 December 2011 was mainly attributable to the increase in gross profit from property sales and improved gross profit margin from the same segment.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated under the Management Discussion and Analysis section in the 2011 Annual Report, the PRC real estate market in 2011 remained volatile under the influence of macro-economic tightening policies. The Group had to proactively respond to market challenges and adjust its development strategy and model accordingly. At the same time, the Group's net gearing ratio (calculated by dividing net debt over net assets) has increased from approximately 132.0% as at 31 December 2010 to approximately 148.7% as at 31 December 2011. In consideration of the complex and highly uncertain economic environment, the Group has adopted a prudent approach towards the use of funds to ensure the safety of the capital chain, and no material capital expenditure plan has been proposed for 2012.

As disclosed in the Letter from the Board, the Directors believe that the subscription monies from the issue of the First Tranche Shares, the Second Tranche Shares and the Convertible Securities will improve the cash position of the Group, reduce its gearing and strengthen the overall balance sheet position of the Company. The subscription monies will also provide additional cash resources for the Group to fund its investments and capital expenditure. The introduction of the Wharf Group as a strategic investor of the Company will create opportunities for enhanced strategic dialogue and cooperation with the Wharf Group in the PRC property sector.

The aggregate amount to be raised pursuant to the Subscription Agreement and the Investment Agreement is approximately HK\$5,098 million (approximately HK\$1,705 million under the Subscription Agreement and approximately HK\$3,393 million under the Investment Agreement). The net proceeds from the aforesaid agreements after deducting the related expenses is approximately HK\$5,087 million. The Company currently intends to apply the net proceeds for general corporate purposes, repayment of loan and/or general working capital.

We noted in the 2011 Annual Report that the Group had total bank borrowings of approximately RMB31,683.7 million (being approximately HK\$38,971.0 million) as at 31 December 2011, of which approximately RMB15,877.3 million (being approximately HK\$19,529.1 million) would be repayable within one year. Having considered that (i) the subscription monies from the issue of the First Tranche Shares, the Second Tranche Shares and the Convertible Securities will further strengthen the Group's financial position; (ii) the First Tranche Shares and the Second Tranche Shares will be accounted as part of the Group's equity capital base; and (iii) the strategic cooperative relationship with Wharf, we concur with the Directors' view that the entering into of the Investment Agreement will recapitalize the Group's balance sheet as well as improve its financial and liquidity positions, and is consistent with the Group's stated objective to secure the safety of the capital chain, and hence provide financial stability for the development of the Group's business under the current uncertain economic conditions.

**2. The Subscription Agreement**

*Date and parties*

Date : 8 June 2012

Parties : (1) The Company  
(2) The Share Investor, a wholly-owned subsidiary of Wharf  
(3) Wharf

*Total number of Shares allotted and issued under the Subscription Agreement*

327,849,579 Shares of HK\$0.10 each, representing approximately 20.0% of the entire issued share capital of the Company as at the date of the Announcement and approximately 16.7% of the entire issued share capital of the Company as enlarged by the First Tranche Subscription.

*Subscription Price*

The total subscription price for the First Tranche Shares, at a Subscription Price of HK\$5.20 per Share, amounts to approximately HK\$1,705 million.

The Subscription Price was determined by the Company, the Share Investor and Wharf after arm's length negotiations. When determining the Subscription Price, the Company has taken into account, among other things, the trading prices of the Shares prior to the entering into of the Investment Agreement on 8 June 2012, the prevailing market price of the Shares and the strategic value of the investment.

*General mandate*

The First Tranche Shares were allotted and issued under the general mandate granted by the Shareholders to the Directors at the annual general meeting of the Company held on 13 June 2011 to authorise the Directors to allot and issue and deal with up to a maximum of 327,849,579 new Shares. The general mandate had not been utilised by the Company prior to entering into of the Subscription Agreement.

*Completion*

Completion of the First Tranche Subscription took place on 15 June 2012.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Ranking*

The First Tranche Shares rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the First Tranche Shares.

### **3. The Investment Agreement**

#### *Date and parties*

Date : 8 June 2012

Parties : (1) The Company  
(2) The Issuer, a wholly-owned subsidiary of the Company  
(3) The Share Investor, a wholly-owned subsidiary of Wharf  
(4) The PSCS Investor, a wholly-owned subsidiary of Wharf  
(5) Wharf

Pursuant to the Investment Agreement: (i) the Company has agreed to allot and issue, and the Share Investor has agreed to subscribe for, the Second Tranche Shares; and (ii) the Issuer has agreed to issue, and the PSCS Investor has agreed to subscribe for, the Convertible Securities.

On 16 July 2012, the Company and the Issuer entered into the Supplemental Agreement with the Share Investor, the PSCS Investor and Wharf, pursuant to which the parties have conditionally agreed on certain amendments to the terms and conditions of the Convertible Securities. Please refer to the principal terms of the Convertible Securities headed "Restrictions on conversion", "Transferability" and "Listing" under "Letter from the Board — 2. The Investment Agreement — The Convertible Securities — Principal terms of the Convertible Securities" for further details of such amendments.

**3.1 The Second Tranche Shares**

*Total number of Second Tranche Shares to be allotted and issued under the Investment Agreement*

162,113,714 Shares of HK\$0.10 each, representing (i) approximately 8.2% of the entire issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 7.6% of the entire issued share capital of the Company as enlarged by the Second Tranche Subscription (assuming that there will be no other issue of Shares).

*Subscription Price*

The Subscription Price for the Second Tranche Shares is the same as that for the First Tranche Shares. The total subscription price of the Second Tranche Shares amounts to approximately HK\$843 million.

The Subscription Price of HK\$5.20 per Share represents:

- (i) a discount of approximately 2.8% to the closing price of HK\$5.35 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 4.1% over the average of the closing price of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$4.99 per Share;
- (iii) a premium of approximately 5.2% over the average of the closing price of the Shares as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.95 per Share;
- (iv) a discount of approximately 42.3% to the closing price of HK\$9.01 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a discount of approximately 41.9% to the net asset value per Share attributable to the owners of the Company as at 31 December 2011 of RMB7.28 per Share, or the equivalent of approximately HK\$8.95 per Share at the exchange rate of RMB1 to HK\$1.23.

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

*Ranking*

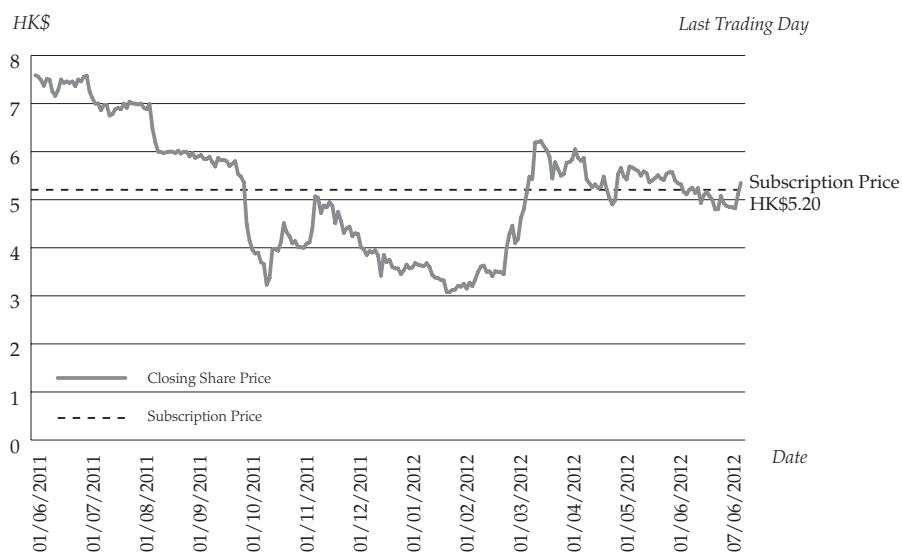
The Second Tranche Shares, when issued and fully paid, will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Second Tranche Shares.

