

Home Inns & Hotels Management Inc. (H9A)

20-F

Annual and transition report of foreign private issuers pursuant to sections 13 or 15(d)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number: 001-33082

HOME INNS & HOTELS MANAGEMENT INC.

(Exact Name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant's Name Into English)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

No. 124 Caobao Road
Xuhui District
Shanghai 200235

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
American Depositary Shares, each representing two ordinary shares, par value \$0.005 per share	Nasdaq Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. **90,659,882 ordinary shares, par value US\$0.005 per share, as of December 31, 2011.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

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INTRODUCTION

Unless otherwise indicated and except where the context otherwise requires, references in this annual report on Form 20-F to:

- "we," "us," "our company" and "our" refer to Home Inns & Hotels Management Inc., a Cayman Islands company, and its predecessor entities and subsidiaries;
- "China" or "PRC" refers to the People's Republic of China, excluding solely for the purposes of this report Taiwan, Hong Kong and Macau;
- "Motel 168" refers to Motel 168 International Holdings Limited and its subsidiaries, which we acquired in 2011;
- "our hotels" refers, collectively, to our leased-and-operated and franchised-and-managed hotels;
- "mature hotels" refers to hotels that have been in operation for 18 months or more;
- "ramp-up stage hotels" refers to hotels that have been in operation for 6 months or less;
- "average daily rate" refers to total hotel room revenues divided by the total number of occupied rooms in a given period;
- "occupancy rate" refers to the total number of occupied rooms divided by the total number of available rooms in a given period;
- "RevPAR" represents revenue per available room, which is calculated by dividing total hotel room revenues by the total number of available rooms in a given period, or by multiplying average daily rates and occupancy rates in a given period;
- "shares" or "ordinary shares" refers to our ordinary shares;
- "outstanding ordinary shares" and "ordinary shares outstanding" refer to our outstanding ordinary shares, excluding ordinary shares that have been issued to The Bank of New York Mellon but are reserved in anticipation of the exercise of options and vesting of restricted shares under the share incentive plan we adopted in 2006;
- "ADSS" refers to our American depositary shares, each of which represents two ordinary shares;
- "convertible bonds" refer to our US\$ settled zero coupon convertible senior bonds due 2012 that we issued in December 2007;
- "convertible notes" refer to our 2.00% convertible senior notes due 2015 that we issued in December 2010; and
- "RMB" or "Renminbi" refers to the legal currency of China; "\$," "dollars," "US\$" or "U.S. dollars" refers to the legal currency of the United States; and "HK\$" refers to the legal currency of Hong Kong.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2009, 2010 and 2011 and as of December 31, 2010 and 2011.

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

Our Selected Consolidated Financial Data

The following table presents our selected consolidated financial information. The selected consolidated statement of operations data for the years ended December 31, 2009, 2010 and 2011 and the consolidated balance sheet data as of December 31, 2010 and 2011 have been derived from our audited consolidated financial statements included elsewhere in this annual report. Our selected consolidated statement of operations data for the years ended December 31, 2007 and 2008 and our consolidated balance sheet data as of December 31, 2007, 2008 and 2009 have been derived from our audited consolidated financial statements not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

Our historical results do not necessarily indicate our results expected for any future periods. You should read the following information in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report.

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	For the Year Ended December 31,					
	2007	2008	2009	2010	2011	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands)						
Consolidated Statement of Operations Data						
Revenues:						
Leased-and-operated hotels	963,050	1,771,762	2,453,105	2,910,458	3,559,740	565,586
Franchised-and-managed hotels	46,266	99,779	147,535	256,799	399,986	63,551
Total revenues	1,009,316	1,871,541	2,600,640	3,167,257	3,959,726	629,137
Less: Business tax and related surcharges	(60,302)	(111,870)	(158,975)	(191,232)	(249,274)	(39,606)
Net revenues	949,014	1,759,671	2,441,665	2,976,025	3,710,452	589,531
Operating costs and expenses ⁽¹⁾ :						
Leased-and-operated hotel costs:						
Rents and utilities	(299,792)	(643,694)	(797,944)	(875,510)	(1,232,662)	(195,850)
Personnel costs	(155,611)	(337,837)	(461,949)	(506,406)	(657,155)	(104,411)
Depreciation and amortization	(85,600)	(190,698)	(281,543)	(308,888)	(398,914)	(63,381)
Consumables, food and beverage	(84,053)	(143,555)	(172,467)	(173,256)	(258,120)	(41,011)
Others	(98,644)	(182,284)	(275,186)	(310,705)	(413,815)	(65,749)
Total leased-and-operated hotel costs	(723,700)	(1,498,068)	(1,989,089)	(2,174,765)	(2,960,666)	(470,402)
Personnel costs of franchised-and-managed hotels	(4,007)	(14,293)	(24,874)	(44,128)	(72,009)	(11,441)
Sales and marketing expenses	(19,632)	(27,161)	(30,462)	(33,257)	(44,451)	(7,063)
General and administrative expenses	(95,019)	(138,355)	(155,606)	(193,482)	(335,888)	(53,367)
Total operating costs and expenses	(842,358)	(1,677,877)	(2,200,031)	(2,445,632)	(3,413,014)	(542,273)
Income from operations	106,656	81,794	241,634	530,393	297,438	47,258
Interest income	31,717	32,023	6,686	9,454	31,996	5,084
Interest expense	(7,168)	(28,136)	(10,983)	(2,024)	(46,868)	(7,447)
Issuance costs for convertible notes	—	—	—	(42,559)	—	—
(Loss)/gain on change in fair value of convertible notes	—	—	—	(9,040)	198,547	31,546
Gain on buy-back of convertible bond	—	103,291	69,327	2,480	1,521	242
Other non-operating income	8,434	10,971	16,248	22,223	35,899	5,705
Foreign exchange (loss)/gain, net	(53,221)	(65,524)	(286)	(4,350)	15,849	2,518
Income before income tax expense and noncontrolling interests	86,418	134,419	322,626	506,577	527,067	83,744
Income tax expense	(45,035)	(28,107)	(62,166)	(139,969)	(169,442)	(26,922)
Net Income⁽²⁾	41,383	106,312	260,460	366,608	357,625	56,822
Less: Net income attributable to noncontrolling interests	(5,627)	(5,087)	(4,457)	(7,109)	(6,094)	(968)
Net income attributable to Home Inns' shareholders	35,756	101,225	256,003	359,499	351,531	55,854
Earning per share:						
Basic	0.52	1.43	3.37	4.45	4.17	0.66
Diluted	0.47	0.04	2.34	4.23	1.26	0.20
Earnings per ADS ⁽³⁾ :						
Basic	1.05	2.86	6.74	8.89	8.35	1.33
Diluted	0.93	0.09	4.69	8.45	2.51	0.40
Weighted average ordinary shares outstanding:						
Basic	68,323,370	70,863,336	75,922,589	80,846,617	84,221,665	84,221,665
Diluted	76,883,995	78,037,433	80,895,112	84,747,102	94,299,393	94,299,393

(1) Share-based compensation expenses are included in the consolidated statement of operations data as follows:

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	For the Year Ended December 31,					
	2007	2008	2009	2010	2011	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Leased-and-operated hotel costs—personnel costs	11	11	—	—	3,283	522
Personnel costs of franchised-and-managed hotels	—	—	—	—	3,369	535
Sales and marketing expenses	—	—	—	—	656	104
General and administrative expenses	15,060	24,833	32,009	53,272	69,227	10,999
Total share-based compensation expenses	15,071	24,844	32,009	53,272	76,535	12,160

- (2) Data from 2007 to 2008 were retrospectively adjusted to reflect the adoption of ASC 810.
- (3) Each ADS represents two ordinary shares.

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The following table presents a summary of our consolidated balance sheet data as of December 31, 2007, 2008, 2009, 2010 and 2011:

	As of December 31,					US\$
	2007	2008	2009	2010	2011	
	RMB	RMB	RMB	RMB	RMB	
	(in thousands)					
Consolidated Balance Sheet Data						
Cash and cash equivalents	1,562,600	608,445	829,592	2,382,643	1,786,038	283,773
Total assets	3,561,538	3,363,454	3,454,948	5,286,145	9,549,836	1,517,316
Convertible bonds, current	—	—	363,506	—	113,051	17,962
Current portion of term loans	—	—	—	—	346,550	55,061
Total current liabilities	804,922	639,518	925,630	838,576	2,089,315	331,957
Deferred rental	94,226	136,825	155,612	191,034	593,955	94,370
Term loans	—	—	—	—	1,165,666	185,206
Convertible bonds, non-current	1,110,308	895,696	—	159,402	—	—
Financial liability (convertible notes measured at fair value)	—	—	—	1,227,577	979,008	155,549
Ordinary shares	2,874	2,899	3,209	3,257	3,542	563
Additional paid-in capital	1,362,942	1,393,903	1,798,086	1,913,734	2,683,923	426,432
Total Home Inns shareholders' equity	1,475,397	1,607,608	2,268,104	2,743,299	3,865,304	614,135

Exchange Rate Information

This annual report contains translations of RMB amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate published by the Federal Reserve Board. Unless otherwise noted, all translations of financial data from RMB to U.S. dollars in this annual report were made at a rate of RMB 6.2939 to US\$1.00, the certified exchange rate in effect as of December 30, 2011. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On April 20, 2012, the noon buying rate was RMB6.3080 to US\$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Board.

Period	Noon Buying Rate			
	Period End	Average ⁽¹⁾	Low	High
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.6497	6.6745	6.6000
2011	6.2939	6.4630	6.6364	6.2939
October	6.3547	6.3710	6.3825	6.3534
November	6.3765	6.3564	6.3839	6.3400
December	6.2939	6.3482	6.3733	6.2939
2012				
January	6.3310	6.3119	6.3330	6.2940
February	6.2935	6.3000	6.3120	6.2935
March	6.2975	6.3125	6.3315	6.2975
April (through April 20, 2012)	6.3080	6.3052	6.3150	6.2975

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Business

Our operating results are subject to conditions typically affecting the lodging industry.

Our operating results are subject to conditions typically affecting the lodging industry, including the following:

- changes in national, regional or local economic conditions;
- severe weather conditions, natural disasters or travelers' fears of exposure to serious contagious diseases;
- competition from other hotels, the attractiveness of our hotels to customers, and our ability to maintain and increase sales to existing customers and attract new customers;
- local market conditions such as an oversupply of, or a reduction in demand for, hotel rooms;
- the quality and performance of managerial and other employees of our hotels;
- increases in operating costs and expenses due to inflation and other factors;
- the availability and cost of capital to allow us and our franchisees to fund construction and renovation of, and make other investments in, our hotels;
- seasonality of the lodging business and major national or regional events; and
- the risk that leased properties may be subject to challenges as to their compliance with the relevant government regulations or their compatibility with the government planning and re-zoning.

Changes in any of these conditions could adversely affect our occupancy rates, average daily rates and RevPAR or otherwise adversely affect our results of operations and financial condition.

We may not be able to manage our expected expansion, which could materially and adversely affect our operating results.

Since our inception, we have experienced substantial growth in our hotel network. We have increased the number of our hotels in operation in China from 5 in 2002 to 1,426 (with another 198 hotels contracted or under construction) as of December 31, 2011. We intend to continue to develop additional hotels in different geographic locations in China and increase our number of hotels in operation. In November 2010, we launched a new hotel brand for the midscale and upscale market, Yitel (or *Heyi* in Chinese). By the end of 2011 we had 4 Yitel hotels in operation and 2 other Yitel hotels contracted or under construction. Effective October 1, 2011, we completed the acquisition of a 100% ownership interest in Motel 168 International Holdings Limited, or Motel 168, and we have retained the Motel 168 brand. As of December 31, 2011, we had 307 hotels in operation under the Motel 168 brand and another 28 contracted or under construction. We plan to continue to open new hotels under each of these brands in the foreseeable future.

Our expansion has placed, and will continue to place, substantial demands on our managerial, operational, technological and other resources. Our planned expansion will also require us to maintain the consistency of each of our products and the quality of our services to ensure that our brands do not suffer as a result of any deviations, whether actual or perceived, in the consistency of each of our products and the quality of our services. In order to manage and support our growth, we must continue to improve our existing operational, administrative and technological systems and our financial and management controls, and recruit, train and retain qualified hotel management personnel as well as other administrative and sales and marketing personnel, particularly as we expand into new markets. We cannot guarantee that we will be able to effectively and efficiently manage the growth of our operations, recruit and retain qualified personnel and integrate new hotels into our operations. Any failure to effectively and efficiently manage our expansion may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse effect on our results of operation.

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Expansion into new geographic markets and addition of new hotel products for which we have limited operating experience and brand recognition may present operating and marketing challenges that are different from those that we currently encounter in existing markets for our hotels. In addition, our expansion within existing markets may adversely affect the financial performance of our existing hotels in those markets and, as a result, negatively affect our overall results of operations. Inability to anticipate the changing demands that expanding our operations will impose on our management and information and operational systems, or failure to quickly adapt our systems and procedures to the new markets, could result in revenue decline and increased expenses and otherwise harm our results of operations and financial condition.

We have committed significant resources to the acquisition of Motel 168, and if we cannot successfully integrate Motel 168's operations and personnel with our own, our results of operations and return on capital may be materially adversely affected.

We acquired the Motel 168 hotel chain effective October 1, 2011. The addition of Motel 168's hotels expanded our holding by an additional 297 hotels in operation, including 144 leased-and-operated hotels and 153 franchised-and-managed hotels, with about 47,099 rooms located in 85 cities across China. The base acquisition price was US\$470.0 million, consisting of US\$305.5 million in cash and 8,149,616 ordinary shares priced at US\$40.37 per ADS or US\$20.185 per ordinary share at the closing of the transaction. The cash portion was funded with cash on hand and a four-year term loan facility of US\$240.0 million with an interest rate at 390 basis points over LIBOR. The acquisition of Motel 168 exposes us to potential risks, including risks associated with unforeseen or hidden liabilities, the diversion of management attention and resources from our existing business and the inability to generate sufficient revenues to offset the costs and expenses of the acquisition.

We will retain the Motel 168 brand in addition to our Home Inn and Yitel brands. We expect to integrate most of Motel 168's support functions into our existing corporate platform, including human resources, accounting and finance, and legal, while keeping most front-line business functions brand-specific, including development and operations. In addition, we plan to dedicate between US\$20 million and US\$25 million in additional resources over the 12 to 18 months following the acquisition to renovating our Motel 168 hotels and implementing new marketing initiatives and operational best practices. We have not yet completed the process of integrating the support functions and renovating the hotels and there is no assurance that the integration will be completed on schedule and without any unforeseen difficulties.

Historically, Motel 168 did not consistently generate positive net income on a consolidated basis. As a consequence, the consolidation of Motel 168 with our financial results had a negative impact on our results of operations for the quarter and year ended December 31, 2011, and may possibly have a negative impact on our results of operations in 2012.

If we are presented with appropriate opportunities in the future, we may acquire additional businesses or assets that are complementary to our business. Difficulties encountered in the acquisition and integration process may have an adverse effect on our ability to manage our business.

We may not be able to comply with the financial covenants contained in the credit agreement relating to our secured loan facility, which would give the lenders under that facility certain rights to accelerate our obligation to repay the outstanding balance. Any involuntary acceleration of the loan would have an adverse effect on our financial condition. Furthermore, in the event of a default under the secured loan facility, including failure to comply with all financial covenants, the lenders could proceed against the collateral that we have granted to secure our indebtedness, which includes substantially all of our assets.

In September 2011, we obtained a secured loan facility from a consortium of lenders in connection with our acquisition of Motel 168. As of the date of this annual report, the outstanding principal amount under the secured loan facility is US\$240 million, which we are required to repay in four installments ending on September 15, 2015. The related credit agreement dated as of September 26, 2011 contains financial covenants relating to our business, including a maximum consolidated total debt to consolidated capitalization ratio, a minimum debt service coverage ratio and a maximum leverage ratio as of each quarter end and a maximum consolidated capital expenditures limit for each fiscal year. It also requires us to maintain certain cash balances in bank accounts outside of China, including cash balances in accounts pledged as security to the lenders to be maintained for the payment of interest and principal on the term loans and on our convertible bonds. See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources."

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Upon the occurrence of any default under the secured loan facility, including failure to comply with all financial covenants, the lenders could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be due and payable, or could require us to apply all of our available cash to repay these borrowings up to the amount of our legally distributable earnings. If we cannot repay these amounts, the lenders could proceed against the collateral granted to them to secure our indebtedness. We have pledged substantially all of our assets as collateral under the secured loan facility. If the lenders accelerate the repayment of our borrowings, we may not have sufficient assets to repay the loans under the secured loan facility and any other indebtedness that defaults as a result, or be able to borrow sufficient funds to refinance such indebtedness. Even if we are able to obtain new financing, it may not be on commercially reasonable terms, or terms that are acceptable to us.

We cannot guarantee that we will be able to comply with the covenants contained in the secured convertible loan facility in the future, and if we breach the covenants, we cannot guarantee that we would be able to obtain any amendments to or waivers of the covenants contained in the secured loan facility. In addition, any amendment to or waiver of the covenants may involve upfront fees, higher annual interest costs and other terms less favorable to us than those currently offered by the secured convertible loan facility.

If the value of our brands or image diminishes, it could have a material and adverse effect on our business and results of operations.

Our "Home Inn" and "Motel 168" brands are associated with cleanliness, convenience and comfort with consistent, high-quality service among value-conscious individual business and leisure travelers in China. The "Home Inn" brand tends to attract a higher proportion of business travelers, while "Motel 168" tends to cater more to younger leisure travelers. Our continued success in maintaining and enhancing our brands and image depends, to a large extent, on our ability to satisfy customer needs by further developing and maintaining our innovative and distinctive products and maintaining consistent quality of services across our hotel chain, as well as our ability to respond to competitive pressures. If we are unable to do so, our occupancy rates may decline, which could in turn adversely affect our results of operations. Our business may also be adversely affected if our public image or reputation were to be diminished by the operations of any of our hotels, whether due to unsatisfactory service, accidents or otherwise. Our brands are integral to our sales and marketing efforts. If our brands do not continue to be attractive to customers and if the value of our brands is diminished, our business and results of operations may be materially and adversely affected.

If we are not able to hire, train and retain qualified managerial and other employees for our hotel operations, our brand and our business may be materially and adversely affected.

Our managerial and other employees manage our hotels and interact with our customers on a daily basis. They are critical to maintaining the quality and consistency of our services as well as our established brand and reputation. It is important for us to attract qualified managerial and other employees who have experience in lodging or other consumer-service industries and are committed to our "customer-first" approach. There may be a limited supply of such qualified individuals in some of the cities in China where we have operations and other cities into which we intend to expand. In addition, characteristics such as dedication are difficult to assess during the recruitment process. We must hire and train qualified managerial and other employees on a timely basis to keep pace with our growth while maintaining consistent quality of services across our hotels in various geographic locations. We must also provide continuous training to our managerial and other employees so that they are equipped with up-to-date knowledge of various aspects of our hotel operations and can meet our demand for high-quality services. If we fail to do so, the quality of our services may decrease in one or more of the markets where we operate, which in turn may have a material and adverse effect on our brand and our business.

We may not be able to successfully identify and secure additional hotel properties.

We plan to open more hotels in targeted markets to further grow our business. We may not be successful in identifying and leasing or franchising additional hotel properties at desirable locations and on commercially reasonable terms or at all. Some cities in China have undergone economic development and expansion for several decades while others are still in early stages of development. In more developed cities, it may be difficult to increase the number of hotels because we or our competitors already have substantial operations in such cities. In less developed cities, demand for our hotels may not increase as rapidly as we expect. Even if we are able to successfully identify and acquire new hotel properties via lease or franchise arrangements, new hotels may not generate the returns we expect. We also may incur costs in connection with evaluating hotel properties and negotiating with property owners, including ones that we are subsequently unable to lease or franchise. If we fail to successfully identify or compete for additional hotel properties, our ability to execute our growth strategy could be impaired and our business and prospects may be materially and adversely affected.

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The covenants contained in the credit agreement relating to our secured loan facility restrict our ability to expand our business.

In September 2011, we obtained a secured loan facility from a consortium of lenders in connection with our acquisition of Motel 168. As of the date of this annual report, the outstanding principal amount under the secured loan facility is US\$240 million, which we are required to repay in four installments ending on September 15, 2015. The related credit agreement dated as of September 26, 2011 imposes certain limitations on our business expansion beyond our current projection absent consent from the lenders. In particular, before the loan facility is repaid, we may carry out acquisitions of all or a portion of the assets or the equity interests of any ongoing business or invest in a non-controlled joint venture through any of our entities outside of China only with proceeds raised from an equity issuance made specifically for that purpose. In addition, investments in non-controlled joint ventures through any of our entities in China are limited to a maximum of US\$27 million in 2012, US\$36 million in 2013 and US\$44.25 million in 2014 or thereafter. The credit agreement also contains certain other restrictions on our ability to conduct mergers or corporate restructurings, dispose of assets, extend loans or guarantees or incur indebtedness. Furthermore, we are required under the credit agreement to cause our subsidiaries in China to declare and pay the maximum legally distributable earnings of the most recently ended calendar year as dividends to our entities outside of China to service the debt, except that we may maintain a level of RMB cash balance in China to continue on-going operation and expansion according to a prescribed budget and forecast. Without lender consent to waivers or amendments, these restrictions and requirements may limit our ability to expand our business and prevent us from taking advantage of favorable growth opportunities.

We may need additional capital. To the extent permitted under the terms of our existing indebtedness, the sale of additional ADSs or other equity securities could result in additional dilution to our shareholders, and the incurrence of additional indebtedness would result in increased debt service obligations and could restrict our operations.

We believe that our current cash and cash equivalents, anticipated cash flow from operations and the proceeds from our past capital markets fundraising activities, and from undrawn bank credit facilities available to us will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions, strategic acquisitions or other future developments, including any re-financing needs or any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities, to the extent permitted under the terms of our existing indebtedness. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all, particularly in light of the current global economic conditions, or that the operating and financing covenants in our existing indebtedness will allow us to raise the additional capital that we need.

We may not be able to develop hotel properties on a timely or cost-efficient basis, which may adversely affect our growth strategy and business.

We develop almost all of our leased-and-operated hotels directly. Our involvement in the development of properties presents a number of risks, including construction delays or cost overruns, which may result in increased project costs or forgone revenue. We may be unable to recover development costs we incur for projects that do not reach completion. Properties that we develop could become less attractive due to market saturation or oversupply, and as a result we may not be able to recover development costs at the expected rate, or at all. If we are unable to successfully manage our hotel development to minimize these risks, our growth strategy and business prospects may be adversely affected.

If we are unable to maintain our hotels' good condition and attractive appearance, our hotel occupancy rates may decline.

In order to maintain our hotels' good condition and attractive appearance, our hotels require ongoing renovations and other leasehold improvements, including periodic replacement of certain furniture, fixtures and equipment. If we and our franchisees do not make needed leasehold investments and improvements, our hotel occupancy rates may decline and we could lose our market share to our competitors.

Our costs and expenses may remain constant or increase even if our revenues decline.

A significant portion of our operating costs, including rent, is fixed. Accordingly, a decrease in our revenues could result in a disproportionately higher decrease in our earnings because our operating costs and expenses are unlikely to decrease proportionately. For example, the period during which China's Spring Festival holiday occurs generally accounts for a lower portion of our annual revenues than other periods, but our expenses do not vary as significantly as changes in occupancy and revenues, since we need to continue to pay rent and salary, make regular repairs, maintenance and renovations and invest in other capital improvements throughout the year to maintain the attractiveness of our hotels. Our property development and renovation costs may increase as a result of increasing costs of materials. However, we have a limited ability to pass increased costs to customers through room rate increases. Therefore, our costs and expenses may remain constant or increase even if our revenues decline.

In addition, our leased-and-operated hotels typically incur significant pre-opening costs during the conversion stage, and may incur losses during the ramp-up stage. Should there be delays in conversion process or if the ramp-up is slower than expected, our financial performance can be materially and adversely impacted.

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Our effort in developing our new hotel brand, Yitel (or Heyi in Chinese), may divert management attention and resources from our existing business, and if the new product is not well received by the market, we may not be able to generate sufficient revenue to offset the costs and expenses, and our overall financial performance and condition may be adversely affected.

We currently operate four hotels under the Yitel (or Heyi in Chinese) brand, which is a mid to upscale brand concept targeting individual business and leisure travelers who have a higher travel budget than the customers of economy hotels, but a lower travel budget than the customers of high star-rated hotels. We started the initiative to enter this market segment in late 2008, when we opened the first hotel under the H Hotel name. After efforts to refine the design concept of this product, service offering and other features and standards, we opened the second hotel in this segment under the Yitel name in September 2011. Subsequently, the H Hotel was re-named Yitel, and we opened two other Yitel hotels in late 2011. We currently have two additional Yitel hotels contracted and under development, and we target to reach a total of 40 to 50 Yitel hotels within the next four to five years. We have limited operating experience in developing and operating hotels in the mid to upscale market. If the new product is not well received by the market, we may not be able to generate sufficient revenue to offset the costs and expenses, and our overall financial performance and condition may be adversely affected.

Our business is sensitive to global economic conditions. A severe or prolonged downturn in the global or Chinese economy could materially and adversely affect our business and our financial condition.

The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and the global economy is facing new challenges, including the escalation of the European sovereign debt crisis since 2011. It is unclear whether the European sovereign debt crisis will be contained and what effects it may have if it is not. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China's. There have also been concerns over unrest in the Middle East and Africa, which have resulted in higher oil prices and significant market volatility, and over the possibility of a war involving Iran. There have also been concerns about the economic effect of the earthquake, tsunami and nuclear crisis in Japan. Economic conditions in China are sensitive to global economic conditions, and any slowdown in the Chinese economy would likely reduce the level of business and leisure travel within China, which would have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

Our financial and operating performance may be adversely affected by epidemics, severe weather conditions, natural disasters and other catastrophes.

Our financial and operating performance may be adversely affected by epidemics, severe weather conditions, natural disasters and other catastrophes, particularly in locations where we operate a large number of hotels. Losses caused by epidemics, severe weather conditions, natural disasters and other catastrophes, including H1N1 flu, SARS, avian flu, earthquakes and typhoons, are either uninsurable or too expensive to justify insuring against in China. In the event an uninsured loss or a loss in excess of insured limits occurs, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenue from the hotel. In that event, we might nevertheless remain obligated for any financial obligations related to the hotel. Similarly, war (including the potential of war), terrorist activity (including threats of terrorist activity), social unrest and heightened travel security measures instituted in response and travel-related accidents, as well as geopolitical uncertainty and international conflict, will affect travel and may in turn have a material adverse effect on our business and results of operation. In addition, we may not be adequately prepared in contingency planning or recovery capability in relation to a major incident or crisis, and as a result our operational continuity may be adversely affected and our reputation may be harmed.

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The lodging industry in China is highly competitive with relatively low barriers to entry, and if we are unable to compete successfully, our financial condition and results of operations may be harmed.

The lodging industry in China is highly competitive. Competition in the industry is primarily based on room rates, quality of accommodations, brand name recognition, convenience of location, geographic coverage, service quality, range of services, and guest amenities. We compete primarily with other economy hotel chains as well as various regional and local economy hotels. We also compete with two- and three-star hotels, as we offer rooms with standards comparable to many of those hotels while maintaining competitive pricing. In addition, we may also face competition from new entrants in the economy hotel segment in China. As compared to developing four- or five-star hotels, developing economy and midscale hotels does not require significant capital commitments or human resources. This relatively low barrier to entry potentially allows new competitors to enter our markets quickly to compete with our business. Furthermore, we compete with all other hotels for guests in each market in which we operate, as our typical business and leisure traveler customers may change their travel, spending and consumption patterns and choose to stay in hotels in different segments. New and existing competitors may offer competitive rates, greater convenience, services or amenities or superior facilities, which could attract customers away from our hotels, resulting in a decrease in occupancy and average daily rates for our hotels. Any of these factors may have an adverse effect on our competitive position, results of operations and financial condition.

Failure to retain our senior management could harm our business.

We place substantial reliance on the lodging and other consumer-service industry experience and the institutional knowledge of members of our senior management team. Mr. David Jian Sun, our chief executive officer, Ms. Huiping Yan, our chief financial officer, Mr. Jason Xiangxin Zong, our chief operating officer, and Ms. May Wu, our chief strategy officer, are particularly important to our future success due to their substantial experience in the lodging and other consumer service industries. We do not carry key person insurance on any of our senior management team. The loss of the services of one or more of these members of our senior management team due to their departure or otherwise could hinder our ability to effectively manage our business and implement our growth strategies. Finding suitable replacements for Mr. Sun, Ms. Yan, Mr. Zong and Ms. Wu could be difficult, and competition for such personnel of similar experience is intense. If we lose the services of any of them, our business may be adversely affected.

Interruption or failure of our information and operational systems could impair our ability to effectively provide our services, which could damage our reputation.

Our ability to provide consistent and high-quality services throughout our hotel chain depends on the continued operation of our proprietary information and operational systems, including our property management, central reservation, customer relationship management and management reporting systems. Any damage to, or failure of, our systems could interrupt our service. Our systems are vulnerable to damage or interruption as a result of power loss, telecommunications failures, computer viruses, fires, floods, earthquakes, interruptions in access to our toll-free numbers, hacking or other attempts to harm our systems, and similar events. Our servers, which are maintained in Shanghai, may also be vulnerable to break-ins, sabotage and vandalism. Some of our systems are not fully redundant, and our disaster recovery planning does not account for all possible scenarios. In addition, our systems and technologies may become outdated and we may not be able to replace or introduce upgraded systems as quickly as our competitors or within budgeted costs for such upgrades. If we experience frequent or persistent system failures, our quality of services and our reputation could be harmed. The steps we need to take to increase the reliability and redundancy of our systems may be costly, which could reduce our operating margin, and there can be no assurance that whatever increased reliability may be achievable in practice would justify the costs incurred.

Failure to maintain the integrity of internal or customer data could result in harm to our reputation or subject us to costs, liabilities, fines or lawsuits.

Our business involves collecting and retaining large volumes of internal and customer data, including credit card numbers and other personal information as our various information technology systems enter, process, summarize and report such data. We also maintain information about various aspects of our business operations as well as our employees. The integrity and protection of our customer, employee and company data is critical to our business. Our customers and employees expect that we will adequately protect their personal information, and the regulations applicable to security and privacy are becoming increasingly important in China. A theft, loss, fraudulent or unlawful use of customer, employee or company data could harm our reputation or result in remedial and other costs including fines and litigation liabilities.

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If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud.

We are subject to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal control over financial reporting. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2011. See "Item 15. Controls and Procedures." Our independent registered public accounting firm has issued an attestation report as of December 31, 2011. See "Item 15. Controls and Procedures—Attestation Report of the Registered Public Accounting Firm." However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to continue to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

Any failure to protect our trademarks and other intellectual property rights could have a negative impact on our business.

We believe our brands, trade names, trademarks and other intellectual property are critical to our success. "Home Inn" and "Motel 168" are highly recognized brands in the economy hotel segment of China's lodging industry. The success of our business depends in part upon our continued ability to use our brands, trade names and trademarks to increase brand awareness and to further develop our brand. The unauthorized reproduction of our trademarks could diminish the value of our brands and their market acceptance, competitive advantages or goodwill. In addition, our proprietary information and operational systems, which have not been patented or otherwise registered as our property, are a key component of our competitive advantage and our growth strategy.

Monitoring and preventing the unauthorized use of our intellectual property is difficult. The measures we take to protect our brands, trade names, trademarks and other intellectual property rights may not be adequate to prevent their unauthorized use by third parties. Furthermore, the application of laws governing intellectual property rights in China and abroad is evolving, and could involve substantial uncertainties to us. If we are unable to adequately protect our brands, trade names, trademarks and other intellectual property rights, we may lose these rights and our business may suffer materially.

The growth of on-line and other hotel reservation intermediaries and travel consolidators may adversely affect our margins and profitability.

Some of our hotel rooms are booked through travel intermediaries and consolidators to whom we pay agency fees for such services. If these intermediaries and consolidators become the primary channel through which our customers make their bookings, they may be able to negotiate higher agency fee rates, reduced room rates, or other significant concessions from us. We believe that the aim of such intermediaries and consolidators is to have consumers develop loyalties to their reservation systems rather than to our brand. The operations of these travel intermediaries and consolidators may adversely affect our ability to control the supply and price of our room inventory, which would in turn adversely affect our margins and profitability.