To assess the fairness and reasonableness of the Subscription Price, we set out the following informative analysis for illustrative purposes:

*Analysis of the Subscription Price*

We have reviewed and set out in Chart A below, the daily closing price of the Shares as quoted on the Stock Exchange for the 12-months period prior to the date of the Investment Agreement, commencing on 8 June 2011 and up to and including the Last Trading Day (the “Share Price Review Period”):

**Chart A: Daily closing Share price**



Source: website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

During the Share Price Review Period, the daily closing Share prices have been in the range of HK\$3.08 per Share to HK\$7.59 per Share. The average closing price of the Shares for the Share Price Review Period was approximately HK\$5.16 per Share, and is slightly lower than the issue price of the Subscription Price of HK\$5.20 per Share. We also noted that the Subscription Price of HK\$5.20 per Share represents, (i) a small discount of approximately 2.8% to the closing price as at the Last Trading Day of HK\$5.35 per Share; and (ii) a premium of approximately 4.1% and 5.2% over the average of the closing price of the Shares as quoted on the Stock Exchange for the last five and ten consecutive trading days up to and including the Last Trading Day of approximately HK\$4.99 per Share and HK\$4.95 per Share, respectively.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Since the commencement of the Share Price Review Period up to the end 2011, the PRC Government has continued its efforts to stall the increasing property prices in the PRC through a series of property market control policies, including but not limited to, restricting property developers' access to bank credits, high borrowing costs, introduction of price limits in new residential property sales and added administrative procedures discouraging land bank accumulation. Furthermore, we also noted that the People's Bank Of China\* (中國人民銀行) (the "PBOC") has raised interest rates and banks' reserve ratio for a number of times in 2011 with a view to countering domestic inflation. During the aforesaid period, the daily closing Share price decreased from HK\$7.59 per Share on 8 June 2011 to HK\$3.37 per Share on 30 December 2011.

In 2012, we noted that the PBOC has lowered the banks' reserve ratio twice, in February and May respectively. The closing Share price on 3 January 2012 was HK\$3.33 per Share, which subsequently increased to HK\$6.22 per Share on 24 February 2012, the highest closing Share price in 2012 (up to and including the Last Trading Day). The closing Share prices from 1 March 2012 to June 2012, up to and including the Last Trading Day, were in the range of HK\$4.80 per Share to HK\$6.05 per Share.

Based on figures as set out in the 2011 Annual Report, the net asset value per Share attributable to the owners of the Company as at 31 December 2011 (the "Historical NAV") was approximately RMB7.28 per Share, or the equivalent of approximately HK\$8.95 per Share at the exchange rate of RMB1 to HK\$1.23 as at the Last Trading Day. Based on this, the Subscription Price represents a discount of approximately 41.9% to the Historical NAV, which is comparable to the discount of the closing Share price on the Last Trading Day to the Historical NAV. During the 12-months period prior to the date of the Investment Agreement, the price-to-book ratio of the Company ranged from approximately 0.34 times to 0.85 times.

We also noted that the Share price has increased significantly on the first trading day following the issue of the Announcement to close at HK\$7.09 and closed at the level of HK\$9.01 as at the Latest Practicable Date. Accordingly, we consider that it is more appropriate to compare the Subscription Price to the then prevailing level of Share price prior to the Announcement. It is also due to the abovementioned substantial increase in Share price following the Announcement that the Share price closed at a premium to the Historical NAV as at Latest Practicable Date. The premium of the closing price per Share as at the Latest Practicable Date to the Historical NAV is approximately 0.7%.

\* for identification purposes only

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Furthermore, we also noted that subsequent to the publication of the Announcement, (i) rating agency, Standard and Poor's Ratings Services, has placed the Company on its creditwatch list with positive implications on 11 June 2012; and (ii) the Company's corporate family rating and its senior unsecured rating have been placed under review for upgrade by rating agency, Moody's Investors Service ("**Moody's**"), as per a statement released by Moody's on 12 June 2012.

In addition to comparing the Subscription Price to the trading prices of the Shares as described above, we have also compared the Subscription Price with the pricing of recent share placings of comparable listed property development issuers to independent third parties. As set out in Table B below, we have also identified three new shares issuance of listed issuers on the Main Board of the Stock Exchange, based on the following criteria (the "**Criteria**") (i) a market capitalization of not less than HK\$500 million as at the Latest Practicable Date; (ii) derived a majority of their respective historical turnover from its operations in the PRC and a majority of their segmental profit from property investment and/or development for the full financial year prior to the release of the relevant announcement, excluding any discontinued operations based on their respective published annual reports from the website of the Stock Exchange; and (iii) issues announced within six months immediately prior to the date of the Announcement (including 8 June 2012, being the date of the Announcement) (the "**Cash Share Placement Comparables**").

Based on the Criteria above, we consider the list of Cash Share Placement Comparables to be exhaustive, and hence the issue price levels of the recent shares placed by the Cash Share Placement Comparables offer a reference to that of the Company's Second Tranche Shares.

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

**Table B: Cash Share Placement Comparables**

Company (Stock code)	Market capitalisation as at Latest Practicable Date <i>(HK\$ million)</i>	Date of announcement	Gross funds raised <i>(HK\$ million)</i>	% of new shares issued as to enlarged share capital (%)	Approximate premium/ (discount) of issue price to the closing price on the last trading day (%)	Approximate premium/ (discount) of issue price to the net asset value per share attributable to the owners for the full financial year prior to the date of announcement (%)
Interchina Holdings Company Limited (202)	2,925.8	29 March 2012	358.7	16.65%	(18.60)%	(48.12)%
Country Garden Holdings Company Limited (2007)	55,782.8	1 March 2012	2,187.3	3.90%	(7.98)%	51.27%
Goldin Properties Holdings Limited (283)	12,465.2	9 January 2012	486.2	16.04%	(10.43)%	(59.58)%
<b>Maximum discount</b>					(18.60)%	(59.58)%
<b>Minimum discount</b>					(7.98)%	51.27%
<b>Mean</b>					(12.34)%	(18.81)%
<b>Company</b>	17,736.6	8 June 2012	843.0 Second Tranche Shares	7.60%	(2.80)%	(41.90)%

As set out in Table B, the issue price of recent placings by the Cash Share Placement Comparables ranged from a discount of approximately 7.98% to a discount of approximately 18.60% with an average discount of approximately 12.34% to the respective closing prices of their shares on the last trading day prior to the release of the relevant announcement. In addition, the issue price of recent placings by the Cash Share Placement Comparables also ranged from a premium of approximately 51.27% to a discount of approximately 59.58% with an average discount of approximately 18.81% to the respective net asset value per share attributable to the owners for the full financial year prior to the release of the relevant announcement. Hence, the Subscription Price is within range of the issue price level of the Cash Share Placement Comparables.