Our expansion and our integration of the Motel 168 hotels requires capital. If we fail to generate sufficient cash flow from operations and/or obtain outside financing when required, we may not be able to fund our planned expansion.

We typically need to make a capital expenditure of approximately US\$1 million to convert a leased property into an operational Home Inn brand leased-and-operated hotel. Following our acquisition of Motel 168 in 2011, we plan to dedicate between US\$20 million and US\$25 million in additional resources over the 12 to 18 months following the acquisition to renovating our Motel 168 hotels and implementing new marketing initiatives and operational best practices. Further expansion of our Home Inn, Motel 168 and Yitel brand hotels will also increase our capital expenditures. We typically incur substantial pre-opening expenses for leased-and-operated hotels during the conversion stage and incur losses during the initial ramp-up stage. In the past, we were able to fund such capital expenditures and pre-opening and other expenses from capital markets fund raising activities and cash flow generated internally from our operations. There is no assurance that we will continue to be able to access capital markets or generate sufficient cash flow internally to fund our planned expansion.

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Future acquisitions or strategic investments may have an adverse effect on our ability to manage our business and harm our financial condition and results of operations.

If we are presented with appropriate opportunities, we may acquire or invest in businesses or assets that are complementary to our business. Future acquisitions, particularly actual or potential material acquisitions, would expose us to potential risks, including risks associated with unforeseen or hidden liabilities, the diversion of management attention and resources from our existing business and the inability to generate sufficient revenues to offset the costs and expenses of acquisitions. In the past, our operational and financial performance was negatively impacted by acquired hotels after we had committed substantial management and financial resources on the integration and improvement of operations of those acquired hotels. Any difficulties encountered in the acquisition and integration process may have an adverse effect on our ability to manage our business and near term profitability. If a strategic investment is unsuccessful, then in addition to the diversion of management attention and resources from our existing business we may lose the value of our investment, which could have a material adverse effect on our financial condition and results of operations.

Our limited operating history makes it difficult to evaluate our future prospects and results of operations.

We believe that our future success depends on our ability to increase revenue and profitability from our operations. We have a limited operating history, having commenced operations in 2002. Accordingly, you should consider our future prospects in light of the risks and challenges encountered by a company with a limited operating history. These risks and challenges include those associated with our ability to:

- continue our growth while maintaining our profitability;
- maintain and enhance our competitive position in the economy hotel segment of the lodging industry in China;
- offer an innovative product to attract recurring and new customers;
- implement our strategy and modify it from time to time to respond effectively to competition and changes in customer preferences and needs;
- increase awareness of our "Home Inn", "Yitel" and "Motel 168" brands and continue to develop customer loyalty;
- attract, train, retain and motivate qualified personnel; and
- renew leases for our leased-and-operated hotels on commercially viable terms after the initial lease terms expire.

If we are unsuccessful in addressing any of these risks or challenges, our business may be materially and adversely affected.

Seasonality of our business and national or regional major events may cause fluctuations in our revenues, cause our ADS price to decline, and adversely affect our profitability

The lodging industry is subject to fluctuations in revenues due to seasonality and national or regional major events. The seasonality of our business may cause fluctuations in our quarterly operating results. Generally, the first quarter, in which both the New Year and Spring Festival holidays fall, accounts for a lower percentage of our annual revenues than other quarters of the year. Therefore, you should not rely on our operating results for prior quarters as an indication of our results in any future period. In addition, the occurrence of national or regional major events may affect our operating results, in particular for the hotel locations where those events are held. In 2011, our year-over-year RevPar decrease was driven by a lower occupancy rate and a lower average daily rate due to the absence of the price premium unique to the Shanghai World Expo that started on May 1, 2010 and ended on October 31, 2010. As our revenues may vary from quarter to quarter or year to year, our business is difficult to predict and our results could fall below investor expectations, which could cause our ADS price to decline. Furthermore, although it typically takes our new hotels three to six months to ramp up, the ramp-up process of some of our hotels can be delayed due to seasonality, which may negatively affect our revenues and profitability.

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We are subject to various franchise, hotel industry, construction, hygiene, health and safety, and environmental laws and regulations that may subject us to liability.

Our business is subject to various compliance and operational requirements under PRC laws. For example, we are required to obtain the approval from, and file initial and annual reports with, the PRC Ministry of Commerce to engage in the hotel franchising business. Each of our hotels is required to obtain a special industry license and a fire control approval issued by the local public security bureau, to have hotel operations included in the business scope of its business license, to obtain hygiene permits and environmental impact assessment approvals, and to comply with license requirements, rules, laws and regulations with respect to construction permit, zoning, fire prevention, public and food safety and environmental protection. See "Regulation — Regulations on Hotel Operation."

If we fail to comply with any applicable construction, hygiene, health and safety, and environmental laws and regulations related to our business, we may be subject to potentially significant monetary damages and fines or the suspension of our operations or development activities. Furthermore, new regulations could also require us to retrofit or modify our hotels or incur other significant expenses. It is also possible that new zoning plans or regulations applicable to a specific location may cause us to relocate our hotel(s) in that location, or require additional approvals and licenses that may not be granted to us promptly or at all, which may adversely affect our operating results. Any failure by us to control the use of, or to adequately restrict the discharge of, hazardous substances in our development activities, or to otherwise operate in compliance with environmental laws could also subject us to potentially significant monetary damages and fines or the suspension of our hotel development activities or hotel operations, which could materially adversely affect our financial condition and results of operations.

As of December 31, 2011, we had not yet obtained certain required approvals, licenses and permits in the PRC for 13 of our hotels, most of which had been open for less than three months. While we expect to obtain the required approvals, licenses and permits in due course, this noncompliance could result in administrative fines, suspension of operations or other penalties under applicable PRC law. We cannot guarantee that we will not be subject to any challenges or other actions with respect to such noncompliance.

Accidents or injuries in our hotels may adversely affect our reputation and subject us to liability.

There are inherent risks of accidents or injuries occurring in hotels or in connection with our hotel construction or operations. For example, in the early morning of May 1, 2011, a fire broke out in Tonghua City, Jilin Province, in the building in which one of our hotels is located. Ten people were killed and over forty were injured. It was later determined that the fire was caused by arson within the premises of another tenant in the same building as our hotel. As the fire broke out between three and four o'clock in the morning, most of the victims were guests or employees of our hotel. The occurrence of one or more such accidents or injuries could adversely affect our reputation for safety among customers and potential customers, harm our brand, result in liability, and increase our costs by requiring us to implement even more comprehensive safety measures. Our current property and liability insurance policies may not provide adequate coverage and we may be unable to renew our insurance policies or obtain new insurance policies without increased premiums or decreased levels of coverage.

We have limited insurance coverage.

We carry property insurance that covers the assets that we own at our hotels, but not the buildings or any other assets owned by our lessors. Although we require our lessors to purchase customary insurance policies, we cannot guarantee that they will adhere to such requirements. Furthermore, our recently acquired Motel 168 hotels generally have lower insurance coverage than our Home Inn and Yitel hotels. If we were held liable for amounts and claims exceeding the limits of our insurance coverage or outside the scope of our insurance coverage, our business, results of operations and financial condition may be materially and adversely affected. In addition, we do not have any business disruption insurance coverage for our operations to cover losses that may be caused by severe weather conditions, natural disasters or catastrophic events, such as epidemics or earthquakes. Any business disruption or natural disaster may result in our incurring substantial costs and diversion of our resources.

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Our leases could be terminated early, we may not be able to renew our existing leases on commercially reasonable terms and our rents could increase substantially in the future, which could materially and adversely affect our business and results of operations.

Our lease agreements with third parties for our leased-and-operated hotels typically provide, among other things, that the lease agreements could be terminated under certain legal or factual circumstances. If our leases were terminated early, we may be entitled to liquidated damages and full or partial recovery of our investments in leasehold improvements, however, our operation of such properties may be interrupted or discontinued and we may incur costs in relocating our operations to other locations. Furthermore, we may have to pay losses and damages and incur other liabilities to our guests and other vendors due to breach or default of our contractual obligations for a particular property. As a result, our business and results of operations and financial condition may be adversely affected by early termination of our lease agreements.

We plan to renew our existing leases upon expiration. However, we may be unable to retain our leases on satisfactory terms, or at all. In particular, we may experience an increase in rent payments and loss of revenues in connection with renegotiating our leases. If a significant number of our existing leases are terminated early or are not renewed on satisfactory terms upon expiration, our costs may increase in the future. If we cannot pass the increased costs on to our guests through room rate increases, our operating margins and earnings could decrease and our results of operations could be materially and adversely affected.

Our legal right to lease certain properties could be challenged by property owners or other third parties, which could prevent us from continuing to operate the affected hotels or increase the costs associated with operating these hotels.

Except for one hotel property, we do not hold any land-use rights with respect to the land on which our hotels are located, nor do we own any of the hotel properties we operate. Instead, our business model relies on leases with third parties who either own the properties or lease the properties from the ultimate property owner. As of December 31, 2011, title certificates for 109 of the properties operated by us had not been obtained. We cannot guarantee that title to properties we currently lease or franchise will not be challenged, and such challenges, if successful, could impair the development or operations of our hotels on such properties. In addition, we are subject to the risk of potential disputes with property owners. Such disputes, whether resolved in our favor or not, may divert management attention, harm our reputation or otherwise disrupt our business.

In a few instances where our immediate lessors are not the ultimate owners of hotel properties, no consent was obtained from the owners to sublease the hotel properties to us. A lessor's failure to duly obtain the title to the property or to receive any necessary approvals from the ultimate owner or the primary lease holder, as applicable, could potentially invalidate our lease or result in the renegotiation of such lease leading to less favorable terms. Moreover, we cannot guarantee that the building ownership or leasehold in connection with our franchised-and-managed hotels will not be subject to similar third-party challenges. Some of the properties we or our franchisees lease from third parties were subject to mortgages at the time the leases were signed. In such circumstances and where consent to the lease was not obtained from the mortgage holder, the lease may not be binding on the transferee of the property if the mortgage holders foreclose on the mortgage and transfer the property, which could in turn materially and adversely affect our ability to operate the hotel facility.

Our lessors' failure to comply with lease registration and other compliance requirements under PRC law may subject these lessors or us to fines or other penalties that may negatively affect our ability to operate our hotels.

As an operator and manager of hotel properties, we, our franchisees and those from whom we lease properties, are subject to a number of land- and property-related legal requirements. For instance, under PRC law, all lessors are required to register their lease agreements with the local housing bureau. Our standard lease agreement generally requires the lessor to make such registrations. However, as of December 31, 2011, most lessors of our leased-and-operated hotels had not obtained registrations of their leases from the relevant authorities as required. We continue to remind these lessors to obtain registrations under our lease agreements with them. In addition, based on the specific land use right certificates and property ownership certificates currently held by some of our lessors, certain hotel properties we lease are restricted to industrial and other uses, rather than for commercial service use. The failure of our lessors to register lease agreements as required by law or to ensure that the hotel properties are operated in compliance with their designated use may subject these lessors or us to fines or other penalties which may negatively affect our ability to operate the hotels covered under those leases.

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There are uncertainties associated with our cooperation with our franchisees. Franchisees' defaults or wrongdoings may affect our reputation, which would adversely affect the results of our operations.

Our franchised-and-managed hotels are also operated under our brand names. If our brands are misused by any of our franchisees, there may be an adverse impact on business reputation and brand image. In addition, like operators in service-oriented industries, we are subject to customer complaints and we may face complaints from unsatisfied customers who are unhappy with the standard of service offered by our franchisees. Any complaints, regardless of their nature and validity, may affect our reputation, thereby adversely affecting the results of our operations. We may also have to incur additional costs in placating any customers or salvaging our reputation. If our franchisees default or commit wrongdoings, there could be situations where the franchisees are not in a position to sufficiently compensate us for losses which we may have suffered as a result thereof.

Risks Related to Doing Business in China

Changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

We conduct substantially all of our business operations in China. As the travel industry is highly sensitive to business and personal discretionary spending levels, it tends to decline during general economic downturns. Accordingly, our results of operations, financial condition and prospects are influenced significantly economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including the degree of government involvement and influence on the level of economic development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and various economic sectors of China. The PRC government has implemented various measures to promote economic development and direct the allocation of resources. While some of these measures benefit the overall PRC economy, they may also have a negative impact on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, zoning requirements and other governmental mandates with respect to urban planning may change from time to time, and some of our hotels may be demolished or relocated, for which we may not receive appropriate compensation.

As the PRC economy is increasingly intricately linked to the global economy, it is affected in various respects by downturns and recessions of major economies around the world, such as the recent global financial crisis. Stimulus measures designed to help China weather the recent global financial crisis may contribute to higher inflation, which could adversely affect our results of operations and financial condition. For example, certain operating costs and expenses, such as employee compensation and hotel operating expenses, may increase as a result of higher inflation. Measures to control the pace of economic growth may cause a decrease in the level of economic activity in China, which in turn could adversely affect our results of operations and financial condition. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to selected industries or companies. We cannot guarantee that future actions and policies of the PRC government will not materially affect our liquidity and access to capital and our ability to operate our business.

The audit report included in this annual report is prepared by an auditor that is not inspected by the Public Company Accounting Oversight Board, and consequently you are deprived of the benefits of such inspection.

Auditors of companies that are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the US Public Company Accounting Oversight Board, or PCAOB, and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because our auditors are located in the Peoples' Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

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This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating audits and quality control procedures of any auditors operating in China, including our auditors. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Uncertainties with respect to the Chinese legal system could adversely affect us.

We conduct our business primarily through our subsidiaries in China. Our operations in China are governed by PRC laws and regulations. Our subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but do not have binding legal effect. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published court decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and affiliated entities to remit sufficient foreign currency to our offshore entities for our offshore entities to pay dividends or make other payments or otherwise to satisfy our foreign currency-dominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. Our PRC subsidiaries may also retain foreign currency in their respective current account bank accounts for use in payment of international current account transactions. However, for most capital account items, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

If we finance our PRC subsidiaries through additional capital contributions, the amount of these capital contributions must be approved by the Ministry of Commerce in China or its local counterpart. On August 29, 2008, SAFE promulgated Memorandum 142, a notice regulating the conversion by a foreign-invested company of foreign currency into RMB by restricting how the converted RMB may be used. The notice requires that RMB converted from the foreign currency-denominated capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for in its business scope. In addition, SAFE strengthened its oversight of the flow and use of RMB funds converted from the foreign currency denominated capital of a foreign-invested company. The use of such RMB may not be changed without approval from SAFE, and may not be used to repay RMB loans if the proceeds of such loans have not yet been used for purposes within the company's approved business scope. Violations of Memorandum 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Regulations. We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to contribute additional capitals to fund our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

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Fluctuation in the value of the RMB may have a material adverse effect on your investment.

Substantially all of our revenues and most of our expenses are denominated in RMB. However, we also have substantial assets and liabilities that are denominated or settled in U.S. dollars. As of December 31, 2011, we had U.S. dollar denominated cash and cash equivalents of US\$52.8 million, and we had RMB 110.8 million (US\$17.6 million) in outstanding convertible bonds (RMB denominated but U.S. dollar settled), US\$184 million in outstanding convertible notes and US\$240 million in outstanding term loans.

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The PRC government allowed the RMB to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar again. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

Any significant depreciation of the RMB against the U.S. dollar may have a material adverse effect on the value of, and any dividends payable on, our ADSs and common shares. If we decide to convert our RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares, for repayment of debt or for other business purposes, depreciation of the RMB against the U.S. dollar would reduce the U.S. dollar amount available to us. Under the terms of the credit agreement dated September 26, 2011, which we entered into in connection with our acquisition of Motel 168, we are required to cause our subsidiaries in China to declare and pay the maximum legally distributable earnings of the most recently ended calendar year as dividends to our entities outside of China to service the debt, except that we may maintain a level of RMB cash balance in China to continue on-going operation and expansion according to a prescribed budget and forecast. On the other hand, to the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. In addition, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while the ADSs will be traded in U.S. dollars. Fluctuation in the value of the RMB in either direction could have a material adverse effect on the value of our company and the value of your investment.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise adversely affect us.

SAFE issued a public notice in October 2005 along with related procedural guidance as amended in 2011 requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equity of PRC companies, referred to in the notice as an "offshore special purpose company." Under this public notice, PRC residents who are shareholders and/or beneficial owners of such offshore special purpose companies were required to register with the local SAFE branch. We have requested our shareholders and/or beneficial owners who are subject to the registration requirements under the SAFE notice to register with the local SAFE branch. Failure of these shareholders and/or beneficial owners to register with the local SAFE branch as required by the SAFE notice or failure of future shareholders of our company who are PRC residents to comply with the registration procedures set forth in the SAFE notice may subject such shareholders and/or beneficial owners to fines and other government actions and may also limit our ability to fund our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute dividends to our company or otherwise adversely affect our business.

We rely principally on dividends and other distributions on equity paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries entities to make payments to us could have a material adverse effect on our ability to conduct our business.

We are a holding company and we rely principally on dividends and other distributions from our subsidiaries in China for our cash requirements, including any debt we may incur. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserves until the aggregate amount of such statutory reserves reach 50% of its registered capital. These reserves are not distributable as cash dividends. As of December 31, 2011, aggregate net assets of RMB 3.22 billion (US\$511.4 million) were not distributable in the form of dividends to us due to these PRC regulations. Furthermore, if our subsidiaries in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements we currently have in place in a manner that would materially and adversely affect our subsidiaries' ability to pay dividends and other distributions to us. Any limitation on the ability of our subsidiaries to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

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The PRC tax treatment of our holding company structure under the Enterprise Income Tax Law is subject to uncertainties, and if such uncertainties are resolved unfavorably to us, we may incur higher taxes than we anticipate, and our net income and ability to pay dividends could be hampered.

We are a holding company incorporated in the Cayman Islands that indirectly holds, through subsidiaries in the Cayman Islands, the British Virgin Islands, Mauritius and Hong Kong, other subsidiaries in the PRC. We conduct substantially all of our business operations in China. The Enterprise Income Tax Law and its implementation rules provide that China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its non-PRC resident overseas parent, will normally be subject to PRC withholding tax at a rate of 10%, unless there are applicable treaties that reduce such rate. Under a special arrangement between China and Hong Kong, dividends paid to enterprises incorporated in Hong Kong are subject to a preferential withholding tax rate of 5% provided that a Hong Kong resident enterprise owns over 25% of the PRC enterprise distributing the dividend and can be considered as a "beneficial owner" of the PRC enterprise. The State Administration for Taxation promulgated Notice Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties on October 27, 2009, which provides guidance on the determination of "beneficial owners". If our Hong Kong subsidiaries are not considered to be the "beneficial owners" of our PRC subsidiaries under this notice, any dividends paid by our PRC subsidiaries to our Hong Kong subsidiaries would be subject to withholding tax at a rate of 10%.

Our foreign ADS or ordinary share holders may be subject to PRC withholding tax on the dividends payable by us and upon gains realized on their sales of our ADSs or ordinary shares if we are classified as a PRC "resident enterprise."

Under the Enterprise Income Tax Law and its implementation rules, any gain realized by "non-resident enterprises" is subject to 10% withholding tax to the extent such gain is sourced within the PRC and (i) such "nonresident enterprise" has no establishment or premise in the PRC, or (ii) it has an establishment or premise in the PRC, but its income sourced within the PRC has no real connection with such establishment or premise, unless otherwise exempted or reduced by tax treaties. The Enterprise Income Tax Law and its implementation rules are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to identification of PRC-sourced income. If we are recognized as a PRC resident enterprise under the Enterprise Income Tax Law by the PRC tax authorities, we may be required to withhold PRC income tax on capital gains realized from sales of our ADSs or ordinary shares by and dividends distributed to our foreign ADS or ordinary share holders that are "non-resident enterprises", as such income may be regarded as income from "sources within the PRC". In such case, our foreign ADS or ordinary share holders that are "non-resident enterprises" may become subject to a 10% withholding income tax under the Enterprise Income Law, unless any such foreign ADS or ordinary share holders is qualified for a preferential withholding rate or tax exemption under a tax treaty or tax law.

If the PRC tax authorities recognize us as a PRC resident enterprise under the Enterprise Income Tax Law, our ADS holders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities for recognition of eligibility for such benefits in accordance with Memorandum 124, issued by the PRC State Administration of Taxation on August 24, 2009. It is likely that eligibility will be based on a substantive analysis of the ADS holders' tax residency and economic substance. With respect to dividends, the "beneficial owner" tests will also apply. If determined to be ineligible for treaty benefits, such an ADS holder would become subject to higher PRC tax rates on capital gains realized from sales of our ADSs and on dividends on our ADSs.

In such circumstances, the value of such foreign ADS holders' investment in our ADSs may be materially and adversely affected.

The M&A rule sets forth complex procedures for acquisitions conducted by foreign investors which could make it more difficult to pursue growth through acquisitions.

On August 8, 2006, six PRC regulatory agencies including the PRC Ministry of Commerce and SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule. The M&A Rule sets forth complex procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the approvals from Ministry of Commerce be obtained. We may continue to expand our business in part by acquiring complementary businesses or assets in China. Complying with the requirements of the M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit such transactions, which could affect our ability to expand our business or maintain our market share.

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Risks Related to Our ADSs

The market price for our ADSs has been and may continue to be volatile.

The market price of our ADSs has been and may continue to be subject to wide fluctuations. From our listing on October 27, 2006 to April 23, 2012, the market price of our ADSs on Nasdaq ranged from a low of US\$7.00 to a high of US\$54.25 per ADS, and the closing price on April 23, 2012 was US\$24.27 per ADS. The market price for our ADSs has been and may continue to be volatile and subject to wide fluctuations in response to factors including the following:

- revisions to our projected financial or operational performance by ourselves or by securities research analysts;
- actual or anticipated fluctuations in our quarterly operating results;
- conditions in the travel and lodging industries, including regulatory developments affecting us or our competitors;
- changes in the performance or market valuations of other lodging companies;
- announcements of studies and reports relating to the quality of our services or those of our competitors;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, expansions or capital commitments;
- addition or departure of key personnel;
- fluctuations of exchange rates between the RMB and U.S. dollar or other foreign currencies;
- detrimental negative publicity about our company or our services;
- potential litigation or administrative investigations;
- sales or anticipated potential sales of additional shares or ADSs;
- market and volume fluctuations in the stock market in general; and
- general economic or political conditions in China and elsewhere.

In addition, the market prices for companies with operations in China in particular have experienced volatility that might have been unrelated to the operating performance of such companies. The securities of some China-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the market prices of their securities. The performance of the securities of these China-based companies after their offerings may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other China-based companies may also negatively affect the attitudes of investors towards China-based companies in general, including us, regardless of whether we have engaged in any inappropriate activities.

The global financial crisis and the ensuing economic recessions in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets, such as the large declines in share prices in the United States, China and other jurisdictions at various times since 2008. These broad market and industry fluctuations may adversely affect the price of our ADSs, regardless of our operating performance.

Substantial future sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the price of our ADSs to decline.

Additional sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. In particular, the former shareholders of Motel 168 received 8,149,616 ordinary shares in our company, or 9.0% of our outstanding shares as of March 31, 2012, as part of the consideration for our acquisition of Motel 168. These shareholders have exercised their right to cause us to register the sale of their shares under the Securities Act and we are currently preparing a registration statement on Form F-3 for filing with the SEC. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Furthermore, certain holders of our ordinary shares and holders of our US\$184 million aggregate principal amount of convertible notes have exercised their right to cause us to set up and maintain an effective shelf registration statement on Form F-3 that allows them to sell their shares at any time or from time to time. Sales of these registered shares in the public market could cause the price of our ADSs to decline.

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Our corporate actions are substantially controlled by our officers, directors and principal shareholders.

As of March 31, 2012, our directors and officers beneficially owned a total of 35,593,012 of our ordinary shares, including shares that they had the right to acquire within 60 days. Beijing Tourism Group, or BTG, through its affiliate, owned 14,726,165 of our ordinary shares based on the latest information it has filed with the SEC, and it has the right to appoint, and has appointed, two directors of our company. Furthermore, Ctrip.com International, Ltd., or Ctrip, owned 14,400,765 of our ordinary shares based on the latest information it has filed with the SEC; two of Ctrip's co-founders and directors are also our co-founders and directors. If our officers, directors and these two principal shareholders choose to act in concert, they would beneficially own 38.9% of our ordinary shares (calculated as of March 31, 2012, including shares that they had the right to acquire within 60 days) and could exert substantial influence over matters requiring approval by our shareholders, including electing directors and approving mergers or other business combination transactions. The concentration of our share ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs or the value of our ordinary shares. These actions may be taken even if they are opposed by our other shareholders.

You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your right to vote.

Except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching to the shares represented by our ADSs directly. Holders of our ADSs may instruct the depositary or its nominee how to exercise the voting rights attaching to the shares represented by the ADSs. However, you may not receive voting materials in time to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law, we conduct substantially all of our operations in China and the majority of our officers reside outside the United States.

We are incorporated in the Cayman Islands, and conduct substantially all of our operations in China through our wholly-owned subsidiaries in China. Most of our directors and officers reside outside the United States and some or all of the assets of those persons are located outside of the United States. As a result, it may be difficult to effect service of process within the United States or elsewhere outside China upon our directors and officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws.

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It may also be difficult or impossible for you to bring an action against us or against our directors and officers in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits, provided that the judgment is final and was not obtained in a manner and is not of a kind where its enforcement would be contrary to natural justice or the public policy of the Cayman Islands. Moreover, our PRC counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2011 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against our directors and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

Our articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ordinary shares and ADSs.

Our articles of association contain provisions limiting the ability of others to acquire control of our company or cause us to enter into change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

Provisions of our convertible notes could discourage an acquisition of us by a third party.

Certain provisions of our convertible notes could make it more difficult or more expensive for a third party to acquire us. The indenture for our convertible notes defines a "fundamental change" to include: (1) any person or group gaining control of our company; (2) our company merging with or into another company or disposing of substantially all of its assets; (3) our ADSs ceasing to be listed on a U.S. national securities exchange; or (4) the adoption of any plan relating to the dissolution or liquidation of our company. Upon the occurrence of a fundamental change, holders of our convertible notes will have the right, at their option, to require us to repurchase all of their notes or any portion of the principal amount of such notes in integral multiples of US\$1,000. In the event of a fundamental change, we may also be required to issue additional ADSs upon conversion of our convertible notes.

The depositary of our ADSs, except in limited circumstances, has granted to us a discretionary proxy to vote the ordinary shares underlying the ADSs if ADS holders do not vote at shareholders' meetings, which could adversely affect ADS holders' interests.

Under the deposit agreement for the ADSs, the depositary gave us a discretionary proxy to vote the ordinary shares underlying the ADSs at shareholders' meetings if ADS holders do not vote, unless:

- we have failed to timely provide the depositary with our notice of meeting and related materials;

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- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- voting at the meeting is made on a show of hands.

The effect of this discretionary proxy is that ADS holders cannot prevent ordinary shares underlying the ADSs from being voted, absent the situations described above. Holders of our ordinary shares are not subject to this discretionary proxy.

We may be classified as a passive foreign investment company, which could result in adverse United States federal income tax consequences for U.S. Holders.

Based on the price of our ADSs and ordinary shares and the composition of our income and assets, we believe that we were not a "passive foreign investment company," or PFIC, for United States federal income tax purposes for our taxable year ended December 31, 2011. However, the application of the PFIC rules is subject to ambiguity in several aspects and we must make a separate determination each year as to whether we are a PFIC (after the close of such taxable year). Accordingly, we cannot assure you that we will not be a PFIC for our current or any future taxable year. A non-U.S. corporation will be considered a PFIC for any taxable year if either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. The value of our assets generally will be determined by reference to the market price of our ADSs and ordinary shares, which may fluctuate considerably. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in any offering. In the event that we become classified as a PFIC, we do not intend to prepare or provide the information that would enable U.S. Holders to make an election to treat us as a qualified electing fund. Further, if we were treated as a PFIC for any taxable year during which a U.S. Holder held an ADS or an ordinary share, certain adverse United States federal income tax consequences could apply to the U.S. Holder. For the definition of "U.S. Holder" and a more detailed discussion of United States federal income tax consequences to U.S. Holders, see "Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—Passive Foreign Investment Company."

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Home Inns & Hotels Management (Hong Kong) Limited, or Home Inns Hong Kong, was incorporated in Hong Kong in 2001 by its individual founders and Ctrip, a leading China-based travel consolidator. In 2002, Home Inns Hong Kong and a subsidiary of BTG entered into a joint venture agreement to form Home Inns & Hotels Management (Beijing) Limited, or Home Inns Beijing. Home Inns Hong Kong gradually increased its ownership interest in Home Inns Beijing until Home Inns Beijing became its wholly-owned subsidiary in 2007.

In May 2006, we incorporated Home Inns & Hotels Management Inc. in the Cayman Islands in preparation for our initial public offering. In June 2006, all of the then-existing shareholders of Home Inns Hong Kong exchanged their respective shares of Home Inns Hong Kong for an equivalent number of shares of Home Inns & Hotels Management Inc. of equivalent classes, and Home Inns Hong Kong became our wholly-owned subsidiary. We completed our initial public offering in October 2006.

In October 2007, we acquired the Top Star hotel chain, which had 26 hotels in operation at the time of the acquisition with approximately 4,200 rooms located in 18 cities across China. Effective October 1, 2011, we acquired Motel 168, which had 297 hotels in operation at the time of the acquisition, including 144 leased-and-operated hotels and 153 franchised-and-managed hotels, with approximately 47,099 rooms located in 85 cities across China.

As of December 31, 2011, we had 1,426 hotels in operation, including 698 leased-and-operated hotels and 728 franchised-and-managed hotels, with approximately 176,562 rooms located in 212 cities across China, and an additional 198 hotels under development.

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Our principal executive offices are located at No. 124 Caobao Road, Xuhui District, Shanghai 200235, People's Republic of China. Our telephone number at this address is +86 21 3401 9898. Our agent for service of process in the United States is CT Corporation System, 111 Eighth Avenue, New York, New York 10011.

B. Business Overview

We are a leading economy hotel chain in China, based on the number of our hotels, the number of our hotel rooms, and the geographic coverage of our hotel chain. We develop and operate economy hotels across China under our award-winning "Home Inn" brand, our new "Yitel" brand and our recently acquired "Motel 168" brand. Since we commenced operations in 2002, we have become one of the best-known economy hotel chains in China. We offer a consistent product and high-quality services to primarily serve the fast growing population of value-conscious individual business and leisure travelers who demand clean, comfortable and convenient lodging.

We have experienced substantial growth while maintaining profitability since 2003. Our hotels in operation grew rapidly from 10 hotels in 4 cities as of the end of 2003 to 1,426 hotels in 212 cities as of the end of 2011. Our total revenues grew from RMB 2.60 billion in 2009 to RMB 2.91 billion in 2010 and RMB 3.96 billion (US\$629.1 million) in 2011. Meanwhile, our net income attributable to Home Inns' shareholders grew from RMB 256.0 million in 2009 to RMB 359.5 million in 2010 and declined to RMB 351.6 million (US\$55.9 million) in 2011.

We have achieved our growth by utilizing two business models. We either lease real estate properties with which we develop and operate hotels, or we franchise our brand and manage these franchised hotel properties. We refer to the former type of hotels as "leased-and-operated hotels" and to the latter type of hotels as "franchised-and-managed hotels." As of December 31, 2011, our hotel chain consisted of 698 leased-and-operated hotels in operation with an additional 55 leased-and-operated hotels contracted or under construction and 728 franchised-and-managed hotels in operation and an additional 143 franchised-and-managed hotels contracted or under construction.

We have received many awards and accolades for our innovative, consistent and high-quality product and services across our hotel chain. We have received the "Golden Pillow Award" for the best brand in economy hotels from the 21st Century Business Herald, a national financial and economic journal in China, every year since 2007. We have been recognized with inclusion in numerous top 10 lists, most notably "Hotel Management Groups Top 10" award for 2009 and the China Chain Store & Franchise Association's "China Top 10 Hotel Brands" award for 2010. The Corporate Research Foundation named us as one of "China's Top Employers" for 2009. In 2010, we won an "International Franchisor of the Year" award from the Singapore Franchising & Licensing Association. In 2011, we won the 2010 "Excellent National Brand of China Hotel Industry" from the China Hotel Association, a "China Franchise Prize" from the China Chain Store & Franchise Association, a "Global 100 Companies with Greatest Growth Potential" award from the Chinese edition of *Fortune* magazine and a "Best Operational Practices" award from the *Harvard Business Review*.