Pursuant to the terms of the Investment Agreement, the Subscription Price of the Second Tranche Shares is HK\$5.20 per Share, representing a discount of approximately 2.8% to the closing price of HK\$5.35 per Share as quoted on the Stock Exchange on the Last Trading Day. The said discount is more favourable to the Company than the least discounted issue price of approximately 7.98% among the Cash Share Placement Comparables.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Furthermore, the Subscription Price also represents (i) a premium of approximately 4.1% over the average of the closing price of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$4.99 per Share; and (ii) a premium of approximately 5.2% over the average of the closing price of the Shares as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.95 per Share.

Given the above factors, we consider the Subscription Price of the Second Tranche Shares to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### 3.2 *The Convertible Securities*

#### *Principal terms of the Convertible Securities*

Issuer	:	the Issuer, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
Guarantor	:	the Company
Principal amount of the Convertible Securities	:	HK\$2,550 million
Form and denomination	:	The Convertible Securities will be issued in registered form in the denomination of HK\$10,000,000 each
Guarantee:	:	The Company has agreed to guarantee on a subordinated basis the due payment of all sums expressed to be payable by the Issuer under the Convertible Securities

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Status and subordination of the Convertible Securities : The Convertible Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves. In the event of the Winding-up of the Issuer, the rights and claims of a holder of the Convertible Securities shall rank ahead of those persons whose claims are in respect of any class of share capital (including preference shares) of the Issuer, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Issuer other than the claims of holders of the Parity Securities
- Status and subordination of the Guarantee : In the event of the Winding-up of the Company, the rights and claims of a holder of the Convertible Securities in respect of the Guarantee shall rank ahead of those persons whose claims are in respect of any class of share capital (including preference shares) of the Company, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Company, other than the claims of holders of the Parity Securities
- Issue price : 100% of the principal amount of the Convertible Securities
- Maturity date : There is no maturity date
- Distribution : The Convertible Securities confer the holders a right to receive distribution (each a "**Distribution**") at the applicable distribution rate from and including the Issue Date to but excluding and payable, on the first anniversary from the Issue Date, thereafter semi-annually in arrear

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Rate of distribution : The distribution rate shall be (i) in respect of the period from, and including the Issue Date to, but excluding the 5th anniversary from the Issue Date, 9% per annum and (ii) in respect of the period from and including the 5th-anniversary from the Issue Date to, but excluding the 10th anniversary from the Issue Date, 9% per annum plus 2% per annum and from, and including, each Reset Date falling after the 5th anniversary from the Issue Date to, but excluding, the immediately following Reset Date, the Initial Spread plus the applicable 5-year U.S. Treasury Rate plus 2% per annum. The applicable 5-year U.S. Treasury Rate refers to the prevailing rate that represents the average for the week immediately prior to the date on which the reset is calculated as published by the Board of Governors of the U.S. Federal Reserve.

Optional deferral of distribution : The Issuer may at its sole discretion elect to defer any scheduled Distribution (the "**Arrears of Distribution**") to the next scheduled Distribution payment date by giving prior written notice. The Issuer may further defer any Arrears of Distribution following the foregoing notice requirement and is not subject to any limits as to the number of times Distributions and Arrears of Distribution can be deferred

Any Arrears of Distribution and any Additional Distribution Amount shall be extinguished upon any voluntary conversion by the holders of the Convertible Securities

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

Each amount of Arrears of Distribution (as defined above) shall bear interest as if it constituted the principal of the Convertible Securities at the prevailing Distribution Rate and the amount of such interest (the “**Additional Distribution Amount**”) with respect to Arrears of Distribution shall be due and payable and shall be calculated by applying the Distribution Rate to the amount of the Arrears of Distribution

Distributions are cumulative subject to limited exceptions set forth under the terms and conditions of the Convertible Securities, whereby arrears of distribution and additional distribution amounts due in respect of the Convertible Securities are extinguished through the delivery by the Company of Shares on conversion of the Convertible Securities (unless this is a result of a forced conversion). The Additional Distribution Amount accrued up to any payment date for any Distribution shall be added to the amount of Arrears of Distribution remaining unpaid on such payment date for any Distribution so that it will itself become Arrears of Distribution

Dividend and capital distribution stopper : Unless and until the Issuer or the Company satisfies in full all outstanding Arrears of Distribution and any Additional Distribution Amount, the Issuer and the Company shall not declare or pay any dividends, distributions or make payment on, and will procure that no dividend or other payment is made on or redeem, reduce, cancel, buy-back or acquire for any consideration any share capital thereof (including preference shares) or Parity Securities

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Conversion period : The Convertible Securities are convertible at any time after the expiry of three years from the Issue Date, except if an offer is made to Shareholders for all the outstanding Shares of the Company or if a Breach Event occurs, in which case, the Convertible Securities may be converted at any time on or after the offer is formally announced in compliance with applicable rules and regulations or for so long as the Breach Event is continuing, as the case may be
- Restrictions on conversion : A holder of the Convertible Securities may only convert such number of Convertible Securities as would not cause the Company not to comply with the minimum public float requirement under the Listing Rules, following the conversion (the “**Public Float Issues**”)
- Initial conversion price : HK\$7.40 per Share, represents (i) a premium of approximately 38.3% to the closing price of HK\$5.35 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of approximately 48.2% to the average of the closing price of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$4.99 per Share; and (iii) a premium of approximately 49.7% to the average of the closing price of the Shares as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.95 per Share; (iv) a discount of approximately 17.9% to the closing price of HK\$9.01 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (v) a discount of approximately 17.3% to the net asset value per Share of RMB7.28 (or HK\$8.95 at the exchange rate of RMB1.00 to HK\$1.23) as at 31 December 2011.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The initial Conversion Price was determined by the Company, the PSCS Investor and Wharf after arm's length negotiations. When determining the initial Conversion Price, the Company has taken into account, among other things, the trading prices of the Shares prior to the signing of the Investment Agreement on 8 June 2012, the prevailing market price of the Shares, the valuation metrics of the Company's listed comparable companies and the strategic value of the investment

Conversion price adjustment : The Conversion Price will be subject to adjustment for, among other things, the following dilutive events:

- consolidation, subdivision or reclassification
- capitalisation of profits or reserves
- capital distributions
- rights issues of Shares or options over Shares
- rights issues of other securities
- issues at less than 92% of the then prevailing market price
- modification of rights of conversion
- other offers to Shareholders
- other events

Issuer call : At any time after the Issue Date, the Issuer may redeem all or some of the Convertible Securities together with all outstanding Arrears of Distribution and any Additional Distribution Amount (if any) and the Distribution accrued to the date fixed for redemption at the following prices as a percentage of the principal amount:

- (a) from, and including, the Issue Date to, but excluding, the 1st anniversary of the Issue Date, at 103.5% of the principal amount;

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

- (b) from, and including the 1st anniversary of the Issue Date to, but excluding, the 2nd anniversary of the Issue Date, at 107.0% of the principal amount;
- (c) from, and including the 2nd anniversary of the Issue Date to, but excluding, the 3rd anniversary of the Issue Date, at 110.5% of the principal amount;
- (d) from, and including the 3rd anniversary of the Issue Date to, but excluding, the 4th anniversary of the Issue Date, at 114.0% of the principal amount; and
- (e) from, and including the 4th anniversary of the Issue Date, at 117.5% of the principal amount

Issuer's option to force conversion : On or at any time after three years from the Issue Date, the Issuer may, at its sole discretion and subject to certain conditions under the terms of the Convertible Securities, elect to convert the Convertible Securities in whole but not in part into Conversion Shares

Clean-up call : If at any time the aggregate principal amount of the Convertible Securities outstanding is less than 10% of the aggregate principal amount originally issued, the Issuer shall have the option to redeem such outstanding Convertible Securities in whole but not in part at their principal amount together with all outstanding Arrears of Distribution, any Additional Distribution Amount (if any) and the Distribution accrued to the date fixed for redemption

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Tax call : If there is any change to British Virgin Islands or Cayman Islands tax law which would result in the Issuer or the Company becoming liable to pay additional tax amounts, the Issuer shall have the option to redeem such outstanding Convertible Securities in whole but not in part at their principal amount together with all outstanding Arrears of Distribution, any Additional Distribution Amount (if any) and any Distribution accrued to the date fixed for redemption. Holders have the right to elect for their Convertible Securities not to be redeemed but with no entitlement to any gross up for the additional tax amounts
- Accounting call : If there is any change or amendment to International Financial Reporting Standards which would result in the Convertible Securities ceasing to qualify as equity securities in the financial statements of the Guarantor, the Issuer shall have the option to redeem such outstanding Convertible Securities in whole but not in part at their principal amount together with all outstanding Arrears of Distribution, any Additional Distribution Amount (if any) and any Distribution accrued to the date fixed for redemption
- Delisting or suspension : When the Shares cease to be listed or admitted to trading or the trading of which is suspended for a period of more than 180 consecutive stock exchange business days, Holders shall have the option to require the Issuer to redeem all, or some only, of the outstanding Convertible Securities at their principal amount together with all outstanding Arrears of Distribution and any Additional Distribution Amount (if any) and the Distribution accrued to the date fixed for redemption



**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

Conversion shares : Based on the initial Conversion Price, a maximum of 344,594,594 Conversion Shares will be issued by the Company upon the full conversion of the Convertible Securities, representing (i) approximately 21.0% of the entire issued share capital of the Company as at the date of the Announcement (prior to the enlargement of the share capital of the Company by the First Tranche Subscription); (ii) approximately 17.5% of the entire issued share capital of the Company as at the Latest Practicable Date (subsequent to the share capital of the Company having been enlarged by the First Tranche Subscription); (iii) approximately 16.2% of the entire issued share capital of the Company as enlarged by the issue and allotment of the Second Tranche Shares pursuant to the Second Tranche Subscription; and (iv) approximately 13.9% of the entire issued share capital of the Company as further enlarged by a full conversion of the Convertible Securities (based on the initial Conversion Price) under the Investment Agreement (in each case assuming no other issue of Shares is made)

The Conversion Shares will rank, upon issue, *pari passu* in all respects with the Shares in issue on the date of allotment and issue of such Conversion Shares

Transferability : The Convertible Securities are freely transferrable

Voting : Holder of the Convertible Securities will not be entitled to attend or vote at any meetings of the Company or the Issuer by reason only of its being a holder

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Listing : Save as required in the manner set out below, no application will be made for the listing of the Convertible Securities on the Stock Exchange or any other stock exchange. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. Pursuant to the Supplemental Agreement, at any time after the third anniversary of the Issue Date, holder(s) of the then outstanding Convertible Securities may require the Issuer to use its best endeavours to effect the listing of the Convertible Securities within three months (or such longer period of time as such holder(s) may agree) after the date on which the relevant request is made

### *Analysis of the arrangements to manage the Public Float Issues that may arise*

Pursuant to the terms of the Supplemental Agreement, a holder of the Convertible Securities may only convert such number of Convertible Securities as would not cause the Company not to comply with the minimum public float requirement under the Listing Rules, following the conversion. In addition, the Directors are of the view that the following arrangements can better manage any Public Float Issues that may arise, including (i) the Board has passed certain board resolutions in relation to future share repurchase and share placement; and (ii) each of Mr Song, Mr Shou and Mr Luo has given an undertaking to the Company in relation to any future increment of the Shares and/or share options of the Company held by him and/or his associates during the period when the Convertible Securities remain outstanding, details of which are set out under paragraph headed "Board resolutions and undertakings from Mr Song, Mr Shou and Mr Luo" in the Letter from the Board. Having considered that (i) the aforesaid arrangements which will enable the Company to better manage the Public Float Issues that may arise in order to ensure compliance with the relevant Listing Rules; (ii) the analysis of the terms of the Convertible Securities set out below; and (iii) the use of proceeds from the Investment Agreement, we concur with the Directors' view that such arrangements are acceptable and in the interests of the Company and the Shareholders as a whole.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Analysis of the terms of the Convertible Securities*

Shareholders should note that the Convertible Securities bear the following characteristics:

- the Convertible Securities have no maturity and no redemption obligation;
- the Convertible Securities and the Guarantee are subordinated to all secured, unsecured, senior and subordinated debt of the Issuer and the Company, respectively;
- holders are only entitled to the Distribution if the conversion right is not exercised;
- the Company has the option to defer scheduled Distribution by giving prior written notice;
- the Company has the right but not the obligation to redeem in certain circumstances set out above; and
- the Company has the right but not the obligation to force conversion upon certain events.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The universe of perpetual convertible instruments issued by Hong Kong listed companies principally engaged in PRC property investment and/or PRC property development companies is limited and we have identified only two issues within the 24-months period immediately prior to the date of the Announcement (the “**Perpetual Convertible Comparables**”), the details of which are as follows:

**Table C: Perpetual Convertible Instruments**

	Sino-Ocean Land Holdings Ltd. ("Sino-Ocean")	Franshion Properties (China) Ltd. ("Franshion")	the Company
Market capitalisation as at Latest Practicable Date (HK\$ million)	24,414.9	21,163.0	17,736.6
Issue Date	July 2010	October 2010	June 2012
Principal amount	US\$900 million	US\$600 million	approx. US\$327 million (HK\$2,550 million)
Rate of distribution (per annum)	8.0%	6.8%	(i) 9% for first 5 years; (ii) 11% for next 5 years; and (iii) Initial Spread plus applicable 5-year U.S. Treasury Rate plus 2% thereafter ( <i>Note</i> )
Issuer's option to force conversion	available	available	available
Conversion period restriction	No conversion before 27 July 2011 (subject to certain conditions)	No conversion before 11 October 2011 (subject to certain conditions)	No conversion in initial 3 years after issue (subject to certain conditions)
Initial conversion premium to the closing price on the last trading immediately prior to the date of the relevant announcement	15.3%	19.4%	38.3%
Issuer call redemption price	110% after 5th year	110% after 5th year	103.5% (1st year) – 117.5% (after 5th year)

*Note:* Initial Spread is assumed to be approximately 8.4% based on the distribution rate of 9% for the first five years of the Convertible Securities less the applicable 5-year U.S. treasury rate as at the Latest Practicable Date of approximately 0.6%. Accordingly, the Initial Spread plus 5-year U.S. treasury rate as at the Latest Practicable Date plus 2.0% totalled to approximately 11.0%.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Amongst the three sub-criteria set out under the Criteria, the Perpetual Convertible Comparables satisfied two of them: (i) a market capitalisation of not less than HK\$500 million as at the Latest Practicable Date; and (ii) derived a majority of their respective historical turnover from its operations in the PRC and a majority of their segmental profit from property investment and/or development for the full financial year prior to the release of the relevant announcement, excluding any discontinued operations based on their respective published annual reports from the website of the Stock Exchange. The only criteria that is not satisfied is: (iii) issues announced within six months immediately prior to the date of the Announcement (including 8 June 2012, being the date of the Announcement), which we considered as not feasible for perpetual convertible instruments due to the limited number of recent issuance as mentioned previously. Based on this, we consider the list of Perpetual Convertible Comparables to be exhaustive which certain key terms offer a reference to that of the Convertible Securities.