Market Outlook

The growth in the Chinese economy hotel sector has benefited greatly from the overall growth of the Chinese economy in the past ten years. By unofficial estimates, economy hotels in China represented approximately 13% of the overall Chinese lodging market in terms of number of rooms by the end of 2011. The outlook for Chinese economy hotel growth continues to be positive, in our view, taking into consideration China's continued GDP expansion and urbanization and the increasing spending capability of Chinese consumers, which are factors that tend to support a rising average daily rate for the sector over time. We believe that the Chinese economy hotel market will remain demand-driven for the next two to three years, and therefore that occupancy rates for mature hotels will continue to be around 90 percent in the foreseeable future as business activities and leisure travel exhibit steady growth. We understand that policy makers consider the travel industry to be one of the key industries in China for enhancing domestic consumption, and we are of the view that the leading branded economy hotel operators will continue to increase scale and geographic coverage for the foreseeable future. If the pace of growth continues at current levels, we believe that the economy hotel sector will increase its share of the overall lodging space to 20% or potentially more in the next eight to ten years.

Our Hotel Chain

We are a leading economy hotel chain in China offering cleanliness, convenience, comfort and value to individual business and leisure travelers. We are dedicated to providing consistent and high-quality products and services to our customers, allowing them to enjoy the comforts of home while staying at any of our hotels. In addition to our Home Inn brand of hotels, in November 2010 we launched a new hotel brand targeting the midscale and upscale market which we call Yitel, or Heyi in Chinese. Effective October 1, 2011, we acquired Motel 168, an economy hotel chain with national scope that has been in operation since 2003. Motel 168 tends to cater more to younger leisure travelers. As of December 31, 2011, we had a total of 1,426 hotels in operation, including 1,115 hotels under the Home Inn brand, 307 hotels under the Motel 168 brand and 4 hotels under the Yitel brand, covering a total of 212 cities across China, as well as an additional 198 hotels contracted or under construction which will extend our reach to a total of 240 cities across China.

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Our hotel chain currently covers most major metropolitan areas in China. We intend to further penetrate the cities and metropolitan areas where we already have a presence and also expand into additional cities in China with a population of over one million, an annual GDP of over RMB 10 billion (US\$1.6 billion), or both. We believe cities meeting these criteria generally have the potential for sustainable economic growth and increasing demand for hotel accommodation services. Because we believe that our Motel 168 brand is complementary to our Home Inn brand, we may open new Motel 168 hotels in locations where we would not necessarily open additional Home Inn hotels.

A typical Home Inns hotel has 80 to 160 guest rooms. Our existing Motel 168 hotels vary more in size, from 80 up to 500 rooms, with an average of around 150 rooms. Each hotel has a standardized design, appearance, decor, color scheme, lighting scheme and set of guest amenities in each room, including a comfortable bedding package, free in-room broadband Internet access, a comfortable work space, air-conditioning and a supply of cold and hot drinking water. Our hotels are strategically located to provide our guests with convenient access to major business districts, ground transportation hubs, major highways, shopping centers, industrial development zones, colleges and universities, and large residential neighborhoods.

The following table sets forth a complete listing of all of our hotels as of December 31, 2011:

	Hotels in Operation									Hotels Contracted ⁽¹⁾					
	Leased-and-			Franchised-			Leased-and-			Franchised-					
	Number of Hotels	Number of Cities	Operated			and-Managed			Operated			and-Managed			
			Home Inns	Motel 168	Yitel	Home Inns	Motel 168	Yitel	Home Inns	Motel 168	Yitel	Home Inns	Motel 168	Yitel	
Jiangsu	264	29	65	23	—	86	56	—	2	1	—	19	12	—	
Shanghai	190	1	32	45	1	46	58	1	—	—	—	4	3	—	
Shandong	164	34	76	6	—	57	3	—	9	—	—	13	—	—	
Beijing	125	1	24	4	1	85	1	—	—	—	—	10	—	—	
Zhejiang	103	16	13	10	—	55	17	—	3	—	—	3	2	—	
Guangdong	93	18	51	18	—	12	1	—	6	—	—	5	—	—	
Liaoning	77	13	31	3	—	30	—	—	3	2	1	7	—	—	
Hebei	57	11	20	1	—	24	1	—	5	—	—	6	—	—	
Tianjin	56	1	18	4	—	29	1	—	1	—	—	2	1	—	
Shaanxi	51	4	22	2	—	18	1	—	3	—	1	4	—	—	
Hubei	45	6	20	8	—	9	3	—	2	—	—	3	—	—	
Fujian	38	7	9	—	—	26	1	—	—	—	—	2	—	—	
Anhui	37	11	11	4	—	6	9	—	—	—	—	4	3	—	
Henan	35	12	15	1	—	12	2	—	1	—	—	2	2	—	
Heilongjiang	34	9	20	2	—	7	—	—	1	—	—	3	1	—	
Shanxi	31	8	9	—	1	13	1	—	3	—	—	4	—	—	
Sichuan	24	7	10	2	—	7	2	—	—	—	—	3	—	—	
Jilin	23	6	15	2	—	5	—	—	—	—	—	1	—	—	
Inner Mongolia	21	6	10	—	—	5	—	—	—	—	—	6	—	—	
Gansu	20	6	11	—	—	3	—	—	4	—	—	2	—	—	
Hunan	20	7	10	5	—	3	—	—	1	—	—	—	1	—	
Guangxi	19	5	13	—	—	1	2	—	—	—	—	3	—	—	
Xinjiang	18	2	10	—	—	5	1	—	2	—	—	—	—	—	
Yunnan	18	6	6	—	—	5	1	—	2	—	—	4	—	—	
Chongqing	15	1	6	2	—	3	1	—	—	—	—	3	—	—	
Jiangxi	13	4	7	—	—	5	1	—	—	—	—	—	—	—	
Guizhou	12	2	5	2	—	3	—	—	—	—	—	2	—	—	
Hainan	11	3	7	—	—	1	—	—	1	—	—	2	—	—	
Ningxia	6	3	4	—	—	1	—	—	1	—	—	—	—	—	
Qinghai	4	1	1	—	—	2	—	—	—	—	—	1	—	—	
Total	1,624	240	551	144	3	564	163	1	50	3	2	118	25	—	

(1) Contracted hotels include hotels which have not commenced operations but for which we have entered into binding leases or franchise agreements with the respective lessors or franchisees.

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Leased-and-operated Hotels. For our leased-and-operated hotels, we lease properties from real estate owners or lessors. We are responsible for hotel development and customization to conform to the standards of our hotel chain, as well as repairs and maintenance and operating expenses of properties over the term of the lease. We are also responsible for all aspects of hotel operations and management, including hiring, training and supervising the managers and employees required to operate our hotels as well as purchasing supplies. We typically enjoy rental holidays of three to six months and pay fixed rent on a quarterly basis for the first three or five years of the lease term, after which we may be subject to a 3% to 5% increase every three to five years. We generally have a right of first refusal to extend the lease after the initial term expires. The annual rent for each of our leased-and-operated hotels ranges from RMB 0.3 million (US\$0.05 million) to RMB 12.0 million (US\$1.9 million), depending on the location, size and condition of each hotel property. The terms of our leases range from 5 to 20 years, most of which are 15 to 20 years in duration. In general, upon expiration of these leases, we may dispose of the removable fixtures, equipment and appliances installed by us while leasehold improvements and fixtures may be kept by the lessor on the premises.

In the case of early termination of a lease due to the lessor's default, we are generally entitled to take all removable items installed by us and may also be compensated for the amount we spent in connection with the leasehold improvements. In the case of early termination of a lease due to our default, we are generally entitled to take all removable items installed by us, the lessor is entitled to the leasehold improvements which result from our investments, and we may have to pay liquidated damages equal to a proportion or multiple of the remaining rent due.

Franchised-and-managed Hotels. For our franchised-and-managed hotels, we franchise our "Home Inn," "Motel 168" and "Yitel" brands to franchisees who are property owners, lessors or existing hotel operators, and we are generally responsible for managing these hotels, typically including the hiring and appointing of the general managers of these hotels. Under a typical franchise agreement between us and a franchisee, the franchisee is generally required to pay us an initial franchise fee of between RMB 0.25 million and RMB 0.45 million per hotel and ongoing franchise and management fees equal to 6% of gross revenue, including an annual brand royalty fee of 3%, an annual management fee of 1.5% and an annual franchise fee of 1.5%, with the exception that the annual management fees and annual franchise fees in new Motel 168 franchise agreements are generally only 1% each while we integrate franchised-and-managed Motel 168 hotels. The franchisee is responsible for the costs of hotel development and customization to conform to the standards of our hotel chain, as well as for repairs and maintenance and operating expenses of the hotel. In general, we enter into franchise arrangements in markets where we have established leased-and-operated hotels and are able to leverage our local knowledge and experience as well as marketing and administrative resources to better assist our franchised-and-managed hotels in these localities. The typical term for our franchise agreements is eight years. Motel 168 franchise agreements that were signed before the acquisition differ in certain terms: in particular, the initial franchise fee was between RMB 0.1 million and RMB 0.4 million per hotel, the ongoing franchise and management fees payable by the franchisee under those agreements are typically between 3% and 4% in the first year and between 4% and 5% in later years, and the duration is typically five years.

Future franchise agreements for all brands will be based on the form we currently use for our Home Inn and Yitel franchisees.

The following table sets forth additional information about of our hotels in operation as of December 31, 2011.

	Total Number of Hotels	Number of Hotels Opened for Over Six Months	Number of Hotels Opened for No More Than Six Months	Average Number of Rooms per Hotel	Typical Lease or Franchise Term
Leased-and-operated Hotels	698	622	76	135	15–20 years
Franchised-and-managed Hotels	728	598	130	113	5–8 years

We also operate seven leased-and-operated hotels through joint ventures. We control six joint ventures through Home Inns Hotel Management (Shanghai) Co., Ltd., which owns 51% of three joint ventures, 65% of one joint venture, 70% of one joint venture and 75% of one other joint venture. We also have joint control of another joint venture through Motel 168 Hotel Management (Shanghai) Co., Ltd., which owns 50% of that entity.

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We set the room rates of our hotels based on local market conditions with reference to room rates set by our competitors. As we primarily target individual business and leisure travelers, the month that includes Chinese New Year (which can fall in late January or early February) generally accounts for a lower portion of our annual revenues than other months.

Hotel Development

We follow a structured and systematic development and construction process with respect to our development of new hotel properties. Our multi-step development process starts with planning and site identification. We have staff based in our head office in Shanghai focusing on identifying potential new markets and performing comprehensive studies of each new market by conducting site visits and gathering background information such as the regional economic conditions, economic development plans and availability of existing hotel accommodation services in the prospective new markets. After the development plans are designed and market opportunities are identified, we assign our regional development staff members and the city general managers in each region to survey and select ideal hotel locations in the chosen markets. Once a site has been selected, we negotiate with the property owner while concurrently conducting due diligence with respect to a number of major legal and regulatory aspects, including the owner's land title and relevant zoning regulations. For our leased-and-operated hotels, we lease properties from real estate owners or lessors and we convert the properties into standardized hotels. Our lease term negotiations are guided by a comprehensive set of criteria, including certain financial return requirements. All new hotel leases are subject to the final approval of four designated members of our investment committee, including our chief executive officer, David Jian Sun. As a leading branded economy hotel chain in China, we are generally able to establish credibility with property owners and secure desirable properties on reasonable terms. We commence constructing a standardized hotel after definitive agreements with the owner have been executed. A majority of the construction materials and supplies for the new hotel are purchased through our centralized procurement system. For our franchised-and-managed hotels, we assist franchisees in refurbishing, renovating or constructing their properties, and in meeting our brand specifications by providing technical expertise and cost-savings suggestions. Before completion of construction, we carry out a series of pre-opening activities, such as identifying and appointing the general manager and other members of the hotel management team, and hiring and training hotel staff in anticipation of the hotel opening. It typically takes four to six months from execution of a lease or franchise agreement to hotel opening.

We have incurred capital expenditures primarily in connection with leasehold improvements and investments in furniture, fixtures and equipment, technology and information and operational systems. Our capital expenditures totaled RMB 250.4 million, RMB 546.4 million and RMB 909.1 million (US \$144.4 million) in 2009, 2010 and 2011, respectively. We will continue to incur capital expenditures to meet the expected growth of our operations. We expect to meet our capital expenditure needs in the foreseeable future with cash generated from our operating activities and financing activities. We have not had any material divestiture during the past three years.

We seek to lease or franchise properties that meet the following market- and hotel-specific criteria:

General Market Criteria

Economic Growth. We focus on cities and metropolitan areas that are approaching, or have already entered into, periods of significant economic growth. Such cities and metropolitan areas generally show growth in certain business activities as measured by employment opportunities, population growth rates, tourism and convention activities, air traffic volume, local commercial real estate occupancy, and retail sales volume. Markets that exhibit growth in these metrics typically have strong demand for hotel facilities and services. Provincial capitals also have strong demand for hotel facilities and services. We have identified approximately 250 such cities in China, including cities with a population of over one million, annual GDP of over RMB 10 billion (US\$1.6 billion), or both. We intend to continue focusing on these cities and metropolitan areas going forward.

Geographic Diversification. We seek to maintain a portfolio of hotels that is geographically diverse to offset the effects of regional economic cycles. We will continue to expand into new urban business centers as opportunities arise that meet our investment criteria.

Favorable Development Environment. We seek lodging markets with favorable hotel development environments, in particular in newly emerged markets where zoning requirements are minimal, local development approval and registration processes are not complex and lengthy, and suitable property sites and local construction resources are available.

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Specific Hotel Criteria

Location and Market Appeal. We seek to invest in hotels situated near both business and leisure centers that tend to generate a broad base of demand for hotel accommodations and facilities. These demand drivers include transportation hubs, convention centers, business parks, shopping centers and other retail areas, major highways, tourist destinations, major universities and cultural and entertainment centers. The proximity of business and leisure centers will enable us to attract both weekday business travelers and weekend leisure guests.

Size and Facilities. We seek to develop and operate economy hotels with 80 to 160 guest rooms, which include amenities that are attractive to key demand segments such as individual business and leisure travelers. We believe operating economy hotels with 80 to 160 rooms allows us to best leverage our competitive strengths and maximize our profitability.

Financial Return Requirements. We require our development team, marketing team and city general managers to assess the potential financial return of every proposed new hotel. We will only develop hotels that exhibit a potential for meeting our internal financial return objectives both in the near term and over the term of the lease agreement.

Hotel Management

We believe that skilled management is a critical element in maximizing revenues and profitability of our hotel operations. A majority of our senior hotel management team has extensive experience in the hospitality and other consumer-services industries. Personnel at our corporate office perform strategic planning, finance, project development, sales and marketing, training and other functions and guide, support and monitor our on-site hotel operations. Each of our headquarter departments, including hotel operations, sales and marketing, human resources, training, information technology, development, legal, and accounting and finance, is staffed by an experienced team with significant expertise in their respective area. These departments support each hotel and its management in day-to-day activities by providing operating statistics, accounting and budgeting services, sales and revenue management, marketing and promotion support, cost controls, property management tools and other resources that we develop, maintain and deliver efficiently and effectively using our centralized corporate office resources. Key elements of our centralized hotel management programs include the following:

Budgeting and Monitoring. Our corporate office personnel work with the general manager of each hotel to set a detailed annual budget for revenues and cost categories of the hotel. The annual budget is based on historical operating performance of the hotel, planned targeted marketing, planned renovations, operational efficiencies and local market conditions. Through the use of our online property management and management reporting systems, we are able to track each hotel's daily occupancy, average daily rates, RevPAR and other operating data. As a result, we can effectively and timely monitor the actual performance of each hotel and adjust sales efforts and other resources in time to take advantage of changes in the market and to maximize our profitability.

Quality Assurance and Training. We are dedicated to providing value and consistent quality standards to our customers. We have established quality standards for all aspects of our hotel operations that cover, among other areas, housekeeping, hotel maintenance and renovation, and service offering. To ensure compliance with our quality standards, we have developed a comprehensive set of procedural manuals relating to all aspects of our hotel operations to ensure that our employees follow the same standards. We have implemented comprehensive training programs to ensure the effectiveness and uniformity of our employee training through our centralized human resources department at our corporate office as well as through our dedicated training facility, Home Inns Academy.

We monitor the compliance of our hotels with quality standards through both scheduled and unannounced visits and reviews conducted periodically at each hotel. Quality inspection scores are integrated into performance measurements. Periodically, we require most of our employees to take tests to monitor their knowledge of our quality standards. In addition, our practice of tracking customer comments through guest comment cards, and the direct solicitation of guest opinions regarding specific items, allows us to improve services and amenities at each hotel across our hotel chain.

Strategic Capital Improvements. To maintain our competitiveness and enhance our hotels' appeal to targeted market segments, we require each of our hotels to allocate a fixed percentage of its revenue for periodic renovation and replacement of furnishings and equipment to maintain the quality and standards of our facilities. We base recommendations on capital spending decisions on customer feedback, strategic needs, and our targeted financial return on a given capital investment.

Centralized Procurement. We have implemented a centralized procurement system to allow us to obtain the best pricing available for the quality of goods sourced to our hotels in order to minimize the operating expenses of our hotels. As a leading branded economy hotel chain in China with nationwide scale, we are able to exert leverage over our suppliers of commodity goods and services.

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Targeted Sales. We support each hotel's local sales efforts with corporate office sales executives who develop and implement new marketing programs, and monitor and respond to specific market needs and preferences. We use our property management system to manage each property's use of the various distribution channels in the lodging industry. Those channels include our central reservation system which handles internet booking and toll-free calls, third-party travel agents and other travel intermediaries, and corporate travel offices. Based on market conditions, we adjust the number of rooms allocated to each of our sales channels on a daily basis in order to optimize our profitability. Our customer relationship management programs offer incentives to customers in our loyalty programs, who represent over 50% of our rooms sold.

Hotel Information and Operational Systems

The principal objectives of our hotel operations are to generate higher RevPAR, control costs and increase the net operating income of our hotels, while providing our customers with high-quality services and value. Our integrated information and operational systems are proprietary and were designed to differentiate us in the marketplace and to operate efficiently and cost-effectively today as well as to accommodate future growth. Our investment in our sophisticated system infrastructure delivers better customer service, ease of storage and processing of large amounts of data, support of large-scale operation and automated business administration and real-time financial and operational information from each hotel to enable strategic decision making on a timely basis.

Our key hotel information and operational systems include the following:

Property Management System. Our proprietary property management system is designed to help our hotels maximize profitability and compete more effectively by managing their room inventory, rates and reservations. The property management system synchronizes each hotel's room inventory with our reservation system, giving our reservation agents the capability to sell available rooms at our hotels. The property management system also includes a revenue management feature that calculates and suggests optimum rates based on each hotel's past performance and projected occupancy. These tools enhance our ability to effectively manage our hotel operations and maximize RevPAR. After the acquisition of Motel 168 effective October 1, 2011, we continued to operate Motel 168's existing property management system, and we plan to make improvements to it in 2012.

Central Reservation System. In 2011, approximately 14.4% of our total hotel room nights were booked through our proprietary reservation system, which primarily consists of our toll-free telephone reservation system. As of December 31, 2011, we employed an aggregate of 261 reservation agents to serve customers who make hotel reservations by phone. Our trained reservation agents can match each caller with a hotel that meets the caller's needs. Our central reservation system provides a data link to all of our hotels so that confirmations are transmitted automatically to the hotel for which the reservations are made. After the acquisition of Motel 168 effective October 1, 2011, we continued to operate Motel 168's existing central reservation system alongside our own, with integration of data between the two.

Customer Relationship Management System. Our proprietary customer relationship management system tracks the consumption patterns and accumulated and redeemed points of the active members of our Home Inns membership rewards program. This information enables us to analyze customer data on a company-wide basis as well as to develop a more specific and targeted marketing strategy. We plan to discontinue the Motel 168 membership rewards program and integrate its existing members and their outstanding membership points with our Home Inns program in 2012.

Management Reporting System. We have designed a proprietary web-based management reporting system that records the daily financial and operating performance of each of our hotels in a central database for monitoring and analysis. This system allows us to track each hotel's daily occupancy, average daily rates, RevPAR and other operating and financial data. One of our ongoing primary objectives is to maintain reliable information, management and operational systems. We have implemented performance monitoring for all key systems to enable us to respond quickly to potential problems. Our computers and servers are hosted at a facility in Shanghai. This facility provides redundant utility systems, a backup electric generator and 24-hour server support. All servers have uninterrupted power supplies and redundant file systems to maximize system and data availability. We regularly back up our data to minimize the impact of data loss due to system failure.

Sales and Marketing

Our core targeted customers consist of value-oriented individual small-and-medium-enterprise business travelers and leisure travelers seeking comfortable and convenient lodging at an affordable price. We systematically review our hotel pricing twice a year and typically adjust room rates annually based on the local market conditions of the city, the specific location of each hotel and the development plans for that local market. Under certain conditions we have also begun to adjust price at selected hotels according to seasonality and major event schedules in recent years. Our head office team and our city and hotel managers jointly develop tailored marketing plans to drive sales for each hotel and in each city. We use management and operational systems to manage each hotel's use of the various distribution channels in the lodging industry. Those channels include our centralized reservation system and toll-free numbers, third-party travel agents and other travel intermediaries and corporate travel offices. Our access to these channels allows us to further enhance occupancy rates of our hotels on a day-to-day basis.

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The following table presents the approximate percentage of room nights stayed for our Home Inn and Yitel brand hotels in 2011, by customer channel:

Customer Channel	Approximate Percentage of Total Room Nights Stayed in 2011
Central reservation system bookings by individual members of our Home Inns membership network	12.7
Central reservation system bookings by non-members of our Home Inns membership network	1.7
Reservations made directly with hotels by individual members of our Home Inns membership network	44.6
Walk-ins	8.5
Corporate accounts	13.3
Travel agencies and consolidators	6.5
Others	12.6
Total	100.0%

Both of our centralized reservation centers are located in Shanghai, China and provide services 24 hours a day, seven days a week. Customers can call our nationwide toll free number for Home Inn or Motel 168 to consult with our reservation agents, receive real-time hotel information and make hotel bookings. As of December 31, 2011, we employed 261 reservation agents at our two centers, all of whom participated in a formal training program before commencing work. We believe we have sufficient capacity to meet the currently anticipated increases in call volume. If we exceed this capacity, we believe we can add, within a reasonable time and at a reasonable cost, additional phone lines, computer systems and reservation agents to handle increasing call volumes without the need to undertake system redesign to our existing systems.

Our corporate marketing and advertising programs are designed to enhance consumer awareness and preference for the "Home Inn" brand and the "Motel 168" brand as offering the greatest value, convenience and comfort in the economy hotel segment of the Chinese lodging industry, and to encourage customers' use of our centralized reservation system. Marketing and advertising efforts include outdoor advertisements, distribution of flyers and other marketing materials on our hotel properties, television, internet and radio advertising, print advertising in consumer media and promotional events, special holiday promotions and joint promotional activities.

We have operated a Home Inns membership reward program to attract travelers by rewarding frequent stays with points towards free hotel stays, discounts on room rates, priority in hotel reservations and other rewards. As of December 31, 2011, our Home Inns brand membership reward program had approximately 5,089,000 active members, as compared to approximately 3,750,000 and 2,617,000 active members as of December 31, 2010 and 2009, respectively. Our Motel 168 brand program, which we plan to discontinue and combine with our Home Inns brand program in 2012, had approximately 2,471,000 active members as of December 31, 2011. Our membership reward program allows us to build customer loyalty as well as conduct lower cost, more targeted marketing campaigns.

Employees and Training

We believe that developing and maintaining a team of capable and motivated managerial and other employees are critical to our success. Because our managerial and other employees manage our hotels and interact with our customers on a daily basis, they are critical to maintaining the quality and consistency of our services as well as our brand and reputation. We seek to hire managerial employees with background and experience in hotel and other consumer services industries with a customer-first mentality. We aim to recruit, train and retain the best talent through a multi-step recruiting and training process while offering competitive performance-linked compensation packages and career advancement opportunities.

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We have implemented extensive training programs and periodic tests for managerial and other hotel-based staff primarily through our training facility, "Home Inns Academy." New general managers of our hotels and executive assistants to general managers are required to undergo a two-month training period, during which they receive training in managing all core aspects of our hotel operations, as well as our company culture and philosophy. We also require our hotel general managers and city managers to participate in annual training programs so that they can stay abreast of changes in our hotel operations and consumer preferences and demands. In addition, all employees of a new hotel are required to undergo an approximately 25-day job training prior to commencing their duties. We also have trained on-site managers in many of our hotels to provide continuous training to our hotel staff. In addition to training, we have implemented periodic tests to assess the relevant knowledge and skills of our managerial and other employees. We are integrating the existing employees at our Motel 168 hotels into our on-the-job training programs, and all new employees at Motel 168 hotels will go through the same training as those at our other hotels.

To ensure that all of our hotels have the best possible performance, we have established an effective and clearly defined performance evaluation system based on a comprehensive set of key performance indicators that are aligned with a corresponding compensation structure. In addition, we provide capable and experienced hotel staff with opportunities to be promoted to management positions. We believe our performance-linked compensation structure, career-oriented training and career advancement opportunities are the key drivers that motivate our employees. As a result, we have experienced a very low attrition rate among our managerial staff since our inception. We were included in the Corporate Research Foundation's list of "China's Top Employers" for 2009.

Excluding employees of our franchised-and-managed hotels, we had 15,810, 16,313 and 26,670 employees as of December 31, 2009, 2010 and 2011, respectively. As of December 31, 2011, our employees consisted of 23,976 hotel-based employees, 261 reservation agents at our centralized reservation center, and 2,433 corporate staff. Approximately 21% of our employees are associated with labor unions. We consider our relations with our employees to be good.

Competition

The lodging industry in China is highly fragmented and competitive, and we expect competition to persist and intensify. Hotels in China may but are not required to apply for star ratings as approved by tourism bureaus of local governments or the National Tourist Administration, or the NTA, based on the star rating regulations in China. This standard defines five distinct star ratings, i.e., one-star, two-star, three-star, four-star, and five-star, including platinum five-star. In order to obtain a particular star rating, a hotel must meet certain defined standards for the availability and quality of hotel facilities and public area, availability and quality of amenities in guest rooms, food and beverage facility, scope of guest services, and scope and quality of management infrastructure, etc. We have not applied for star ratings because we do not consider obtaining a star rating as necessary and our business has not been affected as we focus on meeting individual business and leisure travelers' basic accommodation needs with affordable pricing, a comfortable lodging experience, high-quality services and standardized hotel rooms and amenities across our hotel chain.

We compete with other hotels for guests in each of the markets in which we operate. Competition in the industry is primarily based on room rates, quality of accommodations, brand name recognition, convenience of location, geographic coverage, service quality, range of services, and guest amenities. We compete primarily with other economy hotel chains, such as Jinjiang Star, 7 Days Inn, Han Ting, Green Tree Inn and Super 8, as well as various regional and local economy hotel chains. We also compete with two- and three-star hotels, as we offer rooms with standards comparable to many of those hotels and many of the amenities available at those hotels while maintaining competitive pricing and high-quality services tailored to individual business and leisure travelers. In addition, we may also face competition from new players in the economy hotel segment in China. As compared to four- or five-star hotels, developing an economy hotel requires a smaller commitment of capital and human resources. This relatively low barrier of entry permits new competitors to enter our markets quickly and compete with our business. Furthermore, we may face competition from all other hotels for guests in each of our markets, as our typical business and leisure traveler customers may change their travel and spending patterns and choose to stay in hotels in different segments.

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Intellectual Property

Our brand, trade names, trademarks, trade secrets and other intellectual property rights distinguish and protect our technology, services and products from those of our competitors and contribute to our competitive advantage in the economy hotel segment of the lodging industry in China. To protect our brand and other intellectual property, we rely on a combination of trademark, trade secret and copyright laws as well as imposing confidentiality obligations on our employees, contractors and others. We have a total of 94 registered trademarks in China, including (for Home Inns), (for Motel 168) and (for Yitel). We are applying for registration of 27 new trademarks in China. We have also registered our domain names *www.homeinns.com*, *www.motel168.com* and *www.yitel.com* with the Internet Corporation for Assigned Names and Numbers.

We cannot guarantee that our efforts to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate these rights. If others are able to copy and use our proprietary information and operational system and other proprietary technology without spending time and resources to develop their own, we may not be able to maintain our competitive position. Furthermore, the application of laws governing intellectual property rights in China is uncertain and evolving and could involve substantial risks to us. If litigation is necessary to enforce our intellectual property rights or determine the scope of the proprietary rights of others, we may have to incur substantial costs or divert other resources, which could harm our business and prospects.

Insurance

Our hotels are covered by property and liability insurance policies with coverage features and insured limits that we believe are customary for similar properties in China. We carry property insurance that covers the assets that we own at our hotels, but not the buildings or any other assets owned by our lessors. Although we require our lessors to purchase customary insurance policies, we cannot guarantee that they will adhere to such requirements. If we suffer losses or are held liable for amounts and claims exceeding the limits of our insurance coverage or outside the scope of our insurance coverage, our business, results of operations and financial condition may be materially and adversely affected.

Regulation

The hotel industry in China is subject to a number of laws and regulations, including laws and regulations relating specifically to hotel operation and management and commercial franchising, as well as those relating to environmental and consumer protection. The principal regulation governing foreign ownership of hotel businesses in the PRC is the Foreign Investment Industrial Guidance Catalogue, the most recent version of which was promulgated on December 24, 2011. Under this catalogue, the hotel industry (other than the development and operation of high-end hotels) belongs to the category of permitted foreign investment industry and there is no restriction on foreign investment in hotel businesses in China, other than regular business license and other permits that must be possessed by every lodging business in China. There are no regulatory ceilings on room rates in China. Market-based pricing is permissible for the hotel industry and room rates may be determined at the sole discretion of hotel management. Relative to other industries in China, regulation of the hotel industry in China is still developing and evolving. As a result, most legislative action has consisted of general measures such as industry standards, rules or circulars issued by different ministries rather than detailed legislation. Many of these standards, rules and circulars date from the late 1990's, and it is expected that they may be amended, revised or expanded in the coming years as the hotel industry in China matures. This section summarizes the principal PRC regulations currently relevant to our business and operations.

Regulations on Hotel Operation

Under applicable PRC regulations, anyone who applies to operate a hotel is subject to examination and approval by the local public security authority and must obtain a special industry license. Hotel operators have certain security control obligations as well. For example, the hotel must examine the identification card of any guest to whom accommodation is provided and make an accurate registration. The hotel must also report to the local public security authority if it discovers anyone violating the law, behaving suspiciously or an offender wanted by the public security authority.

A hotel must obtain a public area hygiene license and pass a fire prevention safety inspection by the local public security fire-fighting department before opening for business and must obtain a food hygiene license to serve food. Hotels that provide entertainment facilities, such as discos or ballrooms, are required to obtain a license for entertainment business operations. Hotels are also subject to regulations concerning other standards relating to the operation of public facilities. The relevant administrative authorities may impose penalties and even shut down hotels that violate the provisions.

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All hotels that have been in operation for over one year are eligible to apply for a star rating assessment under the *Regulations on the Assessment of the Star Rating of Tourist Hotels*. There are five ratings from one star to five stars for tourist hotels, assessed based on the level of facilities, management standards and quality of service. A star rating, once granted, is valid for five years.

Regulations on Consumer Protection

Under the *Law on the Protection of the Rights and Interests of Consumers*, a business operator providing a commodity or service to a consumer is subject to a number of requirements, including the following:

- (1) to ensure that commodities and services meet with certain safety requirements;
- (2) to disclose serious defects of a commodity or a service and adopt preventive measures against damage occurrence;
- (3) to provide consumers with true information and to refrain from conducting false advertising;
- (4) not to set unreasonable or unfair terms for consumers or alleviate or release itself from civil liability for harming the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices or other means; and
- (5) not to insult or slander consumers or to search the person of, or articles carried by, a consumer or to infringe upon the personal freedom of a consumer.

Business operators may be subject to civil liabilities for failing to fulfill the obligations discussed above. These liabilities include restoring the consumer's reputation, eliminating the adverse effects suffered by the consumer, and offering an apology and compensation for any losses incurred. The following penalties may also be imposed upon business operators for the infraction of these obligations: issuance of a warning, confiscation of any illegal income, imposition of a fine, an order to cease business operations, revocation of its business license or imposition of criminal liabilities under circumstances that are specified in laws and statutory regulations.