Both Sino-Ocean and Franshion's largest shareholder were PRC stated-owned enterprises at the time of issue of the relevant perpetual convertible instruments, and were and continue to be considerably larger than the Company in terms of shareholders' equity and market capitalisation. It is therefore reasonable to expect them to command more attractive terms of pricing than those attainable by the Company. The other relevant consideration is that the general market conditions in 2010 were more favourable for raising new capital than the current economic climate under the Eurozone debt crisis and a slowing global economy. Under these circumstances, we consider the Distribution Rates of the Convertible Securities to be reasonable. We also note that the conversion premium achieved by the Company is substantially higher than each of the Perpetual Convertible Comparables which is more favorable to the Company as the Share price of the Company would need to increase relatively more as compared to those of the Perpetual Convertible Comparables in order for the holders of the Convertible Securities to have the incentive to convert the Convertible Securities into Shares. In addition, the redemption price payable by the respective issuers of the Perpetual Convertible Comparables is roughly between the range of the redemption price of the Convertible Securities.

Recognising that there are no recent issues of perpetual convertible instruments, we have carried out the following analysis and identified four convertible securities and six debt securities (issued in the last six months prior to the date of the Announcement) of Hong Kong listed companies selected based on the Criteria.

The purpose of this further analysis was to further cross-check the relevant components of the Convertible Securities vis-à-vis these selected issues as instructive analysis in examining the financial terms and the options that the Company may pursue.

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Details of the convertible securities identified (the “**Market Convertible Securities**”) are summarised below:

**Table D: Market Convertible Securities**

Company (stock code)	Date of announcement	Principal amount (HK\$'million)	Coupon rate per annum (%)	Maturity Years	Approximate premium / (discount) of conversion price to the closing price on the last trading day (%)	Redemption amount to principal (%)
China Overseas Grand Oceans Group Ltd. (81)	14 March 2012	2,200.0	2.0% (up to 2015) Nil% (after 2015)	5 (Note 1)	30.00%	100%
China Properties Group Limited (1838)	27 January 2012	500.0	5.0%	4	1.26%	100%
Culture Landmark Investment Limited (674)	22 December 2011	75.0	12.0%	1	5.26%	100%
Interchina Holdings Company Limited (202)	14 December 2011	294.5	2.0%	3	(18.42%)	100%
<b>Maximum</b>			12.0%	5	30.00%	100%
<b>Minimum</b>			Nil%	1	(18.42%)	100%
<b>Mean (Note 2)</b>			5.25% (Note 2)	3	4.53%	100%
<b>Company</b>		2,550.0	9% (1st – 5th yr) step up from 5th anniversary of the Issue Date (Note 3)	No maturity date	38.3%	103.5% – 117.5% (Note 4)

*Notes:*

- (1) With mandatory conversion at issuer’s option.
- (2) For the purpose of calculating the mean of the coupon rate per annum, the coupon rate per annum of 2% was applied to China Overseas Grand Oceans Group’s convertible securities.
- (3) The distribution rate (i.e. the coupon rate per annum) shall be (i) in respect of the period from, and including the Issue Date to, but excluding the 5th anniversary from the Issue Date, 9% per annum; and (ii) in respect of the period from and including the 5th anniversary from the Issue Date to, but excluding the 10th anniversary from the Issue Date, 9% per annum plus 2% and from, and including, each Reset Date falling after the 5th anniversary from the Issue Date to, but excluding, the immediately following Reset Date, the Initial Spread plus the applicable 5-year U.S. Treasury Rate plus 2%.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (4) (i) from, and including, the Issue Date to, but excluding, the 1st anniversary of the Issue Date, at 103.5% of the principal amount; and (ii) from, and including the 4th anniversary of the Issue Date, at 117.5% of the principal amount. For details, refer to terms as set out under paragraph headed “Principal terms of the Convertible Securities” above.

Based on the Criteria as mentioned above, we consider the list of Market Convertible Securities to be exhaustive, and hence certain key terms of the Market Convertible Securities offer a reference to that of the Convertible Securities.

Of all the Market Convertible Securities as shown in Table D above, the issue by China Overseas Grand Ocean Group Ltd (“**COGO**”) represents the closest comparison in terms of issue size.

It should also be noted that COGO is a subsidiary of China Overseas Land & Investment Limited, one of the largest property development companies listed on the Stock Exchange with a current market capitalization in excess of HK\$130 billion. In addition, the COGO convertible bond issue has the benefit of an irrevocable standby letter of credit issued in favour of the trustee, held for the benefit of the convertible bond holders, by DBS Bank Ltd., which principally engaged in providing commercial banking and financial services in Asia. As set out by the announcement of COGO dated 14 March 2012 (the “**COGO Announcement**”), such letter of credit shall be drawn by the trustee upon the occurrence of an event of default and other circumstances set out in the COGO Announcement. Thus it is reasonable to expect that COGO, which has a market capitalization in excess of HK\$15 billion as at the date of the COGO Announcement, could attract better pricing for any debt or quasi-debt issue than the Company could achieve.

In addition, we also note that the conversion premium achieved by the Company is higher than each of the Market Convertible Comparables which is more favorable to the Company as the Share price of the Company would need to increase relatively more as compared to those of the Market Convertible Comparables in order for the holders of the Convertible Securities to have the incentive to convert the Convertible Securities into Shares.

Shareholders’ attention is also drawn to the Company’s right to redeem all or some of the Convertible Securities at any time (together with any accrued distribution amounts due), at the relevant levels of redemption amounts up to the maximum amount of 117.5% of the principal amount. This provision effectively offers the Company the ability to extinguish the appropriate amount of the Convertible Securities with other more commercially attractive terms of financing as may become available to the Company.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We further examine the debt securities issued by issuers on the Main Board of the Stock Exchange, selected based on the Criteria (the “**Market Debt Securities**”), which we have set out in Table E below.

**Table E: Market Debt Securities**

Issuer (agreement/ issue date)	Maturity	Principle amount	Interest rate per annum
New World China Land Ltd. (20 April 2012)	Due 2015	RMB4,300 million	8.50%
Central China Real Estate Limited (11 April 2012)	Due 2016	SG\$175 million	10.75%
KWG Property Holdings Limited (15 March 2012)	Due 2017	US\$400 million	13.25%
Agile Property Holdings Limited (13 March 2012)	Due 2017	US\$700 million	9.875%
Shui On Land Limited (9 & 22 February 2012)	Due 2015	US\$475 million <i>(Note)</i>	9.75%
Shui On Land Limited (26 January 2012)	Due 2015	SG\$250 million	8.00%

*Note:* This amount relates to an original issue and an additional issue with the principal amount of US\$400.0 million and US\$75.0 million, respectively. The notes issued under the additional issue shall consolidate and form a single class with the original issue on 16 February 2012 as per the announcement dated 22 February 2012 issued by Shui On Land Limited.

Based on the Criteria as mentioned above, we consider the list of Market Debt Securities to be exhaustive, and hence certain key terms of the Market Debt Securities offer a reference to that of the Convertible Securities.

Taking into consideration the perpetual nature of the Convertible Securities, the financial position of the Company and its market capitalisation size, the range of distribution rate of the Convertible Securities (i.e. 9.0%, 11.0% and Initial Spread plus applicable 5-year U.S. Treasury Rate plus 2% which totalled approximately 11.0%, based on data available as at the Latest Practicable Date, in accordance with the terms of the Investment Agreement) are in line with the interest rate per annum of the Market Debt Securities.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Dilution effects and Takeovers Code implications*

As set out under paragraph headed “Effects on the Shareholding Structure of the Company” in the Letter from the Board, the equity interest of the public Shareholders in the Company will be diluted from approximately 28.8% as at the Latest Practicable Date to approximately 22.9% upon completion of the Second Tranche Shares and full conversion of the Convertible Securities (based on the initial Conversion Price) on the assumption that the shareholding structure of the Company remains unchanged save as otherwise described in the Letter from the Board. However, as set out in the Letter from the Board, under the terms and conditions of the Convertible Securities, a holder of the Convertible Securities may only convert such number of Convertible Securities as would not cause any Public Float Issues.

Having considered (i) the uncertainty of obtaining alternative financing and the use of proceeds as mentioned in the section headed “Proceeds & alternative financing” below; (ii) the Subscription Price of the Second Tranche Shares; and (iii) that the significant premium of the Conversion Price to the closing price of HK\$5.35 per Share as quoted on the Stock Exchange on the Last Trading Day, we are of the view that the potential dilution on the shareholding interests of the Independent Shareholders in the event that the Second Tranche Shares and/or Conversion Shares are issued, to be acceptable.

Assuming completion of the Investment Agreement and full conversion of the Convertible Securities, the Share Investor and its associate(s) shall own approximately 35.1% of the then enlarged share capital of the Company and shall be required to make a general offer to the other Shareholders unless a whitewash waiver is obtained by the Share Investor and parties acting in concert with it pursuant to Rule 26 of the Takeovers Code. As stated in the Letter from the Board, it is acknowledged that the Share Investor will comply with all relevant requirements under the Takeovers Code. Shareholders should note that unless a whitewash waiver is obtained by the Share Investor and parties acting in concert with it (the “**Share Investor Concert Party Group**”), in the event that the Share Investor Convert Party Group convert part or all of the Convertible Securities which would result the Share Investor Concert Party Group be interested in more than 30% of the enlarged issued share capital of the Company, the Share Investor Concert Party Group will trigger an obligation to extend a mandatory general offer for all the Shares not already owned or agreed to be acquired by them under the Takeovers Code. This would offer the Independent Shareholders an opportunity to realise part or all of their shareholding, subject to the offer price of such general offer at the time.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, pursuant to the anti-dilution rights granted to the Share Investor as set out under paragraph headed “Anti-dilution rights given to the Share Investor” in the Circular (for a period of 5 years from the date of completion of the Second Tranche Subscription and except for certain prescribed manners of new share issues such as rights issues, exercise of conversion rights subsisting at the date of completion of the Second Tranche Subscription, issue of shares or convertible securities as consideration), additional financing would be raised from the Share Investor in the event that the Share Investor exercises such anti-dilution rights, at the same time as and on the same terms (including price) offered to other investors, such Shares (and/or securities, as the case may be) in such number as is necessary for the Share Investor to maintain its pre-offering percentage shareholding in the Company. The aforesaid anti-dilution rights shall terminate and be of no effect immediately upon the Share Investor ceasing to hold at least 23.0% of the then issued share capital of the Company.

In the event that the Share Investor opt to exercise the abovementioned anti-dilution rights, additional financing would be raised at the same time as and on the same terms (including price) offered to other investors, we concur with the Directors’ view that the anti-dilution rights are fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

### *Proceeds & alternative financing methods*

The Investment Agreement, if approved, together with the Subscription Agreement, will enable the Company to raise an aggregate of approximately HK\$5,098 million (approximately HK\$1,705 million under the Subscription Agreement and approximately HK\$3,393 million under the Investment Agreement) before related expenses.

The proceeds generated from the Subscription Agreement and the Investment Agreement will improve the cash position of the Group, reduce its gearing and strengthen the overall financial position of the Group, and provide additional cash resources for the Group to fund its investments and capital expenditure.

The Directors have considered other alternative means of financing, such as debt financing, open offer and rights issue and believe that given the significant size of the funding involved and under the current difficult capital market conditions, it would be challenging to (i) obtain long-term bank borrowings at a cost acceptable to the Company; and (ii) enlist underwriting support for an open offer/rights issue at the Subscription Price/Conversion Price with the size of fund raising contemplated under the Subscription Agreement and the Investment Agreement.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account of the tight credit environment as a result of the global economic slowdown, together with the abovementioned positive effect of the use of proceeds on the Group's overall financial position, we concur with the Directors' view that (i) the use of proceeds is in the interest of the Company and the Shareholders as a whole; and (ii) the entering of the Investment Agreement is an appropriate mean of raising the required funds.

#### **4. Reasons for and expected benefits of the Investment Agreement**

The Directors consider that the transactions contemplated under the Investment Agreement offer a unique opportunity for the Company to recapitalize its balance sheet and at the same time admit the Wharf Group as a long-term strategic investor of the Company. The said recapitalization would result in a reduction in the Group's gearing.

The Directors also (i) welcome the appointment of Mr Ng, deputy chairman and managing director of Wharf since 1994, as non-executive Director with effect from 15 June 2012 (being the date of completion of the Subscription Agreement); and (ii) agreed to propose Mr Tsui, an executive director and the group chief financial officer of Wheelock and also of its listed subsidiary, Wharf, as a non-executive Director. The biographies of Mr Ng and Mr Tsui are set out in the Letter of the Board.

In addition, the Directors believe that the Company's corporate governance will be further enhanced by the proposed establishment of the Investment Committee as described in the Announcement. The Share Investor will be entitled to appoint one representative to the three member Investment Committee. The Directors expect that through this committee, the Group will work with the Share Investor to provide guidance and supervision to the Company in investment matters, including acquisition of land or investments in property development projects, with the view to achieving business growth in a balanced and prudent manner.

As set out in the Announcement, written consent is required from the majority of the Investment Committee (which shall comprise the written consent of the Share Investor's Representative) for any acquisition of land or investment in any property development project so long as the Gearing Ratio is 100% or more. We concur with the Directors' view that such arrangement will help to enhance the corporate governance of the Company and is in the interest of the Company and the Shareholders as a whole as it would enhance the approval and review procedure for future investment decision of the Company and enable the Company to leverage the expertise of the Investment Committee.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### IV. RECOMMENDATION

Having considered the factors and analysis set out in this letter, including (i) the analysis of the terms of the Investment Agreement, as amended and supplemented by the Supplemental Agreement; (ii) the resultant recapitalization of the Group and the corresponding reduction in gearing; and (iii) the expected benefits of working with the Share Investor and the PSCS Investor to create opportunities for enhanced strategic dialogue with the Wharf Group in the PRC property sector, we are of the opinion that the Investment Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole, the entering into of the Investment Agreement is not in the ordinary and usual course of business of the Company but the terms of the Investment Agreement are on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned. Accordingly, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the resolutions to approve the Investment Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully  
For and on behalf of  
**Investec Capital Asia Limited**  
**Jimmy Chung**  
*Executive Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors' Interests in Shares

As at the Latest Practicable Date, save as disclosed below, none of the Directors or chief executive of the Company has interests or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange:

#### (i) Long positions in shares and underlying shares of the Company

Name of Director	Personal interests in underlying Shares	Family interests	Interest of controlled corporations	Total interests in number of Shares and underlying Shares	% of issued share capital of the Company
Mr Song	1,089,000 <i>(note 1)</i>	68,859,000 <i>(note 2)</i>	472,124,000 <i>(note 3)</i>	542,072,000	27.54
Mr Shou	609,000 <i>(note 1)</i>	-	384,490,500 <i>(note 4)</i>	385,099,500	19.57
Mr Luo	15,000,000 <i>(note 5)</i>	-	100,000,000 <i>(note 6)</i>	115,000,000	5.84
Mr Guo Jiafeng	576,000 <i>(note 1)</i>	-	13,010,000 <i>(note 7)</i>	13,586,000	0.69
Mr Cao Zhounan	10,000,000 <i>(note 8)</i>	-	-	10,000,000	0.51

Notes:

- (1) These represent the share options granted on 22 January 2009 under the Share Option Scheme, and are exercisable at HK\$2.89 per Share during the period from 22 January 2009 to 21 January 2019.