The *Interpretation of Some Issues concerning the Application of Law for the Trial of Cases on Compensation for Personal Injury* enacted by the Supreme People's Court further increases the liabilities of a business operator engaged in the operation of hotels, restaurants, or entertainment facilities and subjects such operators to compensatory liability for failing to fulfill their statutory obligation to a reasonable extent or to guarantee the personal safety of others.

Regulations on Environmental Protection

The *Law on Promoting Clean Production* regulates service enterprises such as restaurants, entertainment establishments and hotels and requires them to use technologies and equipment that conserve energy and water and serve other environmental protection purposes, and to reduce or stop the use of consumer goods that waste resources or pollute the environment.

Regulations on Commercial Franchising

Franchise activities are subject to the supervision and administration of the Ministry of Commerce and its regional counterparts. Under applicable PRC regulations, franchisors must satisfy certain requirements including, among other things, having mature business models and the capacity to provide operation instruction, technical support and training to franchisees. Franchisors engaged in franchising activities without satisfying the above requirements may be subject to penalties such as the forfeit of illegal income and the imposition of monetary fines between RMB 100,000 and RMB 500,000 and may be bulletined by the Ministry of Commerce or its local counterparts. Franchise contracts shall include certain required provisions, such as terms, termination rights and payments.

Franchisors are generally required to file franchise contracts with the Ministry of Commerce or its local counterparts. Failure to report franchising activities may result in penalties such as fines up to RMB 100,000. Such noncompliance may also be bulletined. In the first quarter of every year, franchisors are required to report to Ministry of Commerce or its local counterparts any franchising contracts they executed, canceled, renewed or amended in the previous year.

The term of the franchising contracts shall be no less than three years unless franchisees otherwise agree. The franchisee is entitled to terminate the franchise contract at his sole discretion after a period of time.

Franchisors are also required to provide franchisees with basic information in writing and franchise contracts 30 days prior to the execution of such contracts. Failure to disclose or misrepresentation entitles the franchisee to terminate the franchise contract and may also result in fines for the franchisor of up to RMB 100,000. In addition, such noncompliance may be bulletined.

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Regulations on Trademarks

PRC trademark law and regulations give protection to the holders of registered trademarks and trade names. The Trademark Office under the State Administration for Industry and Commerce handles trademark registrations and grants a term of ten years to registered trademarks. Trademark license agreement must be filed with the Trademark Office or its regional counterpart.

Regulations on Foreign Currency Exchange

Under various rules and regulations issued by SAFE and other relevant PRC government authorities, the RMB is convertible for current account items, such as trade related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investment, require the prior approval from SAFE or its local counterpart for conversion of RMB into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC.

Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local counterpart. Unless otherwise approved, domestic enterprises must convert all of their foreign currency receipts into RMB.

Regulations on Dividend Distribution

Under applicable PRC regulations, wholly foreign owned enterprises and Sino-foreign equity joint ventures in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. Additionally, these foreign-invested enterprises are required to set aside certain amounts of their accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends except in the event of liquidation and cannot be used for working capital purposes. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We rely principally on dividends and other distributions on equity paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries entities to make payments to us could have a material adverse effect on our ability to conduct our business."

Regulations on Employee Stock Holding Plan or Stock Option Plan

On February 15, 2012, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration for Domestic Individuals Participating in an Employees Share Incentive Plan of an Overseas-Listed Company, or the new Share Incentive Rule, which replaced a previous circular promulgated in 2007. Under the new Share Incentive Rule, PRC citizens who participate in a share incentive plan of an overseas publicly listed company are required to register with SAFE and complete certain other procedures. All such participants need to retain a PRC agent through the PRC subsidiary of the overseas publicly listed company to register with SAFE and handle foreign exchange matters such as opening accounts, transferring and settlement of the relevant proceeds. The Rule further requires that an offshore agent should also be designated to handle matters in connection with the exercise or sale of share options and fund transferring for the share incentive plan participants.

Regulation on Mergers and Acquisitions

In 2006, six PRC regulatory agencies jointly adopted new regulations governing mergers and acquisitions, the M&A Rule, setting forth complex procedures and requirements, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The M&A rule sets forth complex procedures for acquisitions conducted by foreign investors which could make it more difficult to pursue growth through acquisitions."

Regulation of Loans between a Foreign Company and its Chinese Subsidiary

A loan denominated in foreign currency made by foreign investors as shareholders in a foreign-invested enterprise is considered to be foreign debt in China and is subject to several Chinese laws and regulations. Under these rules and regulations, a shareholder loan in the form of foreign debt made to a Chinese entity does not require the prior approval of SAFE. However, such foreign debt must be registered with and recorded by SAFE or its local branch in accordance with relevant PRC laws and regulations. Each of our PRC subsidiaries can legally borrow foreign currency denominated loans up to its borrowing limit, which is defined as the difference between the amount of its "total investment" and "registered capital" as approved by the Ministry of Commerce or its local counterparts. Interest payments, if any, on the loans are subject to a 10% withholding tax unless any such foreign shareholder's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. If the amount of foreign currency denominated loan of any of our PRC subsidiaries exceeds its borrowing limit, we are required to apply to the relevant Chinese authorities to increase the total investment amount and registered capital to allow the excess foreign debt to be registered with SAFE.

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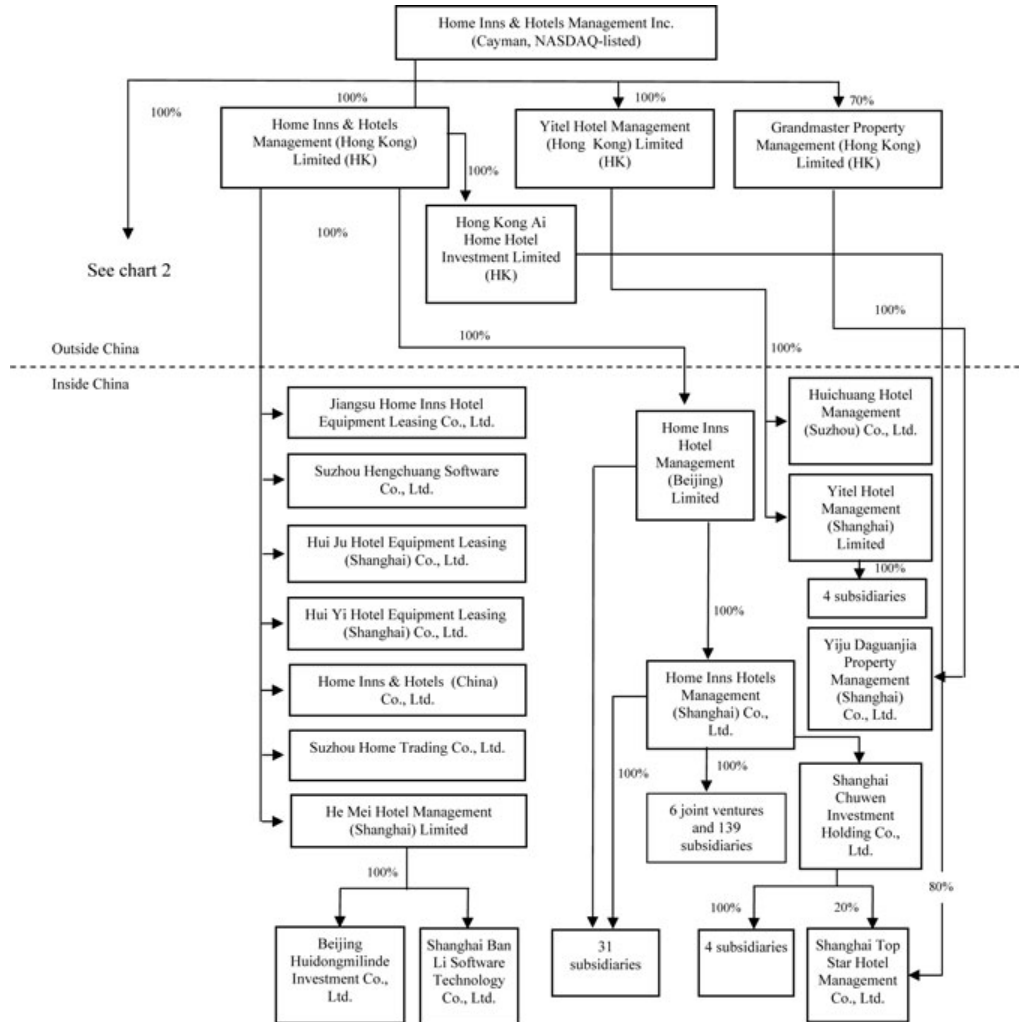
Tax

See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Taxation."

C. Organizational Structure

The following two charts illustrates our company's organizational structure.

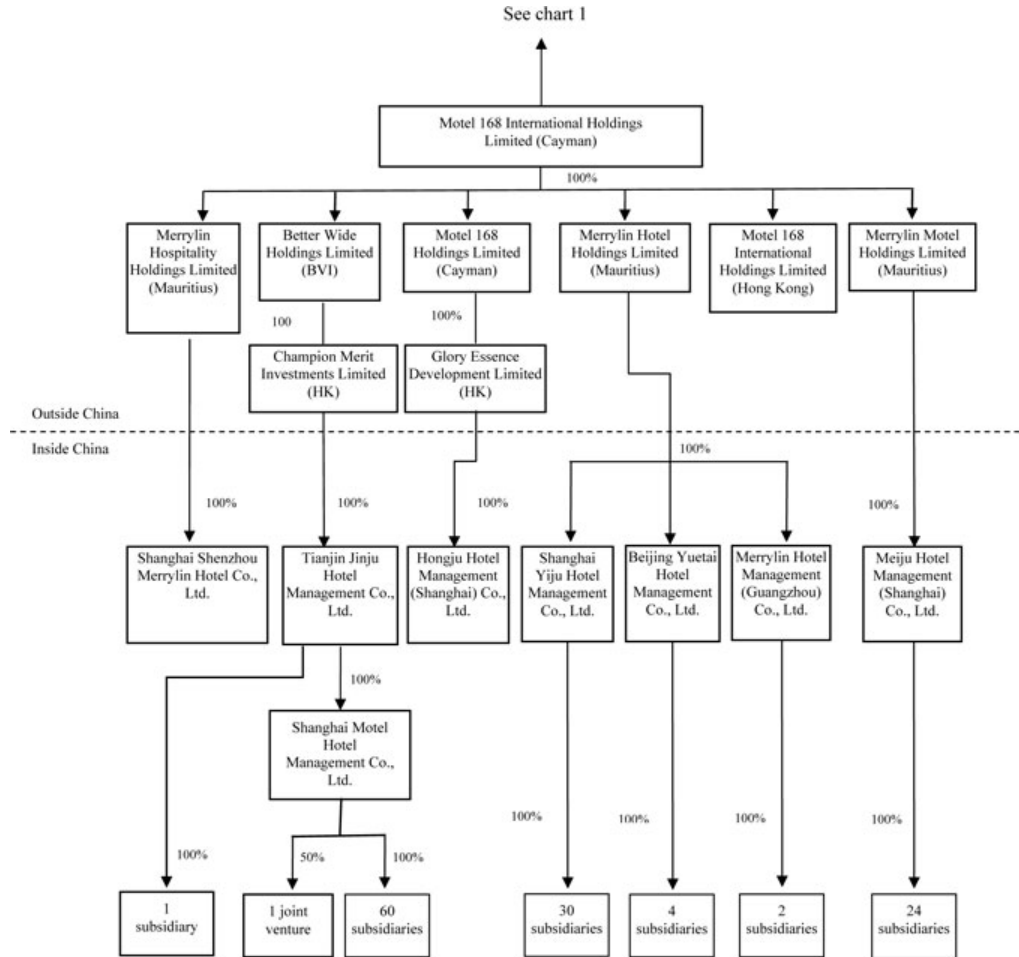
Chart 1



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Note: Home Inns Hotel Management (Shanghai) Co., Ltd. owns 51% of three joint ventures, 65% of one joint venture, 70% of one joint venture and 75% of one joint venture.

Chart 2



D. Property, Plant and Equipment

Our headquarters are located in Shanghai, China, where we lease approximately 5,423 square meters of office space for our headquarters and call centers. As of December 31, 2011, we leased 698 of our 1,426 hotel facilities with an aggregate size of 3.69 million square meters. For information about the locations of our hotels, see "Item 4. Information On the Company—B. Business Overview—Our Hotel Chain."

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Item 3. Key Information—D. Risk Factors" or in other parts of this annual report on Form 20-F.

A. Operating Results

Key Performance Indicators

We utilize a set of non-financial and financial key performance indicators which our senior management reviews frequently. The review of these indicators facilitates timely evaluation of the performance of our business and effective communication of results and key decisions, allowing us to react promptly to changing customer demands and market conditions.

Our non-financial key performance indicators consist of the increase in the total number of hotels and hotel rooms in our hotel chain as well as the RevPAR achieved by our hotels. The increase in the number of hotels in our hotel chain is largely affected by the demand for our hotels in various cities and our ability to successfully identify and secure new properties and develop new hotels at desirable locations. RevPAR is a commonly used operating measure in the hospitality industry and is defined as the product of average occupancy rates and average daily rates achieved. Occupancy rates of our hotels mainly depend on the locations of our hotels, the effectiveness of our sales and brand promotion efforts, our ability to maintain the consistency and quality of our facilities and service, the performance of managerial and other employees of our hotels, and our ability to respond to competitive pressure. We set room rates of our hotels primarily based on the location of a hotel and room rates charged by our competitors within the same locality. Changes in RevPAR primarily due to changes in average occupancy rates achieved have different implications for our total revenues and profitability than changes in RevPAR primarily due to changes in average daily rates achieved. For example, increases in occupancy at our hotels would generally lead to increases in room revenues as well as additional incremental costs, such as housekeeping services, utilities and room amenity costs. However, RevPAR increases due to higher room rates generally would not result in these additional room-related costs. As a result, RevPAR increases due to higher room rates would have a greater positive effect on our profitability.

Our financial key performance indicators consist of our revenue and cost structure, which are discussed in greater details in the following paragraphs. In addition, we use EBITDA, a non-GAAP financial measure, as a key financial performance indicator to assess our operating results before the impact of interest, income taxes, depreciation and amortization. Given the significant investments that we have made in leasehold improvements, depreciation and amortization expense comprises a significant portion of our cost structure. We believe that EBITDA is widely used by other companies in the lodging industry and may be used by investors as a measure of our financial performance.

Revenues. In 2011, we generated total revenues of RMB 3.96 billion (US\$629.1 million). Our revenues are significantly affected by the following operating measures, which are widely used in the hospitality industry and appear throughout this annual report:

- the total number of hotels in our hotel chain;
- the total number of hotel rooms in our hotel chain;
- occupancy rates achieved by our hotels;
- average daily rates achieved by our hotels; and
- the RevPAR achieved by our hotels, which represents the product of average daily rates and occupancy rates.

Our future revenue growth will depend significantly upon our ability to expand our hotel chain into new markets in China and maintain and further increase occupancy rates, average daily rates and RevPAR at existing hotels. The acquisition of Motel 168 effective October 1, 2011 has significantly increased the number of hotels in our hotel chain, in conjunction with our organic growth. As of December 31, 2011, we had entered into binding contracts with lessors of 33 properties for our leased-and-operated hotels which are currently under development. We expect to incur an additional RMB 158.2 million (US\$25.1 million) in capital expenditures in connection with the completion of the leasehold improvements of these hotels. We intend to fund this planned expansion with our operating cash flow, existing cash balance and bank credit facilities. Motel 168 historically had lower occupancy rates than Home Inns hotels, in part due to operating inefficiencies and in part due to the materially higher average number of rooms in Motel 168 hotels that were built before the time of the acquisition. We believe that we can raise the occupancy rates at existing Motel 168 hotels as we integrate their operations and personnel with our own, and we plan to design new Motel 168 hotels with a smaller average number of rooms. For the near future, RevPAR for mature hotels might reasonably be expected to be at least stable or increasing slightly year over year, on a same hotel basis, assuming a stable economic growth environment. Continued expansion into smaller markets, where average daily rates are lower compared to those in larger or more mature and established markets, may cause overall average daily rate to experience short-term decline before rising again as these smaller markets develop in the future.

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The following table sets forth the revenues generated by our leased and-operated hotels and franchised-and-managed hotels, both in absolute amount and as a percentage of total revenues for the periods indicated.

	For the Year Ended December 31,						
	2009		2010		2011		
	RMB	%	RMB	%	RMB	US\$	%
(in thousands, except percentages)							
Revenues:							
Leased-and-operated hotels	2,453,105	94.3	2,910,458	91.9	3,559,740	565,586	89.9
Franchised-and-managed hotels	147,535	5.7	256,799	8.1	399,986	63,551	10.1
Total revenues	2,600,640	100.0	3,167,257	100.0	3,959,726	629,137	100.0
Less: Business tax and related surcharges	(158,975)	(6.1)	(191,232)	(6.0)	(249,274)	(39,606)	(6.3)
Net revenues	2,441,665	93.9	2,976,025	94.0	3,710,452	589,531	93.7

Leased-and-operated Hotels. In 2011, we generated revenues of RMB 3.56 billion (US\$565.6 million) from our leased-and-operated hotels, which accounted for 89.9% of our total revenues for the year. We expect that revenues from our leased-and-operated hotels will continue to constitute a substantial majority of our total revenues in the foreseeable future.

For our leased-and-operated hotels, we lease properties from real estate owners or lessors and we are responsible for hotel development and customization to conform them to our standards, as well as for repairs and maintenance and operating costs and expenses of properties over the term of the lease. We are also responsible for all aspects of hotel operations and management, including hiring, training and supervising the managers and employees required to operate our hotels and purchasing supplies. We typically pay fixed rent on a quarterly basis for the first three or five years of the lease term, after which we are generally subject to a 3% to 5% increase every three to five years.

Revenues from our leased-and-operated hotels primarily consist of revenues from sales of room stays and, to a much lesser extent, revenues from sales of food and beverage at our hotels and other services. We recognize revenues from sales of room stays, food and beverage when our services are rendered.

Franchised-and-managed Hotels. In 2011, we generated revenues of RMB 400 million (US\$63.6 million) from our franchised-and-managed hotels, which accounted for 10.1% of our total revenues for the year. We expect that revenues from our franchised-and-managed hotels will increase in the foreseeable future as we add more franchised-and-managed hotels to our hotel chain.

For our franchised-and-managed hotels, we franchise our brands to franchisees who are property owners, lessors or existing hotel operators, and we are generally responsible for managing these hotels. Under a typical franchise agreement between us and a franchisee, the franchisee is generally required to pay us an initial franchise fee between RMB 0.25 million and RMB 0.45 million per hotel, an annual brand royalty fee of 3% of the revenues of the hotel, an annual management fee of 1.5% of the revenues of the hotel and an annual franchise fee of 1.5% of the revenues of the hotel, with the exception that annual management fees and annual franchise fees in new Motel 168 franchise agreements are generally only 1% each. The franchisee is responsible for the costs of hotel development and customization to conform to the standards of our hotel chain, as well as for repairs and maintenance and operating expenses of the hotel. In general, we enter into franchise arrangements in markets where we have established leased-and-operated hotels and are able to leverage our local knowledge and experience as well as marketing and administrative resources to better assist our franchised-and-managed hotels in these localities. The typical term for our franchise agreements is eight years. Motel 168 franchise agreements that were signed before the acquisition differ in certain respects: in particular, the initial franchise fee was between RMB 0.1 million and RMB 0.4 million per hotel, the ongoing franchise and management fees payable by the franchisee under those agreements are typically between 3% and 4% in the first year and between 4% and 5% in later years, and the duration is typically five years.

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For each franchised-and-managed hotel under our standard franchise agreement, we recognize the initial franchise fee as revenue when the franchised-and-managed hotel opens for business, the fee becomes non-refundable, and we have fulfilled all our commitments and obligations. We recognize ongoing franchise and management fees as revenues when the franchised-and-managed hotel recognizes revenues from which we derive the fees. We recognize fees received from franchisees for system usage, maintenance and support as revenues when our services are rendered. The Motel 168 franchise agreements that were signed before the acquisition differ in certain respects: we recognize the initial franchise fee as deferred revenue when cash is received and recognize as revenue during the franchising period which usually is five years as the franchisees have a refund right that lapses gradually over a five-year period.

Operating Costs and Expenses. Our operating costs and expenses consist of costs for our leased-and-operated hotels, sales and marketing expenses, general and administrative expenses and other operating expenses. The following table sets forth the components of our operating costs and expenses, both in absolute amount and as a percentage of total revenues for the periods indicated.

	For the Year Ended December 31,						
	2009		2010		2011		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except percentages)						
Total revenues	2,600,640	100.0	3,167,257	100.0	3,959,726	629,137	100.0
Less: Business tax and related surcharges	(158,975)	(6.1)	(191,232)	(6.0)	(249,274)	(39,606)	(6.3)
Net revenues	2,441,665	93.9	2,976,025	94.0	3,710,452	589,531	93.7
Operating costs and expenses ⁽¹⁾ :							
Leased-and-operated hotel costs:							
Rents and utilities	(797,944)	(30.7)	(875,510)	(27.6)	(1,232,662)	(195,850)	(31.1)
Personnel costs	(461,949)	(17.8)	(506,406)	(16.0)	(657,655)	(104,411)	(16.6)
Depreciation and amortization	(281,543)	(10.8)	(308,888)	(9.8)	(398,914)	(63,381)	(10.1)
Consumables, food and beverage	(172,467)	(6.6)	(173,256)	(5.5)	(258,120)	(41,011)	(6.5)
Others	(275,186)	(10.6)	(310,705)	(9.8)	(413,815)	(65,749)	(10.5)
Total leased-and-operated hotel costs	(1,989,089)	(76.5)	(2,174,765)	(68.7)	(2,960,666)	(470,402)	(74.8)
Personnel costs of franchised-and-managed hotels	(24,874)	(1.0)	(44,128)	(1.4)	(72,009)	(11,441)	(1.8)
Sales and marketing expenses	(30,462)	(1.2)	(33,257)	(1.0)	(44,451)	(7,063)	(1.1)
General and administrative expenses	(155,606)	(5.9)	(193,482)	(6.1)	(335,888)	(53,367)	(8.5)
Total operating costs and expenses	(2,200,031)	(84.6)	(2,445,632)	(77.2)	(3,413,014)	(542,273)	(86.2)

Leased-and-operated Hotel Costs. Our leased-and-operated hotel costs consist of costs and expenses directly attributable to our operation of leased-and-operated hotels, primarily including rental payments and utility costs for hotel properties, compensation and benefits for our hotel-based employees, costs of hotel room consumable products, depreciation and amortization of leasehold improvements, and agency fees to travel intermediaries and consolidators. We anticipate that our leased-and-operated hotel costs will increase as we continue to open new leased-and-operated hotels and hire additional hotel-based employees.

Sales and Marketing Expenses. Our sales and marketing expenses primarily consist of advertising expenses, production costs of marketing materials, expenses associated with our membership reward program, and compensation and benefits for our sales and marketing personnel, including personnel at our centralized reservation center. We expect that our sales and marketing expenses will increase as we promote our brand.

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Seasonality

Our business is subject to fluctuations in revenues due to seasonality, which may cause fluctuations in our quarterly operating results. Generally, the first quarter, in which both the Chinese New Year and Spring Festival holidays fall, accounts for a lower percentage of our annual revenues than other quarters of the year. Further, travel volume in second and third quarters of the year is generally higher given better weather conditions and school vacations. Therefore, you should not rely on our operating results for prior quarters as an indication of our results in any future period.

In addition, the occurrence of major events may affect our operating results, in particular for the hotel locations where those events are held. Examples of major events in recent years include the Beijing Olympics in 2008 and the Shanghai World Expo in 2010. In years where there are no comparable events, our performance may suffer by comparison. For example, the decrease in our RevPAR from 2010 to 2011 was driven by a lower occupancy rate and a lower average daily rate due to the absence of the price premium that our Shanghai hotels enjoyed during the six months of the 2010 Shanghai World Expo.

Taxation

We are incorporated in the Cayman Islands. Under Cayman Islands law, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands. We also have two subsidiaries incorporated in the Cayman Islands.

Our subsidiaries in Hong Kong are subject to a profit tax at the rate of 16.5% on assessable profit determined under relevant Hong Kong tax regulations. To date, our subsidiaries in Hong Kong have not been required to pay profit tax as they have had no assessable profit.

Motel 168 has subsidiaries in the British Virgin Islands and the Republic of Mauritius. These subsidiaries are not subject to tax on income or capital gains. In addition, dividend payments are not subject to withholding tax in the British Virgin Islands or the Republic of Mauritius.

Our subsidiaries and affiliated entities in China are subject to a business tax at a rate of approximately 6% on revenues generated from providing services and related surcharges by various local tax authorities. In addition, our subsidiaries and affiliated entities in China are generally subject to the standard enterprise income tax at a rate of 25%. However, some of our subsidiaries are subject to lower enterprise income tax rates due to the preferential tax treatments granted by the local tax authorities. For example, our wholly-owned subsidiary, Hemei Hotel Management Company, enjoyed a 22% enterprise income tax rate during 2010 due to its place of incorporation and operation in the Pudong New District of Shanghai. It is now subject to a tax rate of 24% in 2011, and its tax rate is expected to increase to 25% in 2012.

Enterprises that had been granted preferential tax treatment by the relevant tax authorities before January 1, 2008, the effective date of the new law, have their tax rate gradually raised to 25% over a five-year period. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

The Enterprise Income Tax Law also provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises" and will generally be subject to the uniform 25% enterprise income tax rate on their global income.

Under the Enterprise Income Tax Law and its implementation regulations, a 10% PRC income tax is applicable to dividends payable to investors that are "non-resident enterprises," i.e., enterprises that do not have an establishment or place of business in the PRC, to the extent such dividends have their sources within the PRC. Such dividends are also subject to the 10% tax even if the recipient has an establishment or place of business in the PRC if the relevant income is not effectively connected with the establishment or place of business. Undistributed earnings generated prior to January 1, 2008 are exempt from the 10% PRC income tax. We are a holding company incorporated in the Cayman Islands that indirectly holds, through subsidiaries in the Cayman Islands, the British Virgin Islands, Mauritius and Hong Kong, other subsidiaries in the PRC. Our business operations are principally conducted through our PRC subsidiaries. Thus, dividends for earnings accumulated beginning on January 1, 2009 payable to us by our subsidiaries in China, will be subject to the 10% income tax if we are considered as "non-resident enterprises" under the Enterprise Income Tax Law.

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Under a special arrangement between China and Hong Kong, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary, which would otherwise be subject to a 10% withholding tax, may be subject to a 5% preferential withholding tax if our Hong Kong subsidiary can be considered as a "beneficial owner" of our PRC subsidiaries and is otherwise entitled to the benefits under the special arrangement. The State Administration for Taxation promulgated Notice Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties on October 27, 2009, which provides guidance on the determination of "beneficial owners". If our Hong Kong subsidiaries are not considered to be the "beneficial owners" of our PRC subsidiaries under this notice, any dividends paid by our PRC subsidiaries to our Hong Kong subsidiaries would be subject to withholding tax at a rate of 10%. Moreover, under the Enterprise Income Tax Law, foreign ADS holders may be subject to a 10% withholding tax upon dividends payable by us and gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is sourced from within the PRC.

Our effective income tax rate varies over the years and the following table sets forth a reconciliation between statutory tax rate and the effective tax rate:

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Statutory corporate income tax rate	25%	25%	25%
Tax differential from statutory rate applicable to subsidiaries in the PRC	(3%)	(3%)	(3%)
Permanent difference (non-deductible expenses and non-taxable gains)	(1%)	6%	3%
Corporate income tax refund	(2%)	—	—
Withholding tax for profit distribution from onshore subsidiaries to offshore subsidiaries	—	—	7%
Effective corporate income tax rate	<u>19%</u>	<u>28%</u>	<u>32%</u>

Critical Accounting Policies

We prepare financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of our assets and liabilities and the disclosure of our contingent assets and liabilities at the end of each fiscal period and the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

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

Basis of Consolidation

The consolidated financial statements include the financial statements of Home Inns & Hotels Management Inc., its subsidiaries and its variable interest entities, or VIEs. All significant transactions and balances between Home Inns & Hotels Management Inc., its subsidiaries and certain VIEs have been eliminated upon consolidation.

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A subsidiary is an entity in which Home Inns & Hotels Management Inc., directly or indirectly, controls more than one half of the voting power, has the power to appoint or remove the majority of the members of the board of directors, has the power to cast a majority of the votes at a meeting of the board of directors or has the power to govern the entity's financial and operating policies under a statute or agreement among the shareholders or equity holders.

Prior to January 1, 2010, we followed FIN 46(R): Consolidation of Variable Interest Entities, an interpretation of ARB No. 51, in accounting for variable interest entities and their consolidation. Certain entities were considered variable interest entities because the equity at risk of each entity was not sufficient to finance its intended activities without additional financial support. We were considered the primary beneficiary of these entities because we absorbed a majority of the entities' expected losses and received a majority of the entities' expected residual returns. Accordingly, the financial statements of the following VIEs were consolidated into our financial statements since their respective dates of establishment or acquisition:

Name of VIE	Our ownership interest
Home Inns & Hotels Management (Xiamen) Co., Ltd.	51%
Home Inns & Hotels Management (Fuzhou) Co., Ltd.	51%
Home Inns & Hotels Management (Caoxi) Co., Ltd.	51%
Home Inns & Hotels Management (Caobao) Co., Ltd.	75%
Home Inns & Hotels Management (Dongguan) Co., Ltd.	65%
Home Inns & Hotels Kuaijie (Fuzhou) Co., Ltd.	70%

In June 2009, the Financial Accounting Standards Board, or FASB, issued FAS 167: Amendments to FASB Interpretation No. 46(R), codified primarily in ASC 810, Consolidation. This guidance modifies the method for determining whether an entity is a variable interest entity as well as the methods permitted for determining the primary beneficiary of a variable interest entity. In addition, this guidance requires ongoing reassessments of whether a company is the primary beneficiary of a variable interest entity and enhanced disclosures related to a company's involvement with a variable interest entity. We adopted this guidance as of January 1, 2010.

In accordance with the new guidance, we are deemed to have a controlling financial interest and are the primary beneficiary of these VIEs as we have both the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. As a result, we continue to consolidate the same VIEs that we had consolidated prior to January 1, 2010 and the adoption of FAS 167 effective as of January 1, 2010 did not have any impact on our consolidated financial statements.

The total registered capital of the six VIEs was RMB 6.0 million as of December 31, 2010. The total net assets of the consolidated VIEs were RMB 26.3 million as of December 31, 2010. The total net income of the six VIEs was RMB 11.4 million and RMB 16.3 million in the years ended December 31, 2009 and 2010, respectively. Our management monitors the regulatory risk associated with these contractual arrangements. There are no consolidated VIE assets that are collateral for the VIE obligations and which can only be used to settle the VIE's obligations. Creditors of the VIEs have no recourse to the general credit of Home Inns & Hotels Management (Shanghai) Co., Ltd., which is the primary beneficiary of the VIEs.

In 2011, we determined that the six VIEs were no longer considered variable interest entities effective for the year ended December 31, 2011. As we have majority legal ownership in these entities, we continue to consolidate them. The reconsideration event did not have any impact on our consolidated financial statements.

We evaluate our business relationships such as those with franchisees to identify potential variable interest entities. Generally, these businesses qualify for the business scope exception under the consolidation guidance. We have concluded that consolidation of any such entities is not appropriate for the years ended December 31, 2009, 2010 and 2011.

Allowance for Doubtful Accounts

Provision is made against receivables to the extent collection is considered to be doubtful. Accounts receivable and other receivables in the balance sheet are stated net of such provision, if any. As of December 31, 2010 and 2011, the allowance for doubtful accounts was nil and RMB 0.3 million, respectively.