- (2) Mr Song is deemed to be interested in such Shares held by Wisearn Limited (“**Wisearn**”), a company wholly-owned by his spouse, Ms Xia.
- (3) Mr Song, being the sole shareholder of Delta House Limited (“**Delta**”), is deemed to be interested in 372,124,000 Shares held by Delta pursuant to Part XV of the SFO. Hong Kong Orange Osmanthus Foundation Limited (“**HKOO Foundation**”) is a company limited by guarantee and established by Mr Song as a charitable institution of a public character exempt from tax under Section 88 of the Inland Revenue Ordinance, Chapter 112 of the Laws of Hong Kong. As Mr Song is the sole member of HKOO Foundation, pursuant to Part XV of the SFO, Mr Song is deemed to be interested in 100,000,000 Shares held by it notwithstanding that Mr Song is not beneficially interested in such Shares.
- (4) Mr Shou is deemed to be interested in such Shares as the sole shareholder of Profitwise Limited (“**Profitwise**”).
- (5) These share options were granted on 17 July 2009 under the Share Option Scheme and are exercisable at HK\$11.59 per Share during the period from 17 July 2009 to 16 July 2019.
- (6) Mr Luo is deemed to be interested in such Shares held by Tandellen Group Limited (“**Tandellen**”), a company which is 50% owned by him and 50% owned by his spouse, Ms Ruan Yiling.
- (7) Mr Guo Jiafeng is deemed to be interested in such Shares as the sole shareholder of Jamuta Investments Limited.
- (8) These share options were granted on 13 May 2009 under the Share Option Scheme and are exercisable at HK\$7.16 per Share during the period from 13 May 2009 to 12 May 2019.

(ii) *Long position in shares and underlying shares of associated corporations of the Company*

Name of Director	Name of associated corporation	Capacity	Interest in registered capital	% of the total registered capital
Mr Song (Note 1)	Greentown Construction Management Company Limited (綠城房產建設管理有限公司)	Beneficial owner	RMB72,000,000	36%
Mr Cao Zhounan (note 2)	Greentown Construction Management Company Limited (綠城房產建設管理有限公司)	Beneficial owner	RMB54,000,000	27%

*Notes:*

- (1) Mr Song is beneficially interested in RMB72,000,000 of the total registered capital of Greentown Construction Management Company Limited.
- (2) Mr Cao Zhounan is beneficially interested in RMB54,000,000 of the total registered capital of Greentown Construction Management Company Limited.

Other than as disclosed above, none of the Directors and chief executive of the Company nor their associates had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at the Latest Practicable Date.

**(b) Substantial Shareholders**

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Board, no persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of substantial Shareholder	Interest or short position in the Shares or underlying Shares (Note 1)	Capacity in which interests are held	% of issued share capital of the Company
Ms Xia (note 2)	542,072,000 (L)	Interest of a controlled corporation and interest of spouse	27.54
Delta (note 3)	372,124,000 (L)	Beneficial owner	18.91
HKOO Foundation (note 3)	100,000,000 (L)	Beneficial owner	5.08
Profitwise (note 4)	384,490,500 (L)	Beneficial owner	19.54
Ms Ruan Yiling (note 5)	115,000,000 (L)	Interest of a controlled corporation and interest of spouse	5.84
Tandellen (note 6)	100,000,000 (L)	Beneficial owner	5.08
Lehman Brothers Holdings Inc. (note 7)	101,400,450 (L)	Interest of controlled corporations	5.15
	31,868,575 (S)	Interest of controlled corporations	1.62
HSBC Trustee (Guernsey) Limited (note 8)	869,446,387 (L)	Interest of a controlled corporation	44.18
Wheelock (note 9)	869,446,387 (L)	Interest of a controlled corporation	44.18
Wharf (note 10)	869,446,387 (L)	Interest of a controlled corporation	44.18

*Notes:*

- (1) The letter "L" denotes a long position. The letter "S" denotes a short position.
- (2) Ms Xia, being the sole shareholder of Wisearn, is deemed to be interested in 68,859,000 Shares held by Wisearn pursuant to Part XV of the SFO. Ms Xia is the spouse of Mr Song. Accordingly, pursuant to Part XV of the SFO, Ms Xia is also deemed to be interested in the following: (i) 372,124,000 Shares held by Delta, a corporation of which Mr Song is the sole shareholder, (ii) 100,000,000 Shares held by HKOO Foundation, a charitable institution established by Mr Song of which Mr Song is the sole member (notwithstanding that neither Mr Song nor Ms Xia is beneficially interested in those Shares); and (iii) 1,089,000 share options of the Company held by Mr Song. The aforesaid represents an aggregate of 542,072,000 Shares.

- (3) A controlled corporation of Mr Song, details of which are disclosed above.
- (4) A controlled corporation of Mr Shou, details of which are disclosed above.
- (5) Ms Ruan Yiling was deemed to be interested in 100,000,000(L) shares held by Tandellen, a controlled corporation 50% owned by her and 50% owned by her spouse, Mr Luo Zhaoming, and in 15,000,000(L) share options held by Mr Luo.
- (6) A controlled corporation of Mr Luo Zhaoming, details of which are disclosed above.
- (7) Lehman Brothers Holdings Inc., according to its disclosure of interest filing, held deemed interest in a total of 101,400,450(L) Shares and 31,868,575(S) Shares by virtue of its control over certain entities.
- (8) HSBC Trustee (Guernsey) Limited through its controlled corporations, namely Wheelock, Wheelock Investments Limited, WF Investment Partners Limited, Wharf, Wharf China Holdings Limited, Target Smart and Enzo, is deemed to be interested in 869,446,387(L) Shares.
- (9) Wheelock through its controlled corporations, namely Wheelock Investments Limited, WF Investment Partners Limited, Wharf, Wharf China Holdings Limited, Target Smart and Enzo, is deemed to be interested in 869,446,387(L) Shares.
- (10) Wharf through its wholly-owned subsidiaries, namely Wharf China Holdings Limited, Target Smart and Enzo, is deemed to be interested in 869,446,387(L) Shares.