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Business Combinations

U.S. GAAP requires that business combinations be accounted for under the acquisition method. From January 1, 2009, we adopted ASC 805 "Business Combinations". Following this adoption, the total consideration for an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred and equity instruments issued. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the sum of the consideration transferred, the fair value of the non-controlling interests and the acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the entity acquired, the difference is recognized directly in the statements of operations.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections and the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of assets and forecasted life cycle and forecasted cash flows over that period. Although we believe that the assumptions applied in the determinations that we have made are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

Joint Ventures

Investment in a joint venture is accounted for by the equity method of accounting as we have the ability to exercise significant influence but do not have a controlling interest. Under this method, our income or loss from investment is recognized in our consolidated statements of operations. Unrealized gains on transactions between us and the joint venture are eliminated to the extent of our interest in the joint venture, if any; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When our share of losses in the joint venture equals or exceeds our interest in the joint venture, we do not recognize further losses unless we have incurred obligations or made payments on behalf of the joint venture.

We review our investment in the joint venture to determine whether a decline in fair value below the carrying value is other than temporary at period end. The primary factors that we consider in our determination are the length of time that the fair value of the investment is below our carrying value and the financial condition, operating performance and near term prospects of the investee. In addition, we consider the reason for the decline in fair value, including general market conditions, industry-specific or investee-specific reasons, changes in valuation subsequent to the balance sheet date and our intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other than temporary, the carrying value of the security is written down to fair value. There were no impairment losses for our investment in the joint venture in the year ended December 31, 2011.

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is allocated to the related reporting units. U.S. GAAP requires that a two-step impairment test be performed annually or whenever events or changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The first step of the test for impairment compares the book value of the reporting unit under which goodwill is recorded to its estimated fair value. The second step of the goodwill impairment test, which is only required when the net book value of the reporting unit exceeds the fair value, measures the impairment as the difference between the implied fair value of goodwill and its book value. Goodwill is not amortized. No impairment of goodwill was recognized for the years ended December 31, 2009, 2010 and 2011.

Impairment of Long-lived Assets and Definite-lived Intangible Assets

Long-lived assets and intangible assets with a definite life are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying value, an indication of impairment is present and a loss is recognized in the statements of operations for the difference between the fair value, using the expected future discounted cash flows, and the carrying value of the assets. The impairment losses recognized for the year ended December 31, 2009, 2010 and 2011 were RMB 5.5 million, nil and RMB 1.7 million, respectively.

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Accruals for Customer Reward Program

We invite our customers to participate in a customer reward program. Prior to November 14, 2004, membership was free of charge. A one-time membership fee was charged after that date for new members. Members enjoy discounts on room rates and priority in hotel reservation and accumulate membership points for their paid stays, which can be redeemed for membership upgrades, room night awards and other gifts. The estimated incremental costs to provide membership upgrades, room night awards and other gifts are accrued and recorded as accruals for customer reward program as members accumulate points and recognized as sales and marketing expenses in the statements of operations. As members redeem awards or their entitlements expire, the provision is reduced correspondingly.

Prior to the second quarter of 2011, we did not apply redemption rates to the estimation on reward cost due to the limited history of our customer reward program. With sufficient historical information and accumulated knowledge on reward point redemption and expiration, we have applied a historical redemption rate of 20% prospectively in estimating the costs of reward points since April 1, 2011. We reassess the redemption rate at each period end to ensure that the estimate of redemption rate is reasonable.

As of December 31, 2010 and 2011, the accruals for customer reward program amounted to RMB 17.4 million and RMB 5.2 million, respectively, based on the estimated liabilities under the customer reward program. Had we not applied the redemption rate in estimating accruals for customer reward program, the accrual balance as of December 31, 2011 would have been RMB 19.9 million, implying an impact of RMB 14.6 million to the consolidated statement of operation in 2011.

Revenue Recognition

Revenue from leased-and-operated hotels represents primarily room rentals and food and beverage sales from the leased-and-operated hotels. We recognize such revenues when goods are delivered and services are provided.

Revenues from franchised-and-managed hotels are derived from franchise agreements where the franchisees are required to pay (i) an initial one-time franchise fee and (ii) on-going management and service fees based on a percentage of revenue, which historically have approximated 3% to 6% of the room revenues of the franchised-and-managed hotels. The one-time franchise fee is either recognized when the franchised-and-managed hotel opens for business and the fee becomes non-refundable or recorded as deferred revenue when cash is received and recognized as revenue over the franchise period, which usually is five years, when the group has fulfilled all its commitments and obligations, including having provided the assistance to the franchisees in property design, leasehold improvement construction project management, systems installation, personnel recruiting and training. The franchise fee is an initial one-time fee. For franchise agreements signed under the Home Inns brand and Yitel brand and franchise agreements signed under the Motel 168 brand after our acquisition of Motel 168, the franchise fee is recognized as revenue when the franchised hotel opens for business, the franchise fee becomes non-refundable, and we have fulfilled all our commitments and obligations including assistance to the franchisees in property design, leasehold improvement construction project management, systems installation, personnel recruiting and training. For franchise agreements signed by Motel 168 prior to our acquisition of it, the franchise fee is recorded as deferred revenue when the cash is received and recognized as revenue during the franchising period which usually is five years as the franchisees have a refund right that lapses gradually over a five-year period. On-going management and service fees are recognized when the underlying service revenue is recognized by the franchisees' operations. Other revenues generated from franchise agreements include a system maintenance and support fee and a central reservation system usage fee, which are recognized when services are provided.

Prior to the second quarter of 2011, revenue from one-time membership fees was deferred when received and was recognized when membership records showed no activity after a year. With sufficient historical information and accumulated knowledge on membership activity pattern, we estimated that the average life of memberships is approximately two years. Therefore, the change in accounting estimate is applied prospectively, and revenue from one-time membership fees has been recognized over two years on a straight line basis since April 1, 2011. For the years ended December 31, 2009, 2010 and 2011, we recognized revenues of RMB 14.4 million, RMB 33.8 million and RMB 79.4 million, respectively, from one-time membership fees. Had we not changed the accounting estimate of average life of memberships, revenue from one-time membership fees would have been RMB 61.6 million in 2011, implying an impact of RMB 17.8 million to the consolidated statement of operations in that year.

We continue to monitor the membership activity pattern and reassess average life of memberships at each period end to ensure the revenue recognition period is reasonable.

Share-based Compensation

We account for share-based compensation arrangements with employees in accordance with ASC 718 "Compensation — Stock Compensation". It requires us to measure the fair value of the stock-based award at the grant date and recognize compensation expense, net of estimated forfeitures, on a straight-line basis over the requisite service period. We use the Black-Scholes option pricing model to determine the fair value of stock options. The requisite service period is the vesting period, which is generally four years. Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates.

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Leases

We lease certain property, plant and equipment.

Leases of property, plant and equipment are classified as operating leases when substantially all the risks and rewards of ownership of assets remain with the lessor. Payments made under operating leases net of any incentives received from the lessor are charged to the consolidated statements of operations on a straight-line basis over the terms of the underlying lease.

Leases of property, plant and equipment are classified as finance leases when we have substantially all the risks and rewards of ownership. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in finance lease liabilities. The interest element of the finance cost is charged to the statements of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the the lease term if the lease does not meet the transfer of ownership criterion or the bargain purchase option criterion. If the lease meets either the transfer of ownership criterion or the bargain purchase option criterion, then the related asset is depreciated over the useful life of the asset.

Fixed assets capitalized under finance leases are depreciated in accordance with our policy for the depreciation of fixed assets.

Taxation

The provision for income taxes is based on the income and expense amounts recorded in our consolidated statements of operations. Income tax expenses are recorded using the liability method. Deferred tax assets or liabilities are recognized for the estimated future tax effects attributable to temporary differences and tax loss carry forwards. Deferred tax assets and liabilities are recognized and measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in statements of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the amount of deferred tax assets if it is considered more likely than not that such assets will not be realized. A valuation allowance of RMB 28.3 million and RMB 271.1 million (US \$43.1 million) was provided for our net deferred tax assets as of December 31, 2010 and 2011, respectively. As of December 31, 2011, a valuation allowance of RMB 237.4 million (US\$37.7 million) was carried forward from the acquisition of Motel 168. The valuation allowances were provided on the deferred tax assets to the extent that we believed it was more likely than not that such deferred tax assets would not have been realized in the foreseeable future. Valuation allowances were also provided because it was more likely than not that we would not be able to utilize certain tax loss carry forwards generated by certain subsidiaries or VIE entities. As those entities continue to have accumulated tax losses and tax planning strategies are not available to utilize those tax losses in other subsidiaries or VIE entities of ours, we believe it is more likely than not that such losses will not be utilized before they expire. However, certain valuation allowances were reversed in 2009, 2010 and 2011 when we generated sufficient taxable income to utilize the deferred tax assets. If events occur in the future that prevent us from realizing some or all of our deferred tax assets, an adjustment to the valuation allowances will be recognized when such events occur. In the PRC, tax loss carry forwards generally expire after five years.

In order to assess uncertain tax positions, we apply a more likely than not threshold and a two-step approach for the tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is greater than 50% likely to be realized upon settlement. As of December 31, 2010 and 2011, there were no uncertain tax positions.

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Recent Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." Key provisions of the amendments in ASU 2011-04 include: (1) a prohibition on grouping financial instruments for purposes of determining fair value, except in limited cases; (2) an extension of the prohibition against the use of a blockage factor to all fair value measurements; and (3) a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. For items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. This ASU is effective for interim and annual periods beginning after December 15, 2011. We do not expect the adoption of ASU 2011-04 to have a material impact on our financial statements.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This newly issued accounting standard (1) eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity; (2) requires the consecutive presentation of the statement of net income and other comprehensive income; and (3) requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income nor do the amendments affect how earnings per share is calculated or presented. In December 2011, the FASB issued ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," which defers the requirement within ASU 2011-05 to present the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income on the face of the financial statements for all periods presented. During the deferral, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the issuance of ASU 2011-05. These ASUs are required to be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As these accounting standards do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, the adoption of these standards is not expected to have an impact on our financial statements.

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment." Under the revised guidance, entities testing for goodwill impairment have an option of performing a qualitative assessment before calculating the fair value for the reporting unit in the first step of the goodwill impairment test. If an entity determines, on a basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the first step of the two-step impairment test would be required. If it is not more likely than not that the fair value of the reporting unit is less than the carrying value, then goodwill is not considered to be impaired. ASU 2011-08 does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill at least annually for impairment. This ASU is effective for interim and annual periods beginning after December 15, 2011 with early adoption permitted. We do not expect the adoption of ASU 2011-08 to have a material impact on our financial statements.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." This newly issued accounting standard requires an entity to disclose both gross and net information about instruments and transactions eligible for offset in the statements of financial position as well as instruments and transactions executed under a master netting or similar arrangement and was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on their financial position. This ASU is required to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. As this accounting standard only requires enhanced disclosure, the adoption of this standard is not expected to have an impact on our financial statements.

Selected Operating Data

The following tables present certain selected operating data of our company as of and for the dates and periods indicated. These operating measures are widely used in the hospitality industry.

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	As of and for the Year Ended December 31,		
	2009	2010	2011
Operating Data ⁽¹⁾			
Hotels in operation			
Leased-and-operated hotels ⁽²⁾	390	454	698
Franchised-and-managed hotels ⁽²⁾	226	364	728
Total ⁽²⁾	616	818	1,426
Total rooms ⁽²⁾	71,671	93,898	176,562
Number of cities ⁽²⁾	120	146	212
Occupancy rate (as a percentage)			
All hotels	91.5	93.5	88.8
Leased-and-operated hotels	90.1	92.5	86.6
Franchised-and-managed hotels	94.9	95.0	91.3
Average daily rate (in RMB)			
All hotels	160	175	172
Leased-and-operated hotels	155	168	165
Franchised-and-managed hotels	170	185	179
RevPAR (in RMB)			
All hotels	146	164	152
Leased-and-operated hotels	140	156	143
Franchised-and-managed hotels	161	176	163

- (1) All numbers pertain to hotels in operation and exclude hotels contracted or under construction. Data for leased-and-operated hotels includes hotels operated through joint ventures. Home Inns Hotel Management (Shanghai) Co., Ltd. currently owns 51% of three joint ventures, 65% of one joint venture, 70% of one joint venture and 75% of one other joint venture. Motel 168 Hotel Management (Shanghai) Co., Ltd. owns 50% of one joint venture.
- (2) As of the end of each period.

The comparative performance of ramp-up stage hotels and mature hotels shown in the following table illustrates the materially dilutive nature of the performance of the ramp-up stage hotels, which are those hotels that have been in operation for 6 months or less. As of December 31, 2009, 2010 and 2011, there were 181, 134 and 325 hotels that had been in operation for over 6 months but less than 18 months. After the initial 6 months of operations, during which performance improves quickly, hotels will continue to increase in occupancy rate and average daily rate at a more gradual pace before becoming mature hotels. These hotels as a group have a less dilutive impact on the overall portfolio performance than do the ramp-up stage hotels.

	As of and for the Year Ended December 31,		
	2009	2010	2011
Mature Hotels and Ramp-up Stage Hotels ⁽¹⁾			
Hotels in operation			
Mature hotels ⁽²⁾	361	536	895
Ramp-up stage hotels ⁽²⁾	74	148	206
Occupancy rate (as a percentage)			
Mature hotels	94.3	95.3	91.8
Ramp-up stage hotels	74.3	68.5	62.4
Average daily rate (in RMB)			
Mature hotels	163	176	174
Ramp-up stage hotels	150	165	160
RevPAR (in RMB)			
Mature hotels	153	168	160
Ramp-up stage hotels	112	113	100

- (1) Mature hotels are hotels that have been in operation for 18 months or more. Ramp-up stage hotels are hotels that have been in operation for 6 months or less.
- (2) As of the end of each period.

Results of Operations

The following table sets forth a summary of our consolidated results of operations, both in absolute amount and as a percentage of total revenues for the periods indicated. This information should be read together with our consolidated financial statements and related notes included at the end of this annual report. Our limited operating history makes it difficult to predict future operating results. We believe that the period-to-period comparison of operating results should not be relied upon as being indicative of future performance.

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	For the Year Ended December 31,						
	2009		2010		2011		
	RMB	%	RMB	%	RMB	US\$	
(in thousands, except percentages)							
Consolidated Statement of Operations Data							
Revenues:							
Leased-and-operated hotels	2,453,105	94.3	2,910,458	91.9	3,559,740	565,586	89.9
Franchised-and-managed hotels	147,535	5.7	256,799	8.1	399,986	63,551	10.1
Total revenues	2,600,640	100.0	3,167,257	100.0	3,959,726	629,137	100.0
Less: Business tax and related surcharges	(158,975)	(6.1)	(191,232)	(6.0)	(249,274)	(39,606)	(6.3)
Net revenues	2,441,665	93.9	2,976,025	94.0	3,710,452	589,531	93.7
Operating costs and expenses ⁽¹⁾ :							
Leased-and-operated hotel costs:							
Rents and utilities	(797,944)	(30.7)	(875,510)	(27.6)	(1,232,662)	(195,850)	(31.1)
Personnel costs	(461,949)	(17.8)	(506,406)	(16.0)	(657,155)	(104,411)	(16.6)
Depreciation and amortization	(281,543)	(10.8)	(308,888)	(9.8)	(398,914)	(63,381)	(10.1)
Consumables, food and beverage	(172,467)	(6.6)	(173,256)	(5.5)	(258,120)	(41,011)	(6.5)
Others	(275,186)	(10.6)	(310,705)	(9.8)	(413,815)	(65,749)	(10.5)
Total leased-and-operated hotel costs	(1,989,089)	(76.5)	(2,174,765)	(68.7)	(2,960,666)	(470,402)	(74.8)
Personnel costs of franchised-and-managed hotels	(24,874)	(1.0)	(44,128)	(1.4)	(72,009)	(11,441)	(1.8)
Sales and marketing expenses	(30,462)	(1.2)	(33,257)	(1.0)	(44,451)	(7,063)	(1.1)
General and administrative expenses	(155,606)	(5.9)	(193,482)	(6.1)	(335,888)	(53,367)	(8.5)
Total operating costs and expenses	(2,200,031)	(84.6)	(2,445,632)	(77.2)	(3,413,014)	(542,273)	(86.2)
Income from operations	241,634	9.3	530,393	16.7	297,438	47,258	7.5
Interest income, net	(4,297)	(0.2)	7,430	0.2	(14,872)	(2,363)	(0.4)
Issuance costs for convertible notes	—	—	(42,559)	(1.34)	—	—	—
(Loss)/gain on change in fair value of convertible notes	—	—	(9,040)	(0.3)	198,547	31,546	5.0
Gain on buy-back of convertible bond	69,327	2.7	2,480	0.1	1,521	242	0.0
Non-operating income	16,248	0.6	22,223	0.7	35,899	5,705	0.9
Non-operating expenses	—	—	—	—	(7,315)	(1,162)	(0.2)
Foreign exchange (loss)/gain, net	(286)	0.0	(4,350)	(0.1)	15,849	2,518	0.4
Income tax expense	(62,166)	(2.4)	(139,969)	(4.4)	(169,442)	(26,922)	(4.3)
Net income ⁽²⁾	260,460	10	366,608	11.6	357,625	56,822	8.9
Noncontrolling interests	(4,457)	(0.2)	(7,109)	(0.2)	(6,094)	(968)	(0.2)
Net income attributable to Home Inns' shareholders	256,003	9.8	359,499	11.4	351,531	55,854	8.7

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenues. Our total revenues increased by 25.0% from RMB 3.17 billion in 2010 to RMB 3.96 billion (US\$629.1 million) in 2011.

- *Leased-and-operated Hotels.* Revenues from our leased-and-operated hotels increased by 22.3% from RMB 2.91 billion in 2010 to RMB 3.56 billion (US\$565.6 million) in 2011. This increase was primarily due to an increase in the number of leased-and-operated hotels in operation from 454 hotels with 53,067 rooms as of December 31, 2010 to 698 hotels with 93,967 rooms as of December 31, 2011, as a result of our organic growth and our acquisition of Motel 168 effective October 1, 2011. Motel 168 contributed revenues of RMB351.4 million from leased-and-operated hotels from October 1, 2011 through December 31, 2011.

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- *Franchised-and-managed Hotels.* Revenues from our franchised-and-managed hotels increased by 55.8% from RMB 256.8 million in 2010 to RMB 400 million (US\$63.6 million) in 2011. This growth was primarily due to an increase in the number of franchised-and-managed hotels in operation from 364 hotels with 40,831 rooms as of December 31, 2010 to 728 hotels with 82,595 rooms as of December 31, 2011, as a result of our organic growth and the acquisition of Motel 168 effective October 1, 2011.

Operating Costs and Expenses. Our total operating costs and expenses increased by 39.6% from RMB 2.45 billion in 2010 to RMB 3.41 billion (US\$542.3 million) in 2011. This increase resulted from increases in all of our operating cost and expense line items as we substantially expanded our operations in 2011.

- *Leased-and-operated Hotel Costs.* Our leased-and-operated hotel costs increased from RMB 2.17 billion in 2010 to RMB 2.96 billion (US\$470.4 million) in 2011. This increase was primarily driven by the increased number of leased-and-operated hotels in operation from 454 hotels with 53,067 rooms as of December 31, 2010 to 698 hotels with 93,967 rooms as of December 31, 2011.
- *Personnel Costs of Franchised-and-managed hotels.* Our personnel costs for franchised-and-managed hotels increased from RMB 44.1 million in 2010 to RMB 72.0 million (US\$11.4 million) in 2011 primarily due to an increase in the number of franchised-and-managed hotels in operation from 364 hotels as of December 31, 2010 to 728 hotels as December 31, 2011.
- *Sales and Marketing Expenses.* Our sales and marketing expenses for 2011 were RMB 44.5 million (US\$7.1 million), representing 1.1% of total revenue, compared with RMB 33.3 million or 1.1% of total revenue in 2010. The percentage of revenue remained stable.
- *General and Administrative Expenses.* Our general and administrative expenses increased by 73.6% from RMB 193.5 million in 2010 to RMB 335.9 million (US\$53.4 million) in 2011. General and administrative expenses, excluding share-based compensation and transaction expenses related with Motel 168 acquisition, were RMB 202.8 million (US\$32.2 million) or 5.1% of total revenues, compared with 4.8% in 2010.

Income from Operations. Our income from operations decreased by 43.9% from RMB 530.4 million in 2010 to RMB 297.4 million (US\$47.3 million) in 2011. Income from operations excluding share-based compensation expenses and transaction expenses related with Motel 168 acquisition for 2011 was RMB 437.8 million (US\$69.6 million), or 11.1% of total revenues, compared with RMB 583.7 million, or 18.4% for the previous year. This margin decline was primarily due to the loss from operations contributed by the acquired Motel 168 hotels, the absence of the one-time benefit from the 2010 Shanghai World Expo and higher pre-opening costs driven by accelerated growth while the overall cost structure of the business remained stable.

Interest Income (Expense), Net. We had net interest income of RMB 7.4 million in 2010 and net income expense of RMB14.9 million (US\$2.4 million) in 2011, primarily because of an increase in interest expense for the convertible bonds and the term loan that we incurred relating to the acquisition of Motel 168 in 2011.

Issuance Cost for Convertible Notes. Our issuance cost for convertible notes decreased from RMB 42.6 million in 2010 to nil in 2011 because we did not issue convertible notes in 2011.

(Loss)/Gain on Change in Fair Value of Convertible Notes. In 2011, in conjunction with the general decline in share prices of other issuers with operations primarily in China, the volatility of our share price increased from 42% in 2010 to 53% in 2011 and the closing price of our ADSs decreased from US\$40.96 per ADS on the last trading day of 2010 to US\$25.80 per ADS on the last trading day of 2011, resulting in a decrease in fair value of convertible notes by RMB 198.5 million (US\$31.5 million) in 2011, as compared to a loss of RMB 9.0 million from fair value change of convertible notes in 2010.

Foreign Exchange (Loss)/Gain, Net. We recognized net foreign exchange gain of RMB 15.8 million (US\$2.5 million) in 2011 primarily due to the depreciation of the U.S. dollar against the RMB and our higher level of outstanding debt denominated in the U.S. dollar in 2011, including the term loan that we incurred relating to the acquisition of Motel 168 in 2011.

Income Tax Expense. Our income tax expense increased by 21% from RMB 140.0 million in 2010 to RMB 169.4 million (US\$26.9 million) in 2011, primarily because our effective income tax rate increased from 2010. Our effective income tax rate was 32% in 2011 compared with 28% in 2010. The increase in our effective income tax rate was mainly due to higher overseas company expenses related to merger and acquisition activity, which are not deductible for PRC income tax purposes, and higher income taxes levied on Home Inns Hong Kong related to dividend distributions to that entity from our PRC companies.

Net Income. We had net income of RMB 357.6 million (US\$56.8 million) in 2011, a decrease of 2.5% from net income of RMB 366.6 million in 2010, as a cumulative result of the above factors.

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Noncontrolling Interests. Noncontrolling interests represent our joint venture partners' share of the net income of the seven leased-and-operated hotels owned by the joint ventures and also of the two property management companies in 2011. In 2010, it involved seven leased-and-operated hotels. Noncontrolling interests amounted to RMB 6.1 million (US\$1.0 million) in 2011 compared to RMB 7.1 million in 2010.

Net Income Attributable to Home Inns' Shareholders. As a result of the foregoing, we had net income attributable to Home Inns' shareholders of RMB 351.5 million (US\$55.8 million) in 2011, a decrease of 2.2% from net income attributable to Home Inns' shareholders of RMB 359.5 million in 2010.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenues. Our total revenues increased by 21.8% from RMB 2.60 billion in 2009 to RMB 3.17 billion in 2010.

- *Leased-and-operated Hotels.* Revenues from our leased-and-operated hotels increased by 18.6% from RMB 2.45 billion in 2009 to RMB 2.91 billion in 2010. This increase was primarily due to an increase in the number of leased-and-operated hotels in operation from 390 hotels with 46,496 rooms as of December 31, 2009 to 454 hotels with 53,067 rooms as of December 31, 2010, as well as an increase in our average daily rate and occupancy rate.
- *Franchised-and-managed Hotels.* Revenues from our franchised-and-managed hotels increased by 74.1% from RMB 147.5 million in 2009 to RMB 256.8 million in 2010. This growth was primarily due to an increase in the number of franchised-and-managed hotels in operation from 226 hotels with 25,175 rooms as of December 31, 2009 to 364 hotels with 40,831 rooms as of December 31, 2010, as well as increased management service fees due to an increase in the average daily rate and occupancy rate of our franchised-and-managed hotels.

Operating Costs and Expenses. Our total operating costs and expenses increased by 11.2% from RMB 2.20 billion in 2009 to 2.45 billion in 2010. This increase resulted from increases in all of our operating cost and expense line items as we substantially expanded our operations in 2010.

- *Leased-and-operated Hotel Costs.* Our leased-and-operated hotel costs increased from RMB 1.99 billion in 2009 to RMB 2.17 billion in 2010. This increase was primarily driven by the increased number of leased-and-operated hotels in operation from 390 hotels with 46,496 rooms as of December 31, 2009 to 454 hotels with 53,067 rooms as of December 31, 2010.
- *Sales and Marketing Expenses.* Our sales and marketing expenses for 2010 were RMB 33.3 million, representing 1.1% of total revenue, compared with RMB 30.5 million or 1.2% of total revenue in 2009. The decrease as a percentage of revenue in 2010 was a result of our larger revenue base.
- *General and Administrative Expenses.* Our general and administrative expenses increased by 31.7% from RMB 180.5 million in 2009 to RMB 237.6 million in 2010. General and administrative expenses, excluding share-based compensation (non-GAAP) and reimbursable personnel costs for franchised-and-managed hotels, were RMB 138.9 million or 4.8% of total revenues, compared with 4.9% in 2009. The decrease in this ratio represented greater efficiency as a result of increased economies of scale and improved productivity.

Income from Operations. Our income from operations increased by 119.5% from RMB 241.6 million in 2009 to RMB 530.4 million in 2010. The increase in our income from operations in 2010 was mainly attributable to the increase in our number of hotels in operation and total rooms, the increase in our average daily rate and occupancy rate, and lower operating costs and expenses as a percentage of our total revenues due to greater economies of scale.

Interest Income (Expense), Net. Our net interest income increased substantially from an expense of RMB 4.3 million in 2009 to income of RMB 7.4 million in 2010, primarily because of an increase in interest income from larger amounts of cash and cash equivalents and a decrease in interest expense for the convertible bonds, offset in part by the accrual of interest beginning on December 21, 2010 on our newly issued convertible notes.

Issuance Cost for Convertible Notes. Our issuance cost for convertible notes increased from nil in 2009 to RMB 42.6 million in 2010 because we issued convertible notes in 2010.

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Loss on Change in Fair Value of Convertible Notes. Our loss on change in fair value of convertible notes increased from nil in 2009 to RMB 9.0 million in 2010 primarily due to fluctuation in the fair value of our convertible notes, which we issued in December 2010.

Gain on Buy-back of Convertible Bond. Our gain on buy-back of convertible bonds decreased from RMB 69.3 million in 2009 to RMB 2.5 million in 2010 primarily because the amount of our aggregate repurchases of convertible bonds decreased from RMB 462.0 million in 2009 to RMB 202.7 million in 2010, and the market value of our convertible bonds continued to recover in 2010.

Foreign Exchange Loss, Net. Our net foreign exchange loss increased from RMB 0.3 million in 2009 to RMB 4.4 million in 2010, primarily because of depreciation of the U.S. dollar against the RMB and larger U.S. dollar cash balances during the course of 2010.

Income Tax Expense. Our income tax expense increased by 125.2% from RMB 62.2 million in 2009 to RMB 140.0 million in 2010, primarily because of higher current income tax expense due to improved operating results in 2010. Our effective income tax rate was 28% in 2010 compared with 19% in 2009. The increase in our effective income tax rate was mainly due to a decrease in convertible bond buyback gains (which are not subject to income taxes) in 2010 as well as the issuance costs, fair value loss and interest expenses related to our convertible notes due 2015 (none of which are deductible for income tax purposes).

Net Income. We had net income of RMB 366.6 million in 2010, an increase of 40.8% from net income of RMB 260.5 million in 2009, primarily due to the improved operating results in 2010, offset in part by the decrease of gain on buy-back of convertible bonds and issuance costs of our convertible notes.

Noncontrolling Interests. Noncontrolling interests represent our joint venture partners' share of the net income of the seven leased-and-operated hotels owned by the joint ventures in 2009 and 2010. Noncontrolling interests amounted to RMB 7.1 million in 2010 compared to RMB 4.5 million in 2009.

Net Income Attributable to Home Inns' Shareholders. As a result of the foregoing, we had net income attributable to Home Inns' shareholders of RMB 359.5 million in 2010, an increase of 40.4% from net income attributable to Home Inns' shareholders of RMB 256.0 million in 2009.

B. Liquidity and Capital Resources

Our principal sources of liquidity have been cash generated from operating activities, our sale of ordinary shares through private placements and borrowings from third-party lenders, as well as the proceeds we received from our public offerings of ordinary shares and our offerings of convertible bonds and notes. Our cash and cash equivalents consist of cash on hand and liquid investments which are unrestricted as to withdrawal or use, and which have original maturities of three months or less that are placed with banks and other financial institutions. Our financing activities consist of issuance and sale of our shares and convertible bonds and notes to investors and related parties, borrowings from third-party lenders and our public offerings of our shares. As of the date of this annual report, we had convertible bonds with an outstanding principal amount of RMB 110.8 million (US\$17.6 million), convertible notes with an outstanding principal amount of US\$184.0 million and a term loans facility with an outstanding principal of US\$240.0 million, and the remaining funds available under our credit facilities in the aggregate amounted to approximately RMB 800 million (US\$127.1 million). As of December 31, 2011, we had entered into binding contracts with lessors of 33 properties for our leased-and-operated hotels under development. We expect to incur an additional RMB 158.2 million (US\$25.1 million) in capital expenditures in connection with the completion of the leasehold improvements of these hotels. We intend to fund this planned expansion with our operating cash flow, our existing cash balance and bank credit facilities.

The credit agreement dated as of September 26, 2011, which we entered into in connection with our acquisition of Motel 168, contains financial covenants relating to our business, including a maximum consolidated total debt to consolidated capitalization ratio, a minimum debt service coverage ratio and a maximum leverage ratio as of each quarter end and a maximum consolidated capital expenditures limit for each fiscal year. It also requires us to maintain certain cash balances in bank accounts outside of China, including cash balances in bank accounts to be maintained for the payment of interest and principal on the term loans and on our convertible bonds. We are also required to maintain at all times a cash balance equal to the aggregate amount of interest payable over the next six months on all of our outstanding indebtedness, including the term loans and the convertible notes, in an account reserved for that purpose. As of the date of this annual report, we have a restricted cash balance of US\$7.8 million in this bank account. These bank accounts are held with one of the banks that is a mandated lead arranger under the credit agreement, are pledged as security to the lenders and are generally not available for any purposes other than as described above. Under the terms of the credit agreement, we are also required to cause our subsidiaries in China to declare and pay the maximum legally distributable earnings of the most recently ended calendar year as dividends to our entities outside of China to service the debt, except that we may maintain an RMB cash balance in China to continue on-going operation and expansion according to a prescribed budget and forecast. The covenants under the credit agreement also restrict our right to issue equity or incur indebtedness except under specified circumstances without the permission of the lenders.

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We have been able to meet our working capital needs, and we believe that we will be able to meet our working capital needs in the foreseeable future, with our operating cash flow, existing cash balance and bank credit facilities.

The following table sets forth a summary of our cash flows for the periods indicated:

	For the Year Ended December 31,			
	2009	2010	2011	
	RMB	RMB	RMB	US\$
	(in thousands except percentages)			
Consolidated Statement of Operations Data				
Net cash provided by operating activities	648,663	878,694	726,102	115,366
Net cash used in investing activities	(323,501)	(355,962)	(2,669,499)	(424,141)
Net cash (used)/provided by financing activities	(103,729)	1,040,250	1,403,102	222,932
Effect of foreign exchange rate changes on cash and cash equivalents	(286)	(11,195)	(56,310)	(8,947)
Net increase/(decrease) in cash and cash equivalents	221,147	1,553,051	(596,605)	(94,790)
Cash and cash equivalents at beginning of year	608,445	829,592	2,382,643	378,563
Cash and cash equivalents at end of year	829,592	2,382,643	1,786,038	283,773

Operating Activities

Net cash provided by operating activities amounted to RMB 726.1 million (US\$115.4 million) in 2011, as compared to net income of RMB 357.6 million (US\$56.8 million). The principal working capital items accounting for the difference between our net cash provided by operating activities and net income included an increase in deferred rental of RMB 56.6 million (US\$9.0 million) as a result of an increase in the number of our contracted and newly opened leased-and-operated hotels, and an increase in other payables and accruals of RMB 75.3 million (US\$12.0 million) mainly as a result of the increase in the number of our leased-and-operated hotels, including Motel 168 hotels. The other principal non-cash items accounting for the difference between our net cash provided by operating activities and net income were depreciation and amortization of RMB 412.7 million (US\$65.6 million) primarily relating to our leased-and-operated hotels and share-based compensation of RMB 76.5 million (US\$12.2 million) primarily relating to share options we granted in years prior to 2011, partially offset by gain on fair value change of convertible notes of RMB 198.5 million (US\$31.5 million).

Net cash provided by operating activities amounted to RMB 878.7 million in 2010, as compared to net income of RMB 366.6 million. The principal working capital items accounting for the difference between our net cash provided by operating activities and net income were an increase in salaries and welfare payable of RMB 38.2 million mainly as a result of higher year-end bonuses payable to employees due to our improved annual performance, an increase in deferred rental of RMB 35.4 million as a result of an increase in the number of our contracted and newly opened leased-and-operated hotels, and an increase in deferred revenue (current and non-current) of RMB 27.7 million mainly as a result of increases in initial franchise fees received and cash received from sale of membership programs. The other principal non-cash items accounting for the difference between our net cash provided by operating activities and net income were depreciation and amortization of RMB 320.0 million primarily relating to our leased-and-operated hotels, share-based compensation of RMB 53.3 million primarily relating to share options we granted in years prior to 2010, and issuance costs for convertible notes of RMB 42.6 million relating to our issuance of convertible notes in December 2010.

Net cash provided by operating activities amounted to RMB 648.7 million in 2009, as compared to net income of RMB 256.0 million. Our gain on repurchase of our convertible bonds amounted to RMB 69.3 million. Our deferred revenues (current and non-current) increased by RMB 41.7 million mainly as a result of increase in initial franchise fees received and cash received from sale of membership programs. Our salaries and welfare payables increased by RMB 34.0 million, which was in line with the increase of our personnel costs. Our other payables and accruals increased by RMB 39.8 million. The principal non-cash items accounting for such difference were (1) RMB 286.6 million in depreciation and amortization, an increase of 46% from RMB 200 million in 2008 mainly due to the substantial increase of the number of our leased-and-operated hotels in operation, and (2) RMB 32.0 million on share-based compensation.

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Investing Activities

Net cash used in investing activities in 2011 amounted to RMB 2,669.5 million (US\$424.1 million), due primarily to the Motel 168 acquisition as well as to our leasehold improvements and purchase of equipment and fixtures used in leased-and-operated hotels.

Net cash used in investing activities in 2010 amounted to RMB 356.0 million, due primarily to our leasehold improvements and purchase of equipment and fixtures used in leased-and-operated hotels.

Net cash used in investing activities in 2009 amounted to RMB 323.5 million, due primarily to cash payments of RMB 426.6 million for leasehold improvements and purchase of equipment and fixtures used in leased-and-operated hotels, partially offset by cash from a short-term investment of RMB 102 million.

Financing Activities

Net cash provided in financing activities in 2011 amounted to RMB 1,403.1 million (US\$222.9 million), primarily from the cash proceeds of RMB 1,433.6 million (US\$227.8 million) from the term loan we borrowed for the Motel 168 acquisition.

Net cash provided by financing activities in 2010 amounted to RMB 1.04 billion, primarily from the proceeds from our issuance of convertible notes. In December 2010, we issued and sold US\$184 million aggregate principal amount of convertible notes in a private placement to qualified institutional buyers. The notes had an initial conversion price of 20.2560 ADSs per US\$1,000 principal amount of notes (equal to approximately US\$49.37 per ADS).

Net cash used in financing activities in 2009 amounted to RMB 103.7 million and was primarily attributable to our repurchase of part of our outstanding convertible bonds, offset in part by the proceeds from our private placement of ordinary shares. We repurchased an aggregate principal amount of RMB 531 million of our convertible bonds in 2009. In May 2009, we sold 7,514,503 ordinary shares to Ctrip in a private placement for US\$50 million in cash. The purchase price per ordinary share was set at US\$6.6538, calculated using the average of the closing prices for our ADSs on Nasdaq for each trading day within the 30 calendar days preceding the date of the definitive purchase agreement.

Capital Expenditures

Our capital expenditures were incurred primarily in connection with leasehold improvements and investments in furniture, fixtures and equipment and technology, information and operational software. Our capital expenditures totaled RMB 250.4 million, RMB 546.4 million and RMB 909.1 million (US \$144.4 million) in 2009, 2010 and 2011, respectively.

The following table sets forth the breakdown of our capital expenditures on an accrual basis for the periods indicated:

	For the Year Ended December 31,			
	2009	2010	2011	
	RMB	RMB	RMB	US\$
			(in thousands)	
New hotel development	239,060	534,910	895,656	142,305
Hotel redevelopment and renovations	2,194	4,079	5,970	949
Capital expenditures for headquarters	4,798	3,914	4,622	734
Others	4,322	3,539	3,040	483
Total	250,374	546,442	909,288	144,471

The growth in our capital expenditures from year to year has been driven primarily by our new hotel development, which is a result of our continued organic growth, and we expect our capital expenditures in the future to continue to be influenced primarily by our rate of organic growth.

Under the terms of the credit agreement dated as of September 26, 2011, which we entered into in connection with our acquisition of Motel 168, we may not incur cash payment for consolidated capital expenditures in excess of US\$135 million in 2011, US\$180 million in 2012, US\$240 million in 2013 or US\$295 million in 2014 or any subsequent year until the term loans are fully repaid. However, 50% of any amount under these limits unused in one year may be carried over and used in the subsequent year. For these purposes, "consolidated capital expenditures" is defined to include the aggregate of all of our expenditures that are or should be included in "purchase of property and equipment" or similar items reflected in our consolidated statement of cash flows in accordance with U.S. GAAP. It also includes any amount we use to fund joint ventures but excludes amounts used for the purchase or acquisition of any assets that constitute an ongoing business.

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Our convertible bonds will mature in December 2012, unless previously converted into our ordinary shares at a conversion price of US\$26.545 (equal to US\$53.09 per ADS), based on a fixed exchange rate of RMB 7.4 to US\$1.00. According to the terms of our convertible bonds, the number of ordinary shares to be issued on conversion is fixed. A holder will receive 509.079 ordinary shares per RMB 100,000 principal amount of bonds upon conversion, subject only to contingent adjustment for dilutive events or change of control. These convertible bonds bear no coupon but pay 102.53% of the principal amount upon maturity if not converted.

Our convertible notes will mature in December 2015, unless earlier repurchased or converted.

Our term loans relate to a senior secured credit agreement with a maximum loan amount of US\$240 million and floating interest rate of 390 basis points over LIBOR which we entered into on September 26, 2011. Loans under this facility could only be used to fund the acquisition of Motel 168. As of December 31, 2011, we had drawn down the full amount of US\$240 million. The principal amounts of this term loan will be repaid in four installments of US \$55 million on July 31, 2012, US\$60 million on July 31, 2013, US\$65 million on July 31, 2014 and US\$60 million on September 15, 2015.

Our operating lease obligations relate to our obligations under lease agreements with lessors of our leased-and-operated hotels. Our purchase obligations primarily consisted of our contractual commitments relating to leasehold improvements and installation of equipment for our leased-and-operated hotels. Our finance leases obligations relate to finance leases for certain electronic equipment with three-year payment terms.

G. Safe Harbor

This annual report on Form 20-F contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, all of which are largely based on our current expectations and projections. The forward-looking statements are contained principally in the sections entitled "Item 3. Key Information—D. Risk Factors," "Item 4. Information on the Company" and "Item 5. Operating and Financial Review and Prospects." These statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as "may," "will," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," "is/are likely to" or other and similar expressions. Forward-looking statements involve inherent risks and uncertainties.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include:

- our anticipated growth strategies;
- our future business development, results of operations and financial condition;
- expected changes in our revenues and certain cost or expense items;
- our ability to attract customers and leverage our brand;
- trends and competition in the lodging industry; and
- our ability to develop new hotels at desirable locations in a timely and cost-effective manner.

You should read thoroughly this annual report and the documents that we refer to in this annual report with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements. Other sections of this annual report include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information regarding our executive officers and directors as of December 31, 2011.

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Name	Age	Position/Title
Yunxin Mei	63	Co-Chairman of the Board of Directors, Independent Director
Neil Nanpeng Shen	44	Co-Founder, Co-Chairman of the Board of Directors, Independent Director
David Jian Sun	47	Chief Executive Officer, Director
May Wu	44	Chief Strategy Officer
Huiping Yan	45	Chief Financial Officer
Jason Xiangxin Zong	47	Chief Operating Officer
Min Bao	52	Independent Director
James Jianzhang Liang	42	Co-Founder, Independent Director
Kenneth Gaw	41	Independent Director
Terry Yongmin Hu	42	Independent Director
Arthur M. Wang	51	Independent Director

Yunxin Mei has served as our director since 2004 and as our independent director since 2008. Since 2000, Mr. Mei has been the vice chairman and president of BTG responsible for the overall operations and management as well as executing BTG's mid- and long-term development plans. He also serves on the boards of Home Inns Hong Kong, Home Inns Beijing and Beijing Tourism Group (HK) Holdings Company Ltd. as well as on the boards of several other companies, including Poly Victory Investments Limited, Viobright International Investments Ltd. and Profit Act Investment Ltd., all of which are holding companies investing in the hotel business in China.

Neil Nanpeng Shen is one of the co-founders of our company and has been our company's director since our inception and our independent director since 2007. He is the founding managing partner of Sequoia Capital Advisors (Hong Kong) Limited, or Sequoia, and has been at Sequoia since 2005. In 1999, prior to founding Sequoia, he co-founded Ctrip.com International, Ltd., or Ctrip, a leading travel service provider in China listed on Nasdaq. Mr. Shen served as Ctrip's chief financial officer from 2000 to 2005 and as its president from 2003 to 2005. He has been a director of Ctrip since 1999, currently as a non-employee director. Before founding Ctrip, Mr. Shen worked in the investment banking industry as a director at Deutsche Bank Hong Kong from 1996 to 1999, and prior to that at Chemical Bank, Lehman Brothers and Citibank in Hong Kong and the United States. In addition to the above, Mr. Shen is a non-employee director of a number of public and private companies, including: a director of E-House (China) Holdings Limited, a leading real estate service company in China listed on the New York Stock Exchange; a director of China Real Estate Information Corporation, a leading real estate information, consulting and internet service company in China listed on Nasdaq; an independent director and a member of the nominating committee of Focus Media Holding Limited, a media advertising company listed on Nasdaq; a director of Peak Sport Products, a sports products company listed on the Stock Exchange of Hong Kong; a director of American Dairy Inc., a producer of infant formula listed on the New York Stock Exchange; a director of China Nuokang Bio-Pharmaceutical Inc., a bio-pharmaceutical company listed on Nasdaq; a director of Le Gaga Holdings Limited, a greenhouse vegetable producer listed on Nasdaq; the chairman of the board of Mecox Lane Limited, an online platform for apparel and accessories listed on Nasdaq; and a director and member of the compensation committee for Qihoo 360 Technology Co. Ltd., an internet company listed on the New York Stock Exchange.

David Jian Sun has served as our director and chief executive officer since 2004. Mr. Sun has over ten years of consumer industry experience. From 2003 to 2004, Mr. Sun served as a vice president of operations for B&Q (China) Ltd., a subsidiary of Kingfisher plc, the third largest home improvement retail group in the world, overseeing the operation of 15 B&Q superstores in China. From 2000 to 2003, Mr. Sun served as a vice president of marketing for B&Q (China) Ltd., leading B&Q's market positioning and branding efforts in China. Since 2010, Mr. Sun has also served as independent director, chairman of the compensation committee and a member of the audit committee of Mecox Lane Limited, an online platform for apparel and accessories listed on Nasdaq. Mr. Sun holds a bachelor's degree from Shanghai Medical University in China.

May Wu has served as our chief strategy officer since 2010. From 2006 to 2010, she served as our chief financial officer. From 2010 to 2012, she served as the chief executive officer of our Yitel brand. Prior to joining our company, Ms. Wu was a first vice president at Schroder Investment Management North America Inc. from 2005 to 2006, and a vice president from 2003 to 2004. She was responsible for investment research and management for various funds, specializing in consumer and services sectors. Prior to that, Ms. Wu was a vice president at J.P. Morgan Asset Management from 2000 to 2002 and an equity research analyst from 2000 to 2002. She has served as an independent director and chair of the audit committee of E-House (China) Holdings Limited, a leading real estate service company based in China and listed on the New York Stock Exchange, since 2008. Since 2010, she also has served as independent director and chair of the audit committee of County Style Cooking Restaurant China Co., Ltd., a quick service restaurant chain in China listed on the New York Stock Exchange. Ms. Wu holds a bachelor's degree from Fudan University in China, a master's degree from Brooklyn College at the City University of New York and an MBA degree from the J.L. Kellogg Graduate School of Management at Northwestern University.

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Huiping Yan has served as our chief financial officer since 2010. She was our senior vice president of finance and strategy from 2009 to 2010. Prior to joining our company, Ms. Yan spent 11 years at General Electric Company (GE) in both the United States and Asia, serving in a number of key roles in corporate financial management including tax controller of GE Energy, chief financial officer and a director of GE Hydro Equipment Asia, Ltd., headquarter chief financial officer and financial planning and analysis manager of GE Energy Inspection and Repair Services, lead finance program manager of mergers, acquisitions & integrations of GE Energy Infrastructure. Ms. Yan worked at Deloitte & Touche (US) from 1992 to 1998 and advanced to the position of tax manager of international services prior to joining GE. Ms. Yan studied at Shanghai International Studies University and holds a bachelor's degree in business administration with an accounting major from Hawaii Pacific University. Ms. Yan graduated from the GE experienced finance leadership program and is a US certified public accountant.

Jason Xiangxin Zong has served as our chief operating officer since 2008. He served as our senior vice president of operations from 2006 to 2007. Mr. Zong has more than 10 years of consumer industry experience. From 2004 to 2006, Mr. Zong served as vice president of operations and east region general manager of China for B&Q (China) Ltd., a subsidiary of Kingfisher plc, the third largest home improvement retail group in the world. From 2001 to 2004, Mr. Zong served as vice president of operations for Lotus Supermarket Chain Store Co., Ltd. Mr. Zong holds a bachelor's degree from Fudan University.

Min Bao has served as our director since 2006. Mr. Bao has served as the vice president of BTG since July. From 2007 to 2008, he was the assistant general manager of BTG. From 2006 to 2007, Mr. Bao was the general manager of BTG-International Hotel Group Co., Ltd. From 2002 to 2006, he was the general manager of Beijing Chang Fu Gong Center Co., Ltd., a holding company that owns a hotel and residential and commercial properties. Prior to that, he served as the general manager of Novotel Xin Qiao Beijing Hotel. Mr. Bao currently serves on the boards of Home Inns Beijing and Home Inns Hong Kong as well as the boards of several companies, including Poly Victory Investments Limited., BTG-International Hotel Group Co., Ltd. and Henan Xing Ya Jian Guo Hotel, all of which are China-based hotel companies.

James Jianzhang Liang is one of the co-founders of our company. He has served as our director since our inception. Mr. Liang co-founded Ctrip and has been a director of Ctrip since its inception and the chairman of its board of directors since 2003. Mr. Liang also served as Ctrip's chief executive officer from 2000 to 2006. Prior to founding Ctrip, Mr. Liang held a number of technical and managerial positions with Oracle Corporation from 1991 to 1999 in the United States and China, including the head of the ERP consulting division of Oracle China from 1997 to 1999. Mr. Liang received his master's and bachelor's degrees from Georgia Institute of Technology. He also attended an undergraduate program at Fudan University in China.

Kenneth Gaw has served as our independent director since 2006. Since 1999, Mr. Gaw has been a managing director of Pioneer Global Group Limited, a company listed on the Hong Kong Stock Exchange that primarily focuses on real estate and hotel investments in Hong Kong, Macau, China and South East Asia. Mr. Gaw is also a co-founder and president of Gaw Capital Partners, a private equity fund focusing on a real estate investment and management. Mr. Gaw currently serves on the boards of several companies, including Gaw Capital Partners, Hong Kong Thailand Business Council, a non-profit organization, and Dusit Thani Public Company Limited, a company that owns and operates hotels in Thailand. Mr. Gaw received a bachelor's degree in applied mathematics and economics from Brown University in the United States.

Terry Yongmin Hu has served as our independent director since 2006. Mr. Hu is a partner at FountainVest Partners (Asia) Limited, a China-focused private equity firm, and currently serves on the boards of Central China Real Estate Company Limited, an investment company focusing on property development, property leasing and construction, and L.K. Technology Holdings Limited, a manufacturer and designer of machinery, both of which are listed on the Hong Kong Stock Exchange. From 2005 to 2007, Mr. Hu served as a managing director of Temasek Holdings (HK) Limited, an investment company that focuses on private equity investments in China. Prior to joining Temasek Holdings in 2005, Mr. Hu was a director at Credit Suisse (HK) Limited where he was responsible for its technology, media and telecommunications investment banking efforts in China. Before joining Credit Suisse in 2004, Mr. Hu worked for a number of years at Bear Stearns Asia Limited where he last served as a vice president of investment banking and the chief representative of its Shanghai office. Mr. Hu received a bachelor's degree in English language and literature from Fudan University in China.

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Arthur M. Wang has served as our independent director and member of the audit committee of the board of directors since 2009. He is also a member of the board of Linmark Group, a global sourcing firm listed on the Stock Exchange of Hong Kong, where he serves as chair of the compensation committee. Mr. Wang was the chief executive officer and a director of Gigamedia Limited, a Nasdaq-listed online entertainment and game firm, until 2011. Mr. Wang was also the managing director of 698 Capital, a private investment firm, from 2003 to 2011. He was also an executive director of KGI Asia Limited, where he served as head of corporate finance. He has also served as an investment advisor and board member of UFJ Asia Finance Technology Fund of the UFJ Group (formerly the Sanwa Bank Group of Japan), and as a board member and director of Softbank Investment International (Strategic) Limited, the arm of Softbank Corporation listed on the Stock Exchange of Hong Kong. Mr. Wang received his Bachelor of Arts degree from the University of California, Los Angeles and his juris doctorate degree from Yale Law School. He previously practiced corporate and securities law in the New York and Hong Kong offices of Skadden, Arps, Slate, Meagher & Flom LLP.

Employment Agreements

We have entered into an employment agreement with each of our senior executive officers. We may terminate a senior executive officer's employment for cause, at any time, without notice or remuneration, for certain acts of the officer, including, but not limited to, a conviction or plea of guilty to a felony, willful misconduct to our detriment or a failure to perform agreed duties. A senior executive officer may terminate his or her employment at any time without penalty if there is a material reduction in his or her authority, duties and responsibilities or if there is a material breach by us, provided that we are allowed to correct or cure within 30 days upon receipt of his or her written notice of intent to terminate on such basis. Furthermore, either we or an executive officer may terminate employment at any time without cause upon advance written notice to the other party. Each senior executive officer is entitled to certain benefits upon termination, including a severance pay equal to three months' salary, if he or she resigns for certain specified good reasons or if we terminate his or her employment due to his or her incapacitation. We will indemnify an executive officer for his losses based on or related to his or her acts and decisions made in the course of his or her performance of duties within the scope of his or her employment.

Each senior executive officer has agreed to hold in strict confidence any trade secrets or technical secrets of our company. Each officer also agrees to comply with all material applicable laws and regulations related to his or her responsibilities at our company as well as all material written corporate and business policies and procedures of our company.

B. Compensation of Directors and Executive Officers

For the fiscal year ended December 31, 2011, we paid an aggregate of approximately RMB 8.7 million (US\$1.4 million) in cash to our senior executive officers, and we did not pay any cash compensation to our non-executive directors.

Share Incentives

2003 Plan. In 2003, we adopted our Employee's Stock Option Plan, or the 2003 Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants, and promote the success of our business. Our board of directors authorized the issuance of up to 4,784,226 ordinary shares pursuant to awards under our 2003 Plan, and we granted 4,775,862 options, of which 4,506,042 were exercised. The 2003 Plan was terminated in 2006 and no grants remain outstanding under it.

2006 Plan. In 2006, our board of directors and shareholders approved our 2006 Share Incentive Plan, or the 2006 Plan, to replace the 2003 Plan. At our annual general meetings on November 3, 2009 and September 15, 2011, our shareholders approved increases in the number of ordinary shares that may be granted under the 2006 Plan. As of March 31, 2012, the maximum number of ordinary shares permitted to be issued pursuant to awards under the 2006 Plan was 15,062,194. We have granted 9,559,750 options under the 2006 Plan as of March 31, 2012, of which 1,620,764 had been exercised, 507,006 had been cancelled and 6,940,730 remained outstanding on that date. We have also granted 955,350 restricted shares under the 2006 Plan as of March 31, 2012, all of which are unvested and outstanding on that date.

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Types of Awards. The types of awards we may grant under our 2006 Plan include the following:

- options to purchase our ordinary shares;
- restricted shares, which may be subject to forfeiture, representing non-transferable ordinary shares;
- restricted share units, which may be subject to forfeiture, representing the right to receive our ordinary shares at a specified date in the future;
- share appreciation rights, which provide for payment to the grantee based upon increases in the price of our ordinary shares over a set base price; and
- dividend equivalent rights, which represent the value of the dividends per share that we pay.

Awards may be designated in the form of ADSs instead of ordinary shares. If we designate an award in the form of ADSs, the number of shares issuable under the 2006 Plan will be adjusted to reflect a ratio of one ADS to two ordinary shares.

Eligibility. We may grant awards to employees, directors and consultants of our company or any of our related entities, which include our subsidiaries or any entities in which we hold a substantial ownership interest. However, we may grant options that are intended to qualify as incentive stock options, or ISOs, only to our employees and employees of our majority-owned subsidiaries.

Plan Administration. The compensation committee of our board of directors, or a committee designated by the compensation committee, will administer the 2006 Plan. However, with respect to awards made to our independent directors and executive officers, the entire board of directors will administer the 2006 Plan. The compensation committee or the full board of directors, as appropriate, will determine the individuals who will receive grants, the types of awards to be granted and terms and conditions of each award grant, including any vesting or forfeiture restrictions.

Award Agreement. Awards granted under our 2006 Plan will be evidenced by an award agreement that will set forth the terms, conditions and limitations for each award. In addition, in the case of options, the award agreement will also specify whether the option constitutes an ISO or a non-qualifying stock option.

Acceleration of Awards upon Corporate Transactions. The outstanding awards will accelerate upon occurrence of a change-of-control corporate transaction where the successor entity does not assume our outstanding awards under the 2006 Plan. In such event, each outstanding award will become fully vested and immediately exercisable, and the transfer restrictions on the awards will be released and any forfeiture provisions will terminate immediately before the date of the change-of-control transaction. If the successor entity assumes our outstanding awards and later terminates the grantee's service without cause within 12 months of the change-of-control transaction, the outstanding awards will automatically become fully vested and exercisable.

Exercise Price and Term of Awards. In general, the plan administrator determines the exercise price of an award and sets forth the price in the award agreement. The exercise price may be fixed or variable price related to the fair market value of our ordinary shares. However, ISOs may not be granted to any individual if the fair market value of the shares underlying such ISOs that are exercisable in any calendar year exceeds US\$100,000 or other limitations imposed by law. Also, if we grant an ISO to an employee, who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of our share capital, the exercise price cannot be less than 110% of the fair market value of our ordinary shares on the date of that grant.

The term of each award will be stated in the award agreement. The term of an award shall not exceed 10 years from the date of the grant, except that five years is maximum term of an ISO granted to an employee who holds more than 10% of the voting power of our share capital.

Amendment and Termination. Our board of directors may at any time amend, suspend or terminate the 2006 Plan. Amendments to the 2006 Plan are subject to shareholder approval to the extent required by law, or stock exchange rules or regulations. Additionally, shareholder approval will be specifically required to increase the number of shares available for issuance under the 2006 Plan or to extend the term of an option beyond ten years. Unless terminated earlier, the 2006 Plan will expire and no further awards may be granted after the tenth anniversary of the shareholder approval of the 2006 Plan.

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Amendment to the 2006 Plan. In 2009, our board of directors and shareholders approved an amendment to our 2006 Plan to increase the award pool under the 2006 Plan by that number of shares equal to 6% of our total outstanding shares as of November 3, 2009. In 2011, our board of directors and shareholders approved an additional amendment to our 2006 Plan to further increase the award pool under the 2006 Plan by that number of shares equal to 6% of our total outstanding shares as of September 15, 2011 plus 6% of the number of shares issued in connection with the completion of the Motel 168 acquisition.

The following table summarizes the grants of options and restricted shares we have made to our directors and executive officers and to other individuals as a group as of March 31, 2012, excluding options that had expired by that date but without giving effect to options that were exercised or cancelled (other than the cancellations described in the note to the table). In the case of options, "Number of Shares" refers to the number of ordinary shares that can be acquired upon exercise of the options; in the case of restricted shares, "Number of Shares" refers to the number of restricted shares and "Exercise Price" is marked as not applicable (N/A).

Name	Number of Shares	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Yunxin Mei	7,500	17.395	4/20/2007	4/19/2012
	46,500	3.63	10/27/2008	10/26/2013
	20,000	7.33	7/14/2009	7/13/2014
	24,000	16.165	3/19/2010	3/18/2015
	24,000	16.355	2/24/2011	2/23/2016
	6,000	13.43	3/12/2012	3/12/2017
	6,000	N/A	3/12/2012	N/A
Neil Nanpeng Shen	7,500	17.395	4/20/2007	4/19/2012
	46,500	3.63	10/27/2008	10/26/2013
	20,000	7.33	7/14/2009	7/13/2014
	24,000	16.165	3/19/2010	3/18/2015
	24,000	16.355	2/24/2011	2/23/2016
	6,000	13.43	3/12/2012	3/12/2017
	6,000	N/A	3/12/2012	N/A
David Jian Sun	30,000	17.395	4/20/2007	4/19/2012
	170,000	3.63	10/27/2008	10/26/2013
	100,000	7.33	7/14/2009	7/13/2014
	96,000	16.165	3/19/2010	3/18/2015
	120,000	16.355	2/24/2011	2/23/2016
	60,000	15.615	11/9/2011	11/8/2016
	24,000	13.43	3/12/2012	3/12/2017
	24,000	N/A	3/12/2012	N/A
May Wu	26,000	17.395	4/20/2007	4/19/2012
	150,000	3.63	10/27/2008	10/26/2013
	60,000	7.33	7/14/2009	7/13/2014
	48,000	16.165	3/19/2010	3/18/2015
	102,000	16.355	2/24/2011	2/23/2016
	20,000	15.615	11/9/2011	11/8/2016
	18,000	13.43	3/12/2012	3/12/2017
	18,000	N/A	3/12/2012	N/A
Huiping Yan	150,000	7.33	7/14/2009	7/13/2014
	98,000	16.165	3/19/2010	3/18/2015
	90,000	16.355	2/24/2011	2/23/2016
	30,000	15.615	11/9/2011	11/8/2016
	18,000	13.43	3/12/2012	3/12/2017
	18,000	N/A	3/12/2012	N/A
	18,000	N/A	3/12/2012	N/A
Jason Xiangxin Zong	12,500	17.395	4/20/2007	4/19/2012
	101,500	3.63	10/27/2008	10/26/2013
	60,000	7.33	7/14/2009	7/13/2014
	72,000	16.165	3/19/2010	3/18/2015
	84,000	16.355	2/24/2011	2/23/2016
	46,000	15.615	11/9/2011	11/8/2016
	18,000	13.43	3/12/2012	3/12/2017
	18,000	N/A	3/12/2012	N/A
	18,000	N/A	3/12/2012	N/A
Min Bao	4,000	17.395	4/20/2007	4/19/2012
	24,000	3.63	10/27/2008	10/26/2013
	10,000	7.33	7/14/2009	7/13/2014
	12,000	16.165	3/19/2010	3/18/2015
	12,000	16.355	2/24/2011	2/23/2016
	3,000	13.43	3/12/2012	3/12/2017
	3,000	13.43	3/12/2012	3/12/2017

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<u>Name</u>	<u>Number of Shares</u>	<u>Exercise Price</u> (US\$/Share)	<u>Date of Grant</u>	<u>Date of Expiration</u>
James Jianzhang Liang	4,000	17.395	4/20/2007	4/19/2012
	24,000	3.63	10/27/2008	10/26/2013
	10,000	7.33	7/14/2009	7/13/2014
	12,000	16.165	3/19/2010	3/18/2015
	12,000	16.355	2/24/2011	2/23/2016
	3,000	13.43	3/12/2012	3/12/2017
Kenneth Gaw	3,000	N/A	3/12/2012	N/A
	4,000	17.395	4/20/2007	4/19/2012
	24,000	3.63	10/27/2008	10/26/2013
	10,000	7.33	7/14/2009	7/13/2014
	12,000	16.165	3/19/2010	3/18/2015
	12,000	16.355	2/24/2011	2/23/2016
Terry Yongmin Hu	3,000	13.43	3/12/2012	3/12/2017
	3,000	N/A	3/12/2012	N/A
	4,000	17.395	4/20/2007	4/19/2012
	24,000	3.63	10/27/2008	10/26/2013
	10,000	7.33	7/14/2009	7/13/2014
	15,000	16.165	3/19/2010	3/18/2015
Arthur Wang	15,000	16.355	2/24/2011	2/23/2016
	3,750	13.43	3/12/2012	3/12/2017
	3,750	N/A	3/12/2012	N/A
	60,000	13.29	10/30/2009	10/29/2014
	12,000	16.165	3/19/2010	3/18/2015
	12,000	16.355	2/24/2011	2/23/2016
Other individuals as a group	3,000	13.43	3/12/2012	3/12/2017
	3,000	N/A	3/12/2012	N/A
	7,956,600			

Note: On October 27, 2008, we cancelled the unvested portion of the options held by each of our option grantees and granted them new options that would entitle each of them to acquire the same number of our ordinary shares underlying the cancelled options at a new strike price, with a new vesting schedule beginning from October 27, 2008. The information in the above table gives effect to the cancellation of the unvested portion of the old options and grant of the new options to each of the directors and officers named in the table.

C. Board Practices

Our board of directors currently has eight members. A director is not required to hold any shares in the company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested. A director may exercise all the powers of the company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party.

In 2011, our board held meetings or passed resolutions by unanimous written consent nine times.

Committees of the Board of Directors

We have established two committees under the board of directors: the audit committee and the compensation committee. We currently do not plan to establish a nominating committee. The independent directors of our company will select and recommend to the board for nomination by the board such candidates as the directors, in the exercise of their judgment, have found to be well qualified and willing and available to serve as our directors prior to each annual meeting of our shareholders at which meeting directors are to be elected or re-elected. In addition, our board of directors has resolved that director nomination be approved by a majority of the board as well as a majority of the independent directors of the board. In compliance with Rule 5605(b)(1) of the Nasdaq Marketplace Rules, all members of each of our board committees will be independent directors. We have adopted a charter for each of the board committees. Each committee's members and functions are described below.

Audit Committee. Our audit committee consists of Messrs. Arthur M. Wang, Kenneth Gaw and Terry Yongmin Hu. We have determined that all the members of our audit committee satisfy the "independence" requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and Nasdaq Marketplace Rule 5605(c)(2)(A) and all the members of our audit committee are audit committee financial experts as defined in the instructions to Item 16A of the Form 20-F. The audit committee will oversee our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee will be responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;

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- reviewing with the independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing major issues as to the adequacy of our internal control; and
- meeting separately and periodically with management and the independent auditors.

In 2011, our audit committee held meetings or passed resolutions by unanimous written consent four times.

Compensation Committee. Our compensation committee consists of Messrs. Neil Nanpeng Shen, Kenneth Gaw and Terry Yongmin Hu. We have determined that all the members of our compensation committee satisfy the "independence" requirements of Rule 5605(d) of Nasdaq Stock Market Marketplace Rules. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee will be responsible for, among other things:

- reviewing and approving the total compensation package for our four most senior executives;
- reviewing and recommending to the board with respect to the compensation of our directors; and
- reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

In 2011, our compensation committee held meetings or passed resolutions by unanimous written consent two times.

Duties of Directors

Under Cayman Islands law, our directors have a duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association.