Other than the interests disclosed above, the Company has not been notified of any other notifiable interests or short positions in the Shares or underlying Shares of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, save as disclosed below, none of the Directors or proposed Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company which had such discloseable interest or short position in the Shares	Position within such company
Mr Song	Delta	Director
	HKOO Foundation	Director
Mr Shou	Profitwise	Director
Mr Luo	Tandellen	Director
Mr Ng	Wheelock	Director
	Wharf	Director
Mr Tsui	Wheelock	Director
	Wharf	Director



### 3. DIRECTORS' SERVICE CONTRACTS

Each of the non-executive Director and independent non-executive Directors has been appointed by the Company for a term of three years, except in the case of Mr Ng, he may terminate the appointment forthwith at any time by giving to the Company a written notice. Apart from the foregoing, as at the Latest Practicable Date, none of the Directors had entered into a service contract with the Company which does not expire or which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### 4. COMPETING BUSINESS INTEREST OF DIRECTORS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, proposed Directors or their respective associates was interested in any other business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

<b>Name of Director/ proposed Director</b>	<b>Name of Competing Entity</b>	<b>Nature of business of the competing entity</b>	<b>Nature of interest of the director in the competing entity</b>
Mr Song	Greentown Holdings Group Limited	The development and sale of the Remaining Non-Inclusion Projects <i>(Note)</i>	Director and substantial shareholder
Mr Shou	Greentown Holdings Group Limited	The development and sale of the Remaining Non-Inclusion Projects <i>(Note)</i>	Director and substantial shareholder
Mr Ng	Wheelock Wharf Harbour Centre Development Limited	The development and sale of properties and holding of properties for rental purposes	Director
Mr Tsui	Wheelock Wharf Harbour Centre Development Limited	The development and sale of properties and holding of properties for rental purposes	Director

*Note:* The remaining four (the “**Remaining Non-Inclusion Projects**”) out of eight property projects as referred to in the deed of non-competition dated 22 June 2006, details of which are disclosed in the section headed “Business – Non-competition undertaking – Non-inclusion projects” in the prospectus of the Company dated 30 June 2006.

## 5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, being the date to which the latest published audited consolidated financial statements of the Company were made up.

## 6. EXPERT

Investec has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears.

The qualification of Investec which has given its advice which is contained in this circular are set out below:

Name	Qualification
Investec	A corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, the aforesaid did not have (i) any shareholding in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and (ii) any interest, either direct or indirect, in any assets which, since 31 December 2011 (the date to which the latest audited consolidated financial statements of the Company was made up), had been acquired, or disposed of by, or leased to any member of the Group, or are proposed to be acquired, or disposed of by, or leased to any member of the Group.

## 7. GENERAL

- (a) Save as disclosed in the announcement of the Company dated 20 January 2012 in relation to, among other things, the lease of certain properties by Greentown Holdings Group to the Company constituting continuing connected transaction of the Company under Chapter 14A of the Listing Rules, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of by or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to the Latest Practicable Date.

- (b) Save as disclosed in the announcement of the Company dated 20 January 2012 as described above, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.
- (c) The company secretary of the Company is Mr Fung Ching, Simon. Mr Fung is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the CPA Australia.
- (d) The registered address of the Company is M&C Corporate Services Limited, PO Box 309GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands.
- (e) The principal place of business of the Company in Hong Kong is at Room 1406-08, 14th Floor, New World Tower 1, 16-18 Queen's Road Central, Hong Kong.
- (f) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited.
- (g) The principal share registrar of the Company is Butterfield Fulcrum Group (Cayman) Limited (formerly known as Butterfield Fund Services (Cayman) Limited).
- (h) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Room 1406-08, 14th Floor, New World Tower 1, 16-18 Queen's Road Central, Hong Kong during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including 31 July 2012:

- (a) the Investment Agreement;
- (b) the letter from the Independent Board Committee to the Shareholders, the text of which is set out on pages 41 to 42 of this circular;
- (c) the letter of advice from Investec, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 43 to 74 of this circular;
- (d) service contracts of the non-executive Director and the independent non-executive Directors as more particularly described in "3. Directors' service contracts" of this Appendix I; and
- (e) this circular.



**GREENTOWN CHINA HOLDINGS LIMITED**

**綠城中國控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 03900)**

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting (“EGM”) of Greentown China Holdings Limited (the “**Company**”) will be held at 10:30 a.m. on Wednesday, 1 August 2012 at Hangzhou Rose Garden Resort & Spa, 128 Zhijiang Road, West Lake District, Hangzhou, Zhejiang Province, the People’s Republic of China for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

**ORDINARY RESOLUTIONS**

1. “**THAT** Mr Ng Tin Hoi, Stephen be re-elected as a non-executive director of the Company and the board of Directors (the “**Board**”) be authorised to determine Mr Ng Tin Hoi, Stephen’s remuneration.”
  
2. “**THAT**
  - (a) the Investment Agreement as amended and supplemented by the Supplemental Agreement (both as defined in the Company’s circular dated 17 July 2012 despatched to shareholders of the Company (the “**Circular**”), a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification), copies of which have been produced to the meeting marked “B” and “C”, respectively, and signed by the chairman of the meeting for the purpose of identification, and all the transactions contemplated thereunder, including but not limited to:
    - (i) the allotment and issuance by the Company of 162,113,714 new ordinary shares of HK\$0.10 each in the share capital of the Company (“**Shares**”) at a subscription price of HK\$5.20 per Share to Target Smart Investments Limited;
    - (ii) the issuance by Active Way Development Limited of the Convertible Securities (as defined in the Circular) to Enzo Investments Limited pursuant to the terms and conditions of the Investment Agreement in the principal amount of HK\$2,550 million; and

\* *For identification purposes only*

## NOTICE OF THE EGM

(iii) the allotment and issuance by the Company of the Conversion Shares (as defined in the Circular) at the conversion price of HK7.40 per Share (subject to adjustment as provided for under the Investment Agreement) upon conversion of any Convertible Securities,

be and are hereby approved, confirmed and ratified; and

(b) any one of the directors of the Company be and is hereby authorised to sign, execute, perfect, deliver, negotiate, agree and do all such documents, deeds, acts, matters and things, as the case may be, as he may in his opinion or absolute discretion consider reasonable, necessary, desirable or expedient to implement and/or give effect to the Investment Agreement (as amended and supplemented by the Supplemental Agreement) and all the transactions contemplated thereunder with any changes as such director of the Company may in his absolute discretion think fit.”

3. “**THAT** subject to the passing of resolution (2), Mr Tsui Yiu Cheung be appointed as a non-executive director of the Company upon completion of the Investment Agreement and the Board be authorised to determine Mr Tsui Yiu Cheung’s remuneration.”

By Order of the Board  
**Greentown China Holdings Limited**  
**Song Weiping**  
*Chairman*

Hangzhou, the PRC  
17 July 2012

*Principal place of business in Hong Kong:*  
Room 1406-8, 14th Floor  
New World Tower 1  
16-18 Queen’s Road Central  
Hong Kong

*Notes:*

- (1) Pursuant to the Listing Rules, all votes of members at general meetings must be taken by poll.
- (2) A member entitled to attend and vote at the EGM is entitled to appoint a proxy or proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (3) Completion and delivery of the form of proxy will not preclude a member of the Company from attending and voting in person at the EGM if the member of the Company so desires, in which case the form of proxy shall be deemed to be revoked.

## NOTICE OF THE EGM

- (4) Where there are joint registered holders of any share in the Company, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of the relevant joint holding.
- (5) In order to be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or other authority, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
- (6) The register of members of the Company will be closed from Monday, 30 July 2012 to Tuesday, 31 July 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the EGM, all transfers of shares, accompanied by the relevant share certificates and appropriate transfer forms, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 27 July 2012.

*As at the date of this notice, the Board comprises five executive Directors, namely Mr Song Weiping, Mr Shou Bainian, Mr Luo Zhaoming, Mr Guo Jiafeng and Mr Cao Zhounan, one non-executive Director, namely Mr Ng Tin Hoi, Stephen, and six independent non-executive Directors, namely Mr Jia Shenghua, Mr Jiang Wei, Mr Ke Huanzhang, Mr Sze Tsai Ping, Michael, Mr Tang Shiding and Mr Hui Wan Fai.*