Terms of Directors and Officers

Our officers are elected by and serve at the discretion of our shareholders and board of directors in accordance with our articles of association. Our directors are not subject to a term of office and hold office until such time as they are removed from office by special resolution or the unanimous written resolution of all shareholders. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; or (ii) dies or is found by our company to be or becomes of unsound mind.

D. Employees

Excluding employees of our franchised-and-managed hotels, we had 15,810, 16,313 and 26,670 employees as of December 31, 2009, 2010 and 2011, respectively. As of December 31, 2011, our employees consisted of 23,976 hotel-based employees, 261 reservation agents at our centralized reservation center, and 2,433 corporate staff. Approximately 21% of our employees are associated with labor unions. We consider our relations with our employees to be good.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 31, 2012 by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our ordinary shares.

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	Shares Beneficially Owned	
	Number ⁽¹⁾	Percentage ⁽²⁾
Directors and Executive Officers:		
Neil Nanpeng Shen ⁽³⁾	18,932,890	20.8%
James Jianzhang Liang ⁽⁴⁾	15,134,059	16.7%
Yunxin Mei ⁽⁵⁾	14,788,839	16.3%
Min Bao ⁽⁶⁾	14,755,165	16.3%
David Jian Sun ⁽⁷⁾	427,806	*
May Wu ⁽⁸⁾	160,500	*
Jason Xiangxin Zong ⁽⁹⁾	239,624	*
Kenneth Gaw ⁽¹⁰⁾	101,459	*
Huiping Yan ⁽¹¹⁾	114,850	*
Arthur Wang ⁽¹²⁾	39,000	*
Terry Yongmin Hu ⁽¹³⁾	25,750	*
All Directors and Executive Officers as a Group ⁽¹⁴⁾	35,593,012	38.9%
Principal Shareholders:		
Poly Victory Investments Limited ⁽¹⁵⁾	14,726,165	16.2%
Ctrip.com International, Ltd. ⁽¹⁶⁾	14,400,765	15.9%
FMR LLC ⁽¹⁷⁾	7,506,200	8.3%
OppenheimerFunds, Inc. ⁽¹⁸⁾	7,484,250	8.2%
Maverick Capital, Ltd. ⁽¹⁹⁾	6,562,434	7.2%
Morgan Stanley ⁽²⁰⁾	6,435,254	7.1%

* Less than 1%.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment owner with respect to the securities.
- (2) For each person and group included in this table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of (i) 90,751,272 which was the number of ordinary shares outstanding as of March 31, 2012, and (ii) the number of ordinary shares underlying share options held by such person or group that are exercisable within 60 days after March 31, 2012.
- (3) Includes (i) 300,000 ordinary shares held by Mr. Shen; (ii) 3,955,389 ordinary shares held by Smart Master International Limited, or Smart Master, a British Virgin Islands company solely owned and controlled by Mr. Shen; (iii) 206,362 ordinary shares represented by ADS held by Smart Master; (iv) 70,374 ordinary shares issuable upon exercise of options held by Mr. Shen that are exercisable within 60 days after March 31, 2012 and (v) 7,514,503 ordinary shares and 3,443,131 ADSs representing 6,886,262 ordinary shares held by subsidiaries of Ctrip, of which Mr. Shen is a co-founder and a director. The business address of Mr. Shen is Suite 2215, Two Pacific Place, 88 Queensway, Hong Kong.
- (4) Includes (i) 697,294 ordinary shares represented by ADS held by Ms. Lau, Mr. Liang's wife; (ii) 36,000 ordinary shares issuable upon exercise of options held by Mr. Liang that that are exercisable within 60 days after March 31, 2012 and (iii) 7,514,503 ordinary shares and 3,443,131 ADSs representing 6,886,262 ordinary shares held by subsidiaries of Ctrip, of which Mr. Liang is chairman, a co-founder and a director. Mr. Liang disclaims the beneficial ownership of all the shares held by his wife. The business address of Mr. Liang is Ctrip.com International, Ltd., 99 Fu Quan Road, Shanghai 200335, People's Republic of China.
- (5) Includes (i) 62,674 ordinary shares issuable upon exercise of options held by Mr. Mei that are exercisable within 60 days after March 31, 2012 and (ii) 13,446,959 ordinary shares and 639,603 ADSs representing 1,279,206 ordinary shares held by Poly Victory Investments Limited, of which Mr. Mei is a director. Mr. Mei is also the vice chairman and president of BTG, the parent company of Poly Victory Investments Limited. The business address of Mr. Mei is No.10 Yabao Road, Chaoyang District, Beijing 100020, People's Republic of China.
- (6) Includes (i) 5,500 ordinary shares represented by ADS and 23,500 ordinary shares issuable upon exercise of options held by Mr. Bao that are exercisable within 60 days after March 31, 2012 and (ii) 13,446,959 ordinary shares and 639,603 ADSs representing 1,279,206 ordinary shares held by Poly Victory Investments Limited, of which Mr. Bao is a director. Mr. Bao also serves on the board of BTG, the parent company of Poly Victory Investments Limited. The business address of Mr. Bao is No.10 Yabao Road, Chaoyang District, Beijing 100020, People's Republic of China.
- (7) Includes (i) 11,000 ordinary shares held by Mr. Sun, (ii) 188,806 ordinary shares held by Peace Unity Investments Limited, a company solely owned and controlled him, (iii) 40,000 ordinary shares held by Mr. Sun's daughters; (iv) 188,000 ordinary shares issuable upon exercise of options held by Mr. Sun that are exercisable within 60 days after March 31, 2012. The business address of Mr. Sun is No. 124, Caobao Road, Xuhui District, Shanghai 200235, People's Republic of China.

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- (8) Includes 73,500 ordinary shares held by Ms. Wu and 87,000 ordinary shares issuable upon exercise of options held by Ms. Wu that are exercisable within 60 days after March 31, 2012. The business address of Ms. Wu is No. 124, Caobao Road, Xuhui District, Shanghai 200235, People's Republic of China.
- (9) Includes (i) 54,000 ordinary shares, (ii) 10,000 ordinary shares represented by ADS and (iii) 175,624 ordinary shares issuable upon exercise of options held by Mr. Zong that are exercisable within 60 days after March 31, 2010. The business address of Mr. Zong is No. 124, Caobao Road, Xuhui District, Shanghai 200235, People's Republic of China.
- (10) Includes (i) 32,800 ordinary shares represented by ADS held by Mr. Gaw; (ii) 32,659 ordinary shares held by Top Elite Company Limited, a company solely owned and controlled by Mr. Gaw, and (iii) 36,000 ordinary shares issuable upon exercise of options held by Mr. Gaw that are exercisable within 60 days after March 31, 2012. The business address of Mr. Gaw is 22nd Floor, 1 Lyndhurst Tower, No. 1 Lyndhurst Terrace, Central, Hong Kong.
- (11) These 114,850 ordinary shares are issuable upon exercise of options held by Ms. Yan that are exercisable within 60 days after March 31, 2012. The business address of Ms. Yan is No. 124, Caobao Road, Xuhui District, Shanghai 200235, People's Republic of China.
- (12) These 39,000 ordinary shares are issuable upon exercise of options held by Mr. Wang that are exercisable within 60 days after March 31, 2012. The business address of Mr. Wang is the Centrium, 22/F, 60 Wyndham Street, Central, Hong Kong.
- (13) These 25,750 ordinary shares are issuable upon exercise of options held by Mr. Hu that are exercisable within 60 days after March 31, 2012. The business address of Mr. Hu is Suite 906 ICBC Tower, 3 Garden Road, Central, Hong Kong.
- (14) Includes 34,734,240 ordinary shares, and 858,772 ordinary shares issuable upon exercise of options that are exercisable within 60 days after March 31, 2012.
- (15) Based on the Schedule 13G filed with the SEC on January 18, 2012. The ordinary shares include (i) 13,446,959 ordinary shares and (ii) 1,279,206 ordinary shares represented by ADSs. Poly Victory Investments Limited, a company incorporated in the British Virgin Islands, is beneficially owned by Beijing Tourism Group, which is a state-owned enterprise in China. The principal business address of Poly Victory Investments Limited is Room 3406, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. The principal business address of Beijing Tourism Group is No. 10 Yabao Road, Chaoyang District, Beijing 100020, the People's Republic of China.
- (16) Based on the Schedule 13D/A filed with the SEC on May 21, 2009. The ordinary shares consist of 7,514,503 ordinary shares through private placement and 3,443,131 ADSs representing 6,886,262 ordinary shares purchased by Ctrip and its wholly-owned subsidiaries.
- (17) Based on the Schedule 13G filed with the SEC on February 14, 2012. FMR LLC's principal business office is 82 Devonshire Street, Boston, Massachusetts 02109. Fidelity Management & Research Company, a wholly-owned subsidiary of FMR LLC and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 whose principal business office is 82 Devonshire Street, Boston, Massachusetts 02109, is the beneficial owner of 7,506,200 ordinary shares represented by ADSs as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.
- (18) Based on the Schedule 13G filed with the SEC on February 6, 2012. OppenheimerFunds, Inc.'s principal business office is Two World Financial Center, 225 Liberty Street, New York, New York 10281. OppenheimerFunds, Inc. is an investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E). Oppenheimer Developing Markets Fund's principal business office is 6803 S. Tucson Way, Centennial, Colorado 80112. Oppenheimer Developing Markets Fund is an investment company registered under section 8 of the Investment Company Act of 1940. OppenheimerFunds, Inc. is the beneficial owner of 7,484,250 ordinary shares represented by ADSs, including 6,260,410 ordinary shares represented by ADSs that are held by Oppenheimer Developing Markets Fund.
- (19) Based on the Schedule 13G filed with the SEC on February 14, 2012. The principal business office of Maverick Capital, Ltd. is 300 Crescent Court, 18th Floor, Dallas, Texas 75201. Maverick Capital, Ltd., an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 6,562,434 ordinary shares represented by ADS as a result of the investment discretion it exercises over its clients' accounts.

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(20) Based on the Schedule 13G filed with the SEC on February 3, 2012. Morgan Stanley's principal business office is 1585 Broadway, New York, New York 10036. Morgan Stanley is a broker-dealer registered under section 15 of the Exchange Act. Morgan Stanley is the beneficial owner of 6,435,254 ordinary shares, including 6,051,090 ordinary shares that are held by a related entity, GSS III Monroe Holdings Limited.

None of our existing shareholders have different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of March 31, 2012, we had 90,751,272 ordinary shares issued and outstanding. To our knowledge, we had only six record shareholders in the United States. The Bank of New York Mellon, which is the depository of our ADS program and held approximately 62.6% of our total outstanding ordinary shares. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to "Item 6. Directors, Senior Management and Employees—E. Share Ownership."

B. Related Party Transactions

Shareholders' Agreement

In connection with our reorganization in June 2006, we and our then existing shareholders entered into a shareholders agreement, which incorporates the principal terms of the previous shareholders agreements between Home Inns Hong Kong and our shareholders. Under this agreement, these shareholders are entitled to certain registration rights, including demand registration and Form F-3 or Form S-3 registration.

Transaction with Jian Guo Inns

Jian Guo Inns Beijing Ltd., or Jian Guo Inns, is a subsidiary of BTG, which is the parent company of Poly Victory Investments Limited, one of our principal shareholders. Since 2004, Jian Guo Inns has been the lessor of three leased-and-operated hotels in our chain. In 2009, 2010 and 2011, we paid RMB 2.8 million, RMB 2.8 million and RMB 2.8 million (US\$0.4 million), respectively, to Jian Guo Inns as rental payments.

Transactions with Ctrip

Two of Ctrip's directors, Neil Nanpeng Shen and James Jianzhang Liang, are also our directors. Some of our customers book our hotel rooms through Ctrip and we pay agency fees to Ctrip for such bookings. The amounts paid to Ctrip as agency fees in 2009, 2010, 2011 and thus far in 2012 were RMB 20.9 million, RMB 18.2 million, RMB 17.7 million (US\$2.8 million) and RMB 6.5 million (US\$1.0 million), respectively.

In May 2009, we sold Ctrip 7,514,503 ordinary shares through a private placement for US\$50 million in cash. The purchase price per ordinary share was set at US\$6.6538, calculated as the average of the closing prices for our ADSs on Nasdaq for each trading day within the 30 calendar days preceding the date of the definitive purchase agreement. As Ctrip and its wholly-owned subsidiary had previously purchased 3,443,131 of our ADSs on the open market representing 6,886,262 ordinary shares, this transaction increased Ctrip's ownership in us to 14,400,765 ordinary shares, representing 18.25% of our ordinary shares outstanding upon the completion of the private placement.

See "Item 10. Additional Information—C. Material Contracts" for a description of the registration rights agreement we have entered into with Ctrip.

Employment Agreements

See "Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management—Employment Agreements" for a description of the employment agreements we have entered into with our senior executive officers.

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Share Incentives

See "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share Incentives" for a description of share options we have granted to our directors, officers and other individuals as a group.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal and Administrative Proceedings

We are subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. We are not currently a party to, nor are we aware of, any legal proceeding, investigation or claim which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition, results of operations, liquidity or cash flows.

Dividend Policy

We have no present plan to declare and pay any dividends on our shares or ADSs in the near future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. Under the terms of the credit agreement dated September 26, 2011, which we entered into in connection with our acquisition of Motel 168, we may not pay dividends to our shareholders until we have repaid all loans outstanding under that agreement. As of the date of this annual report, we have a principal amount of US\$240 million outstanding under that agreement, which is not scheduled to be completely repaid until September 15, 2015.

We are a holding company incorporated in the Cayman Islands. We rely on dividends from our subsidiaries in China. Under the terms of the credit agreement dated September 26, 2011, which we entered into in connection with our acquisition of Motel 168, we are required to cause our subsidiaries in China to declare and pay the maximum legally distributable earnings of the most recently ended calendar year as dividends to our entities outside of China to service the debt, except that we may maintain a level of RMB cash balance in China to continue on-going operation and expansion according to a prescribed budget and forecast. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside a certain amount of its accumulated after-tax profits each year, if any, to fund certain statutory reserves. These reserves may not be distributed as cash dividends. Further, if our subsidiaries in China incur debt on their own behalf, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us.

Our board of directors has complete discretion as to whether to distribute dividends, subject to the approval of our shareholders. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder.

B. Significant Changes

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Market Price Information for our American Depositary Shares

Our ADSs, each representing two of our ordinary shares, have been listed on the Nasdaq Global Market since October 26, 2006. Our ADSs trade under the symbol "HMIN."

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The following table provides the high and low closing prices for our ADSs on the Nasdaq Global Market for each period indicated.

	Trading Price	
	High	Low
	US\$	US\$
Annual Highs and Lows		
2007	50.08	24.00
2008	36.00	7.00
2009	37.93	7.63
2010	53.66	27.89
2011	44.48	25.00
Quarterly Highs and Lows		
First Quarter 2010	40.06	27.89
Second Quarter 2010	41.75	30.79
Third Quarter 2010	50.79	37.30
Fourth Quarter 2010	53.66	39.67
First Quarter 2011	40.83	32.55
Second Quarter 2011	44.48	33.62
Third Quarter 2011	40.90	25.77
Fourth Quarter 2011	35.29	25.00
First Quarter 2012	32.95	24.90
Monthly Highs and Lows		
2011		
October	35.07	25.00
November	35.29	28.96
December	33.04	25.09
2012		
January	30.80	25.91
February	31.76	29.20
March	32.95	24.90
April (through April 23, 2012)	27.41	24.12

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing two of our ordinary shares, have been listed on the Nasdaq Global Market since October 26, 2006 under the symbol "HMIN."

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

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B. Memorandum and Articles of Association

The following are summaries of material provisions of our amended and restated memorandum and articles of association, as well as the Companies Law (2011 Revision) insofar as they relate to the material terms of our ordinary shares.

Registered Office and Objects

Our registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law (2011 Revision) or as the same may be revised from time to time, or any other law of the Cayman Islands.

Board of Directors

See "Item 6.C. Board Practices — Board of Directors."

Ordinary Shares

General. All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law.

Voting Rights. Each ordinary share is entitled to one vote on all matters upon which the ordinary shares are entitled to vote. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by one or more shareholders present in person or by proxy entitled to vote and who together held not less than 10% of the paid up voting share capital of our company.

A quorum required for a meeting of shareholders consists of shareholders present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative, holding not less than one-third of our voting share capital. Shareholders' meetings may be held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate at least one-third of our voting share capital. Advance notice of at least 14 days is required for the convening of our annual general meeting and other shareholders' meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the ordinary shares cast in a general meeting. A special resolution is required for important matters such as a change of name. Holders of the ordinary shares may effect certain changes by ordinary resolution, including increase the amount of our authorized share capital, consolidate and divide all or any of our share capital into shares of larger amount than our existing share capital, and cancel any authorized but unissued shares.

Transfer of Shares. Subject to the restrictions of our memorandum and articles of association, as applicable, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board.

Liquidation. On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

Calls on Shares and Forfeiture of Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time or times of payment. The shares that have been called upon and remain unpaid on the specified time are subject to forfeiture.

Redemption of Shares. Subject to the provisions of the Companies Law, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as may be determined by our directors.

Variations of Rights of Shares. All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the written consent of the holders of a majority of the issued shares of that class or with the sanction of a resolution passed by at least a majority of the holders of the shares of the class present in person or by proxy at a separate general meeting of the holders of the shares of that class.

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Inspection of Books and Records. Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in "Item 4. Information on the Company", in this "Item 10.C. Material Contracts" or elsewhere in this annual report on Form 20-F.

Registration Rights of Certain Shareholders

Pursuant to a shareholders agreement entered into in June 2006, we have granted certain registration rights to holders of our registrable securities. Set forth below is a description of the registration rights granted under the agreement.

Demand Registration Rights. At any time, holders of at least 50% of registrable securities have the right to demand that we file a registration statement covering the offer and sale of their securities with anticipated aggregate proceeds in excess of US\$5 million. We, however, are not obligated to effect a demand registration if (1) we have already effected two demand registrations, (2) during the period beginning on the 60th day prior to our good faith estimate of the filing date of, and ending on the 180th day after the effective date of, a public offering of our securities initiated by us, or (3) if the securities to be registered can be registered on Form F-3. We have the right to defer filing of a registration statement for up to 120 days if we provide the requesting holders a certificate signed by either our chief executive officer or chairman of the board of directors stating that in the good faith judgment of the board of directors that filing of a registration statement will be detrimental to us and our shareholders, but we cannot exercise the deferral right more than once in any 24-month period.

Piggyback Registration Rights. If we propose to file a registration statement for a public offering of our securities other than, among other things, relating to a stock option plan or a corporate reorganization, then we must offer holders of registrable securities an opportunity to include in the registration all or any part of their registrable securities. The underwriters of any underwritten offering will have the right to limit the number of shares having registration rights to be included in the registration statement.

Form F-3 Registration Rights. When we are eligible for use of Form F-3, holders of our registrable securities then outstanding have the right to request that we file a registration statement under Form F-3. We are not obligated to file a registration statement on Form F-3 if we have already effected one registration on Form F-3 in any six-month period or the holders propose to sell registrable securities and such other securities (if any) at an aggregate public price of less than US\$500,000, net of any underwriters' discounts or commissions.

Expenses of Registration. We will pay all expenses, other than underwriting discounts and commissions, relating to any demand, piggyback or F-3 registration.

Registration Rights of Ctrip

Set forth below is a description of the registration rights we granted to Ctrip in May 2009.

Demand Registration Rights. At any time, holders of at least 25% of the ordinary shares held by Ctrip and its transferees and assignees have the right to demand that we file a registration statement covering the offer and sale of their securities. We are obligated under the registration rights agreement to use our best efforts to register our ordinary shares for resale if Ctrip or its transferees and assignees make such a request. We are not obligated to affect such demand registrations on more than three occasions. If the holders of shares initiating a demand intend to distribute their shares by mean of an underwriting, the underwriters will have the right to limit the number of shares having registration rights to be included in the registration statement. We have the ability to defer the filing of a registration statement for up to 90 days if we furnish to the demanding holder or holders a certificate signed by one of our directors stating that in the good faith judgment of the board of directors, filing of a registration statement will be detrimental to us and our shareholders, but we cannot exercise the deferral right more than once in any 12-month period.

Piggyback Registration Rights. If we propose to file a registration statement with respect to a public offering of our securities for our own account or for the account of any person that is not Ctrip or its transferees and assignees, we must offer Ctrip and its transferees and assignees the opportunity to include their securities in the registration statement. If the registration statement is for an underwritten offering and the underwriters determine that marketing factors require a limitation on the number of shares to be underwritten, the number of shares included in the offering and the underwriting will be allocated first to the Company, second to Ctrip and its transferees and assignees, and third to other holders.

Form F-3 Registration Rights. When we are eligible for use of Form F-3, holders of at least 25% of the ordinary shares held by Ctrip or its transferees and assignees have the right to request that we file a registration statement under Form F-3. Such requests for registrations are not counted as demand registrations. We have the ability to defer the filing of such a registration statement for up to 90 days if we furnish to the requesting holder or holders a certificate signed by one of our directors stating that in the good faith judgment of the board of directors, filing of a registration statement will be detrimental to us and our shareholders, but we cannot exercise the deferral right more than once in any 12-month period.

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Expenses of Registration. We will pay all expenses, other than underwriting discounts and commissions, relating to any demand, piggyback or F-3 registration.

Registration Rights Relating to Convertible Notes

In connection with the issuance of our convertible notes in December 2010, we filed an effective shelf registration statement on May 19, 2011 for re-sales by holders of our notes and any securities into which such notes are converted, and we agreed to file certain supplements and amendments to the shelf registration statement upon requests from such holders.

The Motel 168 Acquisition

On May 27, 2011, we entered into a definitive agreement to acquire 100% of Motel 168. The base acquisition price was US\$470.0 million, consisting of US\$305.5 million in cash and 8,149,616 ordinary shares priced at US\$40.37 per ADS or US\$20.185 per ordinary share at the closing of the transaction. The cash portion was funded with cash on hand and a four-year term loan facility of US\$240.0 million with an interest rate at 390 basis points over LIBOR, and we granted registration rights to the sellers in connection with our issuance of ordinary shares to them. The closing conditions were met and the acquisition became effective on October 1, 2011. Motel 168 had 297 hotels in operation, including 144 leased-and-operated hotels and 153 franchised-and-managed hotels, with about 47,099 rooms located in 85 cities across China at the time of the acquisition. We will retain the Motel 168 brand in addition to our Home Inn and Yitel brands and we plan to continue to open new hotels under each of these brands in the foreseeable future. We expect to integrate most of Motel 168's support functions into our existing corporate platform, including human resources, accounting and finance, and legal, while keeping most front-line business functions brand-specific, including development and operations. In addition, we plan to dedicate between US\$20 million and US\$25 million in additional resources over the 12 to 18 months following the acquisition to renovating our Motel 168 hotels and implementing new marketing initiatives and operational best practices.

Registration Rights Relating to the Motel 168 Acquisition

Pursuant to the registration rights agreement among Home Inns & Hotels Management, Inc., GSS III Monroe Holdings Limited and Merrylin International Investment Limited entered into as of September 30, 2011, we have granted certain registration rights to the selling shareholders of Motel 168 in connection with the acquisition. Set forth below is a description of the registration rights granted under the agreement.

Demand Registration Rights. At any time, holders of at least 50% of outstanding registrable securities have the right to demand that we file a registration statement covering the offer and sale of their securities. We, however, are not obligated to effect a demand registration if we have already effected two demand registrations. We have the right to defer filing of a registration statement for up to 90 days if we provide the requesting holders a certificate signed by one of our directors stating that in the good faith judgment of the board of directors that filing of a registration statement will be detrimental to us and our shareholders, but we cannot exercise the deferral right more than once in any 12-month period.

Piggyback Registration Rights. If we propose to file a registration statement for a public offering of our securities other than, among other things, relating to a stock option plan or a corporate reorganization, then we must offer holders of registrable securities an opportunity to include in the registration all or any part of their registrable securities. The underwriters of any underwritten offering will have the right to limit the number of shares having registration rights to be included in the registration statement.

Form F-3 Registration Rights. Provided that we are eligible for use of Form F-3, holders of at least 50% of the outstanding registrable ordinary shares have the right to request that we file a registration statement under Form F-3. Such requests for registrations are not counted as demand registrations. We have the ability to defer the filing of such a registration statement for up to 90 days if we furnish to the requesting holder or holders a certificate signed by one of our directors stating that in the good faith judgment of the board of directors, filing of a registration statement will be detrimental to us and our shareholders, but we cannot exercise the deferral right more than once in any 12-month period. The shareholders have already exercised this right and we are currently preparing a registration statement on Form F-3 for filing with the SEC.

Expenses of Registration. We will pay all expenses, other than underwriting discounts and commissions, relating to any demand, piggyback or F-3 registration.

D. Exchange Controls

See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Foreign Currency Exchange."

E. Taxation

The following summary of the material Cayman Islands, People's Republic of China and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws.

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Cayman Islands Taxation

The Cayman Islands does not impose any withholding taxes on dividends paid to shareholders by a Cayman Islands corporation, nor does the Cayman Islands impose any other taxes on shareholders of a Cayman Islands corporation who are not themselves residents of the Cayman Islands. The Cayman Islands is not a party to any tax treaties that are applicable to any payments made to or by our company.

People's Republic of China Taxation

Under the Enterprise Income Tax Law, enterprises established outside of China but whose "de facto management body" is located in China are considered "resident enterprises" for PRC tax purposes. Under the applicable implementation regulations, "de facto management body" is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. Substantially all of our management is currently based in China, and may remain in China in the future. If we are treated as a "resident enterprise" for PRC tax purposes, foreign holders of our ADSs or ordinary shares may be subject to a 10% PRC withholding tax upon dividends payable by us and on gains realized on their sales or other dispositions of our ADSs or ordinary shares. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Our foreign ADS holders may be subject to PRC withholding tax on the dividends payable by us and upon gains realized on their sales of our ADSs if we are classified as a PRC resident enterprise."

United States Federal Income Taxation

The following discussion describes the material U.S. federal income tax consequences to U.S. Holders (defined below) under present law of an investment in the ADSs or ordinary shares. This summary applies only to investors that hold the ADSs or ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- certain financial institutions;
- regulated investment companies;
- real estate investment trusts;
- insurance companies;
- broker dealers;
- U.S. expatriates;
- traders that elect to mark to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding an ADS or ordinary share as part of a straddle, hedging, constructive sale, conversion or integrated transaction;
- persons that actually or constructively own 10.0% or more of our voting stock;
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation; or
- persons holding ADSs or ordinary shares through partnerships or other pass-through entities for U.S. federal income tax purposes.

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U.S. HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF ADSs OR ORDINARY SHARES.

The discussion below of the U.S. federal income tax consequences to "U.S. Holders" will apply if you are a beneficial owner of ADSs or ordinary shares and you are, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation) organized under the laws of the United States, any State or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are a partner in partnership or other entity taxable as a partnership that holds ADSs or ordinary shares, your tax treatment generally will depend on your status and the activities of the partnership.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. If you hold ADSs, you should be treated as the holder of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to U.S. federal income tax.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released, or intermediaries in the chain of ownership between holders of ADSs and the issuer of the security underlying the ADSs, may be taking actions that are inconsistent with the claiming, by U.S. Holders of ADSs, of foreign tax credits for U.S. federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. Holders, as described below. Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders could be affected by future actions that may be taken by the U.S. Treasury, intermediaries in the chain of ownership between us and holders of the ADSs, or parties to whom ADSs are pre-released.

Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares

Subject to the passive foreign investment company rules discussed below, the gross amount of all our distributions to you with respect to the ADSs or ordinary shares generally will be included in your gross income as ordinary dividend income on the date of actual or constructive receipt by the depository, in the case of ADSs, or by you, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in your ADSs or ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. As we do not maintain records of earnings and profits in accordance with U.S. Federal income tax principles, U.S. Holders should expect that the full amount of any distribution will be reported as dividend. The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders including individual U.S. Holders, for taxable years beginning before January 1, 2013, dividends may constitute "qualified dividend income" that is taxed at the lower applicable capital gains rate provided that (1) the ADSs or ordinary shares, as applicable, are readily tradable on an established securities market in the United States or we are eligible for the benefit of the income tax treaty between the United States and the PRC, (2) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year, and (3) certain holding period requirements are met. Under Internal Revenue Service authority, ordinary shares, or ADSs representing such shares, are considered for the purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on the Nasdaq Global Market, as our ADSs are (but not our ordinary shares). Thus, we do not believe that dividends that we pay on our ordinary shares that are not backed by ADSs currently meet the conditions required for these reduced tax rates. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. You should consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or ordinary shares.

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Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation generally will be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to the ADSs or ordinary shares generally will constitute "passive category income" or, in the case of certain U.S. Holders, constitute "general category income." Subject to certain conditions and limitations, any PRC withholding taxes on dividends may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. U.S. Holders should consult their tax advisors regarding the creditability of any PRC tax.

Taxation of Disposition of ADSs or Ordinary Shares

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized for the ADS or ordinary share and your tax basis in the ADS or ordinary share. The gain or loss generally will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ADS or ordinary share for more than one year, you will be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes. However, in the event we are deemed to be a Chinese resident enterprise under PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat such gain as PRC source income. U.S. Holders should consult their tax advisors regarding the creditability of any PRC tax.

Passive Foreign Investment Company

Based on the price of our ADSs and ordinary shares and the composition of our income and assets, we believe that we were not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year that ended December 31, 2011. However, the application of the PFIC rules is subject to ambiguity in several aspects and we must make a separate determination each year as to whether we are a PFIC (after the close of such taxable year). Accordingly, we cannot assure you that we will not be a PFIC for our current or any future taxable year. A non-U.S. corporation is considered to be a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income (the "income test"), or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the "asset test").

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock.

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change. In particular, because the total value of our assets for purposes of the asset test generally will be calculated using the market price of our ADSs and ordinary shares, our PFIC status will depend in large part on the market price of our ADSs and ordinary shares, which may fluctuate considerably. Accordingly, fluctuations in the market price of the ADSs and ordinary shares may result in our being a PFIC for any year. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in any offering. If we are a PFIC for any year during which you hold ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which you hold ADSs or ordinary shares. However, if we cease to be a PFIC, you may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the ADSs or ordinary shares, as applicable. If we are a PFIC for any taxable year and any of our foreign subsidiaries is also a PFIC, a U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares, you will be subject to special tax rules with respect to any "excess distribution" that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a "mark-to-market" election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares,

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- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or "excess distribution" cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or ordinary shares cannot be treated as capital, even if you hold the ADSs or ordinary shares as capital assets.

If a company that is a PFIC provides certain information to U.S. Holders, a U.S. Holder can avoid certain adverse tax consequences described above by making a "qualified electing fund" election to be taxed currently on its proportionate share of the PFIC's ordinary income and net capital gains. However, we do not intend to prepare or provide the information that would enable you to make a qualified electing fund election.

Alternatively, a U.S. Holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election with respect to such stock to elect out of the tax treatment discussed above. If you make a valid mark-to-market election for the ADSs or ordinary shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares as of the close of your taxable year over your adjusted basis in such ADSs or ordinary shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ADSs or ordinary shares, as well as to any loss realized on the actual sale or disposition of the ADSs or ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or ordinary shares. Your basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. If you make such an election, the tax rules that apply to distributions by corporations that are not PFICs will apply to distributions by us, except that the lower applicable capital gains rate discussed above under "—Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares" will not apply.

The mark-to-market election is available only for "marketable stock," which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter ("regularly traded") on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. The Nasdaq Global Market is a qualified exchange and, consequently, provided that the ADSs continue to be listed on the Nasdaq Global Market and are regularly traded, if you are a holder of ADSs, the mark-to-market election would be available to you were we to be a PFIC.

If you hold ADSs or ordinary shares in any year in which we are a PFIC, you will be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or ordinary shares and any gain realized on the disposition of the ADSs or ordinary shares.

You are urged to consult your tax advisor regarding the application of the PFIC rules to your investment in ADSs or ordinary shares.

Information Reporting and Backup Withholding

Pursuant to the Hiring Incentives to Restore Employment Act of 2010 and recently promulgated temporary regulations thereunder, individual U.S. Holders and certain entities may be required to submit to the IRS certain information with respect to his or her beneficial ownership of the ADSs or ordinary shares, if such ADSs or ordinary shares are not held on his or her behalf by a financial institution. This new law also imposes penalties if an individual U.S. Holder is required to submit such information to the IRS and fails to do so.

In addition, dividend payments with respect to ADSs or ordinary shares and proceeds from the sale, exchange or redemption of ADSs or ordinary shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

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F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish The Bank of New York, the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

I. Subsidiary Information

For a listing of our subsidiaries, see "Item 4. Information on the Company—C. Organizational Structure."

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to interest rate risk typically relates to any interest rates for our outstanding debt and the interest income generated by excess cash invested in liquid investments with original maturities of three months or less.

In December 2007, we issued RMB 1,110 million of U.S. dollar settled zero coupon convertible bonds, of which RMB 110.8 million (US\$17.6 million) remained outstanding as of December 31, 2011. These convertible bonds bear no coupon but pay 102.53% of the principal amount upon maturity on December 10, 2012, if not converted.

In December 2010, we issued US\$184 million of convertible notes. The interest rate on these convertible notes is 2% per annum, payable semi-annually in arrears. No accrued interest is payable upon conversion. The convertible notes will mature on December 15, 2015.

In September 2011, we entered into a senior secured credit agreement with a maximum loan amount of US\$240 million and floating interest rate of 390 basis points over three-month U.S. dollar LIBOR. As of December 31, 2011, we had drawn down the full amount of US\$240 million. The principal amounts of this term loan will be repaid in four installments of US\$55 million on July 31, 2012, US\$60 million on July 31, 2013, US\$65 million on July 31, 2014 and US\$60 million on September 15, 2015.

Under the terms of the September 2011 intercreditor agreement that we entered into in connection with the term loan, we are required to enter into and maintain derivative financial instruments to manage our interest risk exposure in respect of notional amounts equal in the aggregate to at least 75% of the outstanding principal amount from time to time (taking into account scheduled repayments) of the term loans under that agreement at least through September 30, 2014. We entered into an interest rate swap contract for this purpose on November 28, 2011. The notional principal amount of the outstanding interest rate swap contract at December 31, 2011 was US\$180 million, on which we pay a fixed rate of 1.13% and receive a floating rate of three-month U.S. dollar LIBOR. Aside from this interest rate swap, we have not used any derivative financial instruments to manage our interest risk exposure.

We had cash and cash equivalents of RMB 1,786.0 million (US\$283.8 million) as of December 31, 2011, and interest income of RMB 32.0 million (US\$5.1 million) for the year ended December 31, 2011 derived entirely from our cash and cash equivalents.

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Three-month U.S. dollar LIBOR was approximately 0.58% as of December 30, 2011, and it has generally remained within 30 basis points of that number since the first half of 2009. An increase in three-month U.S. dollar LIBOR of 30 basis points would increase our interest expense by US\$0.2 million and decrease the fair value of the convertible bonds and the swap by approximately US\$1.8 million. A decrease in three-month U.S. dollar LIBOR of 30 basis points would decrease our interest expense by US\$0.2 million and increase the fair value of the convertible bonds and the swap by approximately US\$1.9 million.

Foreign Exchange Risk

Substantially all of our revenues and most of our expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to our cash and cash equivalent denominated in U.S. dollars, on the asset side, and our convertible bonds, convertible notes and term loans denominated or settled in U.S. dollars, on the liability side. As of December 31, 2011, we had cash and cash equivalents denominated in U.S. dollars of US\$52.8 million, and we had RMB 110.8 million (US\$17.6 million) in outstanding convertible bonds, US\$184 million in outstanding convertible notes and US\$240 million in outstanding term loans. Under the terms of the credit agreement dated September 26, 2011, which we entered into in connection with our acquisition of Motel 168, we are required to cause our subsidiaries in China to declare and pay the maximum legally distributable earnings of the most recently ended calendar year as dividends to our entities outside of China to service the debt, except that we may maintain a level of RMB cash balance in China to continue on-going operation and expansion according to a prescribed budget and forecast. We expect to convert any money that we distribute to our entities outside of China from RMB into U.S. dollars.

In addition, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while the ADSs will be traded in U.S. dollars.

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The PRC government allowed the RMB to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar again. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. However, the appreciation in the RMB against the U.S. dollar since June 2010 has generally been no more than 5% over any given 12-month period. We believe that any depreciation of the RMB against the U.S. dollar in the near term is significantly less likely than continued appreciation.

Depreciation of the RMB against the U.S. dollar by 1% would result in a foreign exchange loss to us of approximately RMB 18.0 million (US\$2.9 million), whereas appreciation of the RMB against the U.S. dollar by 1% would result in a foreign exchange gain to us of approximately the same amount.

We have not hedged exposures denominated in foreign currencies or any other derivative financial instruments. Under the September 2011 credit agreement, if the RMB/US\$ exchange rate is above 6.50 for any period of five consecutive business days then we are required to enter into and maintain derivative financial instruments to hedge our exposure to foreign currency exchange risk in respect of notional amounts equal in the aggregate to at least 50% of the outstanding principal amount from time to time (taking into account scheduled repayments) of the term loans under that agreement at least through the final maturity date of the loans, which is the earlier of September 15, 2015 and the date when the loans become due and payable in full. As of the date of this annual report, this requirement has not been triggered.

Equity Prices

The closing price of our ADSs was US\$25.80 as of December 30, 2011, and it has generally been within \$15 of that number for most of our history, the principal exceptions being the last quarter of 2008 and first quarter of 2009 (when it was lower) and the second half of 2011 (when it was higher). An increase of US\$15 in the market price of our ADSs from their closing price of US\$25.80 as of December 30, 2011 would cause the fair value of our convertible notes to increase by US\$32.2 million. A decrease of US\$15 in the market price of our ADSs from their closing price of US\$25.80 as of December 30, 2011 would cause the fair value of our convertible notes to decrease by US\$16.8 million.

The volatility of the market price of our ADSs in 2011 was 53%. An increase of 5 percentage points in volatility would cause the fair value of our convertible notes to increase by approximately US\$3.3 million, where as a decrease of 5 percentage points in volatility would cause the fair value of our convertible notes to decrease by approximately US\$2.7 million.

Impact of Market Risk in 2011

The decline in the market price of our ADSs and the increase in three-month U.S. dollar LIBOR in 2011, partially offset by the increase in the volatility of the market price of our ADSs during the same year, were responsible for that portion of the decline in the fair value of our convertible notes that is recorded as a gain on change in fair value of our convertible notes of RMB 198.5 million (US\$31.5 million) on our statement of operations for the year ended December 31, 2011.

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The depreciation of the U.S. dollar against the RMB in 2011 was responsible for an increase in the fair value of our U.S. dollar-denominated debt and debt instruments and a corresponding decrease in the value of our U.S. dollar-denominated cash and cash equivalents, the net effect of which is recorded as a foreign exchange gain of RMB 15.8 million (US\$2.5 million) on our income statement for the year ended December 31, 2011.

Inflation

Since our inception, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2009, 2010 and 2011 were increases of 1.9%, 4.6% and 4.1%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China continues to experience higher rates of inflation in the future. While recent inflation has been associated with food and other consumption items that are not a major direct cost to us, inflationary pressure has led to some increases in minimum wages in China that affect some of our hotel staff, and personnel costs represent a material part of our total operating costs and expenses.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS Holders May Have to Pay

The Bank of New York Mellon, the depository of our ADS program, collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository also collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may collect its annual fee for depository services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:

US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

US\$0.02 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs

US\$0.02 (or less) per ADS per calendar year

Registration or transfer fees

For:

Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property

Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates

Any cash distribution to registered ADS holders

Distribution of securities distributed to holders of deposited securities which are distributed by the depository to registered ADS holders

Depository services

Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares

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Persons depositing or withdrawing shares must pay:

Expenses of the depositary

Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

For:

Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)

Converting foreign currency to U.S. dollars

As necessary

As necessary

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us for expenses we incur that are related to the establishment and maintenance of the ADR program, including investor relations expenses. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not linked to the amounts of fees the depositary collects from investors. We were entitled to receive US\$217,165 (after withholding tax) for the period between January 1, 2011 and October 31, 2011 from the depositary as reimbursement for our expenses incurred in connection with investor relationship programs related to the ADS facility. In addition, we are entitled to receive US\$368,000 (including withholding tax) for the period between November 2011 and October 2012 from the depositary as the reimbursement for the same purpose. For the year ended December 31, 2011, a total of US\$195,270 (after withholding tax) has been paid to us.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this report. Based on such evaluation, our management has concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) under the Exchange Act. Our management evaluated the effectiveness of our internal control over financial reporting based on criteria established in the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2011.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In accordance with SEC regulations, because the acquisition of Motel 168 became effective on October 1, 2011, Motel 168 was excluded from the scope of our management assessment and auditor attestation requirements for the fiscal year ended December 31, 2011. The companies comprising Motel 168 became wholly-owned subsidiaries of our company from October 1, 2011 on, and their aggregated total assets and total revenues represented 25% and 9%, respectively, of the related consolidated financial statement amounts of our company as of December 31, 2011 and for the three-month post-acquisition period ended December 31, 2011, respectively.

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Attestation Report of the Registered Public Accounting Firm

See the consolidated financial statements of Home Inns & Hotels Management Inc., which are included at the end of this annual report.

Changes in Internal Control

There were no significant changes in internal control for the year ended December 31, 2011.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Terry Yongmin Hu, Kenneth Gaw and Arthur M. Wang, all of whom are members of our audit committee and independent directors (under the standards set forth in Nasdaq Marketplace Rule 5605(c)(2) and Rule 10A-3 under the Exchange Act), are audit committee financial experts.

ITEM 16B. CODE OF ETHICS

Our board of directors adopted a code of business conduct and ethics on October 2, 2006 that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our executive officers and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (No. 333-137800). On March 3, 2009, our board of directors amended the code of business conduct and ethics adopted in 2006 and appointed Tanya Xiaoxian Tang, who was the head of our internal audit department, as our chief compliance officer. Tanya Xiaoxian Tang resigned from our company in July 2010, and our board of directors has not appointed her replacement. Mr. Jianfeng Geng, an employee in our internal audit department, temporarily acted as chief compliance officer for the purposes of our code of business conduct and ethics. On March 1, 2012, we hired Alex Zhenyu Wan as the head of our internal audit department, and he will act as our chief compliance officer until a permanent appointment is made. Our amended code of business conduct and ethics is filed as an exhibit to this annual report.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, our principal external auditors, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

	For the Year Ended December 31,	
	2010	2011
	(in thousands of RMB)	
Audit fees ⁽¹⁾	7,865	9,967
Audit-related fees ⁽²⁾	1,338	1,470
Tax fees ⁽³⁾	—	1,750
All other fees	—	—

- (1) "Audit fees" means the aggregate fees billed for professional services rendered by our principal auditors for the audit of our annual financial statements and the review of our comparative interim financial statements.
- (2) "Audit-related fees" means the aggregate fees billed for professional services rendered by our principal auditors in connection with the offering in 2010 of our convertible notes and the issuance in 2011 of ordinary shares related with the Motel 168 acquisition.
- (3) "Tax fees" means the aggregate fees billed for the professional services rendered for tax consultation in connection with the distribution of dividends from our PRC subsidiaries to our offshore subsidiaries.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, including audit services, audit-related services, tax services and other services as described above, other than those for *de minimis* services which are approved by the Audit Committee prior to the completion of the audit.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

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ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Nasdaq Marketplace Rule 5250(d)(1) requires each issuer to distribute to shareholders copies of an annual report containing audited financial statements of the company and its subsidiaries. It further requires that the report be distributed to shareholders a reasonable period of time prior to the company's annual meeting of shareholders and that it be filed with Nasdaq at the time it is distributed to shareholders. Nasdaq Marketplace Rule 5620(a) requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year-end. Nasdaq Marketplace Rule 5635(c) and IM-5635-1 require each issuer to seek shareholder approval for any material amendments to the issuer's equity compensation plans or other equity compensation arrangements, including a repricing of outstanding options. However, Nasdaq Marketplace Rule 5615(a)(3) permits foreign private issuers like us to follow "home country practice" in certain corporate governance matters.

Maples and Calder, our Cayman Islands counsel, has provided a letter to the Nasdaq Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings. We held an annual general meeting on September 15, 2011, primarily to consider an amendment to our 2006 Share Incentive Plan. We may hold annual shareholder meetings in the future if there are issues that require shareholder approval.

Maples and Calder has also provided a letter to the Nasdaq Stock Market certifying that under Cayman Islands law, we are not required to seek shareholder approval for amendments to our existing equity incentive plans or arrangements. We followed home country practice with respect to certain equity incentive arrangements with our option grantees. We previously cancelled the unvested portion of the options of each of our option grantees on October 27, 2008 and issued them new options for the same number of underlying ordinary shares, with new vesting schedules and a reduced strike price.

Nasdaq Marketplace Rule 5605(c)(2)(A) requires an audit committee to have a minimum of three members. Pursuant to Nasdaq Marketplace Rule 5615(a)(3), we followed home country practice with respect to the audit committee composition requirement. Maples and Calder has provided a letter to the Nasdaq Stock Market certifying that both the Cayman Islands laws and our articles of association permit us to have only two members serving on the audit committee. During the period from May 21, 2009 to September 22, 2009, our audit committee consisted of only two members. Since September 23, 2009, our audit committee has had three members.

Other than the above, we have followed and intend to continue to follow the applicable corporate governance standards under Nasdaq Marketplace Rules.

In accordance with Nasdaq Marketplace Rule 5250(d)(1), we will post this annual report on Form 20-F on our company website *english.homeinns.com*. In addition, we will provide hard copies of our annual report free of charge to shareholders and ADS holders upon request.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III.

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of Home Inns & Hotels Management Inc. are included at the end of this annual report.

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ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant, effective November 3, 2009 (incorporated by reference to Exhibit 99.3 of Form 6-K (File No. 001-33082) filed with the SEC on November 4, 2009)
2.1	Indenture, dated December 10, 2007, constituting RMB 1,110,000,000 USD Settled Zero Coupon Convertible Senior Bonds due December 10, 2012 (incorporated by reference to Exhibit 2.1 of our annual report on Form 20-F (File No. 001-33082) filed with the SEC on April 18, 2008)
2.2	Indenture, dated December 21, 2010, constituting US\$184,000,000 2.00% Convertible Senior Notes due December 15, 2015
2.3	Amendment Agreement regarding indenture, dated April 26, 2011, between the Registrant and The Bank of New York Mellon, as trustee
2.4	Registration Rights Agreement among the Registrant, Credit Suisse Securities (USA) LLC and J.P. Morgan Securities Ltd., dated December 21, 2010
2.5*	Registration Rights Agreement by and among the Registrant, GSS III Monroe Holdings Limited and Merrylin International Investment Limited dated as of September 30, 2011
4.1	Shareholders agreement, dated June 29, 2006 (incorporated by reference to Exhibit 4.8 from our F-1 registration statement (File No. 333-142190), as amended, initially filed with the SEC on April 18, 2007)
4.2	Employment Agreement between the Registrant and Jason Xiangxin Zong, dated January 1, 2007 (incorporated by reference to Exhibit 4.1 of our annual report on Form 20-F (File No. 001-33082) filed with the SEC on April 18, 2008)
4.3	Registration Rights Agreement by and among the Registrant and Ctrip.com International, Ltd. as of May 7, 2009 (incorporated by reference to Exhibit 4.5 of our annual report on Form 20-F (File No. 001-33082) filed with the SEC on April 21, 2010)
4.4	Amended and Restated 2006 Share Incentive Plan, effective November 3, 2009 (incorporated by reference to Exhibit 99.2 of Form 6-K (File No. 001-33082) filed with the SEC on November 4, 2009)
4.5	Purchase Agreement for Convertible Notes due 2015 among the Registrant, Credit Suisse Securities (USA) LLC and J.P. Morgan Securities Ltd., dated December 14, 2010
4.6	Employment Agreement between the Registrant and David Jian Sun, dated January 1, 2007 (incorporated by reference to Exhibit 10.3 of our F-1 registration statement (File No. 333-142190), as amended, initially filed with the SEC on April 18, 2007)
4.7	Employment Agreement between the Registrant and May Wu, dated January 1, 2007 (incorporated by reference to Exhibit 10.5 of our F-1 registration statement (File No. 333-142190), as amended, initially filed with the SEC on April 18, 2007)
4.8	Employment Agreement between the Registrant and Huiping Yan, dated July 13, 2009
4.9	Amendment to Employment Agreement between the Registrant and Jason Xiangxin Zong, effective January 1, 2008
4.10	Amendment to Employment Agreement between the Registrant and May Wu, effective April 22, 2010
4.11	Amendment to Employment Agreement between the Registrant and Huiping Yan, effective April 22, 2010
4.12*	Share Purchase Agreement by and between the Registrant, Motel 168 International Holdings Limited, GSS III Monroe Holdings Limited and Merrylin International Investment Limited dated as of May 27, 2011
4.13*	Credit Agreement among the Registrant and certain of its subsidiaries, BNP Parisbas Hong Kong Branch, Chinatrust Commercial Bank, Ltd., Crédit Agricole Corporate and Investment Bank, Credit Suisse AG, Singapore Branch, JPMorgan Chase Bank, N.A. acting through its Hong Kong Branch, Natixis, Hong Kong Branch, Shinhan Asia Limited, Industrial and Commercial Bank of China (Asia) Limited, and the lenders party thereto, dated as of September 26, 2011
4.14*	Intercreditor Agreement among the Registrant and certain of its subsidiaries, BNP Parisbas Hong Kong Branch, Chinatrust Commercial Bank, Ltd., Crédit Agricole Corporate and Investment Bank, Credit Suisse AG, Singapore Branch, JPMorgan Chase Bank, N.A. acting through its Hong Kong Branch, Natixis, Hong Kong Branch, Shinhan Asia Limited, Industrial and Commercial Bank of China (Asia) Limited, and the hedge counterparties party thereto, dated as of September 29, 2011

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Exhibit Number	Description of Document
8.1*	Subsidiaries of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant, as amended on March 3, 2010 (incorporated by reference to Exhibit 11.1 of our annual report on Form 20-F (File No. 001-33082) filed with the SEC on April 21, 2010).
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2*	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Maples and Calder
15.2*	Consent of PricewaterhouseCoopers Zhong Tian CPAs Limited Company

* Filed with this Annual Report on Form 20-F.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

HOME INNS & HOTELS MANAGEMENT INC.

By: /s/ David Jian Sun

Name: David Jian Sun
Title: Director and Chief Executive Officer

Date: April 24, 2012

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HOME INNS & HOTELS MANAGEMENT INC.
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Home Inns & Hotels Management Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Home Inns & Hotels Management Inc. (the "Company") and its subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing in item 15 of this Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting appearing under item 15, management has excluded Motel 168 International Holdings Limited (Cayman) and its subsidiaries (collectively, "Motel 168") from its assessment of internal control over financial reporting as of December 31, 2011 because Motel 168 was acquired by the Company in a purchase business combination in October 2011. We have also excluded Motel 168 from our audit of internal control over financial reporting. The companies comprising Motel 168 are wholly-owned subsidiaries whose aggregated total assets and total revenues represent 25% and 9%, respectively, of the related consolidated financial statement amounts of the Company as of and for the year ended December 31, 2011.

/s/ PricewaterhouseCoopers Zhong Tian CPAs Limited Company
Shanghai, the People's Republic of China

April 24, 2012

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HOME INNS & HOTELS MANAGEMENT INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

	Note	2009	2010	2011	2011 US\$ thousands (Note 2(d))
Revenues:					
Leased-and-operated hotels		2,453,105	2,910,458	3,559,740	565,586
Franchised-and-managed hotels		147,535	256,799	399,986	63,551
Total revenues		2,600,640	3,167,257	3,959,726	629,137
Less: Business tax and related surcharges		(158,975)	(191,232)	(249,274)	(39,606)
Net revenues		2,441,665	2,976,025	3,710,452	589,531
Operating costs and expenses:					
Leased-and-operated hotel costs —					
Rents and utilities		(797,944)	(875,510)	(1,232,662)	(195,850)
Personnel costs		(461,949)	(506,406)	(657,155)	(104,411)
Depreciation and amortization		(281,543)	(308,888)	(398,914)	(63,381)
Consumables, food and beverage		(172,467)	(173,256)	(258,120)	(41,011)
Others		(275,186)	(310,705)	(413,815)	(65,749)
Total leased-and-operated hotel costs		(1,989,089)	(2,174,765)	(2,960,666)	(470,402)
Personnel costs of franchised-and-managed hotels		(24,874)	(44,128)	(72,009)	(11,441)
Sales and marketing expenses	2(w)	(30,462)	(33,257)	(44,451)	(7,063)
General and administrative expenses		(155,606)	(193,482)	(335,888)	(53,367)
Total operating costs and expenses		(2,200,031)	(2,445,632)	(3,413,014)	(542,273)
Income from operations		241,634	530,393	297,438	47,258
Interest income		6,686	9,454	31,996	5,084
Interest expense		(10,983)	(2,024)	(46,868)	(7,447)
Issuance costs for convertible notes	12	—	(42,559)	—	—
(Loss)/gain on change in fair value of convertible notes	12	—	(9,040)	198,547	31,546
Gain on buy-back of convertible bonds	11	69,327	2,480	1,521	242
Non-operating income	2(ac)	16,248	22,223	35,899	5,705
Non-operating expenses	12	—	—	(7,315)	(1,162)
Foreign exchange (loss)/gain, net	2(c)	(286)	(4,350)	15,849	2,518
Income before income tax expenses and noncontrolling interests		322,626	506,577	527,067	83,744
Income tax expenses	4	(62,166)	(139,969)	(169,442)	(26,922)
Net income		260,460	366,608	357,625	56,822
Less: Net income attributable to noncontrolling interests		(4,457)	(7,109)	(6,094)	(968)
Net income attributable to Home Inns' shareholders		256,003	359,499	351,531	55,854
Earnings per share	16				
— Basic		3.37	4.45	4.17	0.66
— Diluted		2.34	4.23	1.26	0.20
Weighted average ordinary shares outstanding					
— Basic		75,922,589	80,846,617	84,221,665	84,221,665
— Diluted		80,895,112	84,747,102	94,299,393	94,299,393
Share-based compensation expense was included in the statement of operations as follows:					
Leased-and-operated hotel costs — Personnel costs		—	—	3,283	522
Personnel costs of Franchised-and-managed hotels		—	—	3,369	535
Sales and marketing expenses		—	—	656	104
General and administrative expenses		32,009	53,272	69,227	10,999

The accompanying notes are an integral part of these consolidated financial statements.

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HOME INNS & HOTELS MANAGEMENT INC.

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2011

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

	Note	2010	2011	2011 US\$ thousands (Note 2(d))
ASSETS				
Current assets:				
Cash and cash equivalents	2(e)	2,382,643	1,786,038	283,773
Restricted cash	2(f)	21,552	205,926	32,718
Accounts receivable, net	2(g)	43,274	91,980	14,614
Receivables from related parties	17	5,659	6,379	1,014
Consumables		25,459	43,049	6,840
Prepayments and other current assets	3, 2(g)	77,886	137,887	21,908
Deferred tax assets	4	42,613	75,446	11,987
Total current assets		2,599,086	2,346,705	372,854
Investment in a jointly controlled entity	5	—	8,301	1,319
Property and equipment, net	7	2,104,393	3,452,846	548,602
Goodwill	8	390,882	2,197,728	349,184
Intangible assets, net	9	42,393	1,174,452	186,602
Other assets		50,473	170,039	27,016
Non-current deferred tax assets	4	98,918	199,765	31,739
Total assets		5,286,145	9,549,836	1,517,316
LIABILITIES				
Current liabilities:				
Accounts payable		45,742	91,457	14,531
Payables to related parties	17	4,182	2,797	444
Short term loans	13	—	346,550	55,061
Finance lease liabilities		—	7,006	1,113
Salaries and welfare payable		141,839	178,032	28,286
Income tax payable		42,397	80,356	12,767
Other taxes payable		15,308	27,295	4,337
Deferred revenues		73,150	202,870	32,233
Convertible bonds	11	—	113,051	17,962
Other unpaid and accruals	10	96,840	154,498	24,547
Other payables	10	419,118	847,090	134,589
Deferred tax liability	4	—	38,313	6,087
Total current liabilities		838,576	2,089,315	331,957

The accompanying notes are an integral part of these consolidated financial statements.

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HOME INNS & HOTELS MANAGEMENT INC.
CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2010 AND 2011

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

	<u>Note</u>	<u>2010</u>	<u>2011</u>	<u>2011</u> US\$ thousands (Note 2(d))
Non-Current Liabilities:				
Long term loans	13	—	1,165,666	185,206
Deferred rental		191,034	593,955	94,370
Deferred revenues		56,996	79,202	12,584
Finance lease liabilities		—	7,750	1,231
Deposits		33,454	63,472	10,085
Unfavorable lease liabilities	9	13,211	396,774	63,041
Convertible bonds	11	159,402	—	—
Financial liability	12	1,227,577	979,008	155,549
Deferred tax liabilities	4	11,552	294,728	46,828
Total liabilities		<u>2,531,802</u>	<u>5,669,870</u>	<u>900,851</u>
Commitments and contingencies	19			
Shareholders' equity				
Ordinary shares (US\$ 0.005 par value; 200,000,000 shares authorized, 81,716,084 and 90,659,882 shares issued and outstanding as of December 31, 2010 and 2011, respectively)	14	3,257	3,542	563
Additional paid-in capital		1,913,734	2,683,923	426,432
Statutory reserves	2(ad)	94,114	125,863	19,998
Retained earnings		732,194	1,051,976	167,142
Total Home Inns shareholders' equity		<u>2,743,299</u>	<u>3,865,304</u>	<u>614,135</u>
Noncontrolling interests		11,044	14,662	2,330
Total shareholders' equity		<u>2,754,343</u>	<u>3,879,966</u>	<u>616,465</u>
Total liabilities and shareholders' equity		<u>5,286,145</u>	<u>9,549,836</u>	<u>1,517,316</u>

The accompanying notes are an integral part of these consolidated financial statements.

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HOME INNS & HOTELS MANAGEMENT INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

	Ordinary shares		Additional paid-in Capital	Statutory reserves	Retained earnings	Noncontrolling interests	Total shareholders' equity
	Shares	Amount					
Balance as of January 1, 2009	71,212,795	2,899	1,393,903	49,994	160,812	19,073	1,626,681
Issuance of ordinary shares to Ctrip.com International, Ltd. (Note 14)	7,514,503	256	340,822	—	—	—	341,078
Exercise of restricted stocks (Note 15)	188,824	6	1,642	—	—	—	1,648
Exercise of stock option (Note 15)	1,387,388	48	29,710	—	—	—	29,758
Recognition of share-based compensation costs	—	—	32,009	—	—	—	32,009
Dividends distributed to noncontrolling interests	—	—	—	—	—	(5,889)	(5,889)
Net income	—	—	—	—	256,003	4,457	260,460
Appropriations to statutory reserves	—	—	—	17,597	(17,597)	—	—
Acquisition of noncontrolling interest of a subsidiary	—	—	—	—	—	(4,176)	(4,176)
Balance as of December 31, 2009	80,303,510	3,209	1,798,086	67,591	399,218	13,465	2,281,569
Exercise of restricted stocks (Note 15)	75,000	3	781	—	—	—	784
Exercise of stock option (Note 15)	1,337,574	45	61,595	—	—	—	61,640
Recognition of share-base compensation costs	—	—	53,272	—	—	—	53,272
Dividends distributed to noncontrolling interests	—	—	—	—	—	(9,530)	(9,530)
Net income	—	—	—	—	359,499	7,109	366,608
Appropriations to statutory reserves	—	—	—	26,523	(26,523)	—	—
Balance as of December 31, 2010	81,716,084	3,257	1,913,734	94,114	732,194	11,044	2,754,343

The accompanying notes are an integral part of these consolidated financial statements

HOME INNS & HOTELS MANAGEMENT INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

	Ordinary shares		Additional	Statutory	Retained	Noncontrolling	Total
	Shares	Amount	paid-in Capital	reserves	earnings	interests	shareholders' equity
Balance as of December 31, 2010	<u>81,716,084</u>	<u>3,257</u>	<u>1,913,734</u>	<u>94,114</u>	<u>732,194</u>	<u>11,044</u>	<u>2,754,343</u>
Exercise of stock option (Note 15)	794,182	26	27,829	—	—	—	27,855
Issuance of ordinary shares in the acquisition of Motel 168 (Note 6)	8,149,616	259	667,055	—	—	—	667,314
Recognition of share-based compensation costs	—	—	76,535	—	—	—	76,535
Dividends distributed to noncontrolling interests	—	—	—	—	—	(6,998)	(6,998)
Net income	—	—	—	—	351,531	6,094	357,625
Appropriations to statutory reserves	—	—	—	31,749	(31,749)	—	—
Acquisition of noncontrolling interest of a subsidiary	—	—	(1,230)	—	—	1,220	(10)
Establishment of majority owned subsidiaries	—	—	—	—	—	3,302	3,302
Balance as of December 31, 2011	<u>90,659,882</u>	<u>3,542</u>	<u>2,683,923</u>	<u>125,863</u>	<u>1,051,976</u>	<u>14,662</u>	<u>3,879,966</u>
Balance as of December 31, 2011 US\$ thousands (Note 2(d))	<u>90,659,882</u>	<u>563</u>	<u>426,432</u>	<u>19,998</u>	<u>167,142</u>	<u>2,330</u>	<u>616,465</u>

The accompanying notes are an integral part of these consolidated financial statements

HOME INNS & HOTELS MANAGEMENT INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u> US\$ thousands (Note 2(d))
Cash flows from operating activities:				
Net income	260,460	366,608	357,625	56,822
Adjustments to reconcile net income to net cash provided by operating activities:				
Share-based compensation	32,009	53,272	76,535	12,160
Depreciation and amortization	286,574	319,988	412,684	65,569
Amortization of upfront fee of term loan(Note 13)	—	—	5,726	910
Foreign exchange (gain) /loss, net	286	4,350	(15,849)	(2,518)
(Gain)/loss from disposal of property and equipment	(2,946)	(6,165)	9,859	1,566
Impairment loss of property and equipment	5,477	—	1,705	271
Gain on buy-back of convertible bonds	(69,327)	(2,480)	(1,521)	(242)
Issuance costs for convertible notes	—	42,559	—	—
(Gain) /loss on change in fair value of convertible notes	—	9,040	(198,547)	(31,546)
Provision for doubtful accounts	—	—	295	47
Deferred income tax (benefit)/provision	(29,843)	6,789	(15,559)	(2,472)
Share of loss of a jointly controlled entity	—	—	853	136
Loss from fair value change of interest rate swap transaction	—	—	7,315	1,162
Change in assets and liabilities, net of effects of acquisitions:				
Increase in accounts receivable	(8,935)	(11,205)	(14,485)	(2,303)
Increase in receivables from related parties	(3,136)	(2,523)	—	—
Decrease/(increase) in consumables	11,566	(10,140)	(4,894)	(778)
Decrease/(increase) in prepayments and other current assets	8,497	(25,674)	(7,077)	(1,124)
Increase in other assets	(684)	(8,813)	(16,855)	(2,678)
(Decrease)/increase in accounts payable	(1,043)	24,088	(19,027)	(3,023)
(Decrease)/increase in payables to related parties	(1,206)	1,150	1,136	181
Increase in salaries and welfare payable	33,994	38,172	1,852	294
Increase/(decrease) in income tax payable	9,306	(19,367)	5,648	897
Increase/(decrease) in other taxes payable	2,643	(53)	81	13
Increase/(decrease) in accruals for customer reward program	4,744	4,075	(13,931)	(2,213)
Increase in other payables and accruals	39,764	19,409	75,319	11,967
Increase in deferred revenues	41,693	27,674	19,780	3,143
Increase in deferred rental	18,787	35,422	56,585	8,990
Increase in deposits	6,994	12,719	—	—
Increase in interest accruals for convertible bonds and financial liability	2,989	1,063	849	135
Net cash provided by operating activities	<u>648,663</u>	<u>879,958</u>	<u>726,102</u>	<u>115,366</u>

The accompanying notes are an integral part of these consolidated financial statements.

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HOME INNS & HOTELS MANAGEMENT INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

	2009	2010	2011	2011
				US\$ thousands (Note 2(d))
Cash flows from investing activities:				
Proceeds from sale of property and equipment	15,171	21,708	5,192	825
Purchase of property and equipment	(426,591)	(373,531)	(737,102)	(117,114)
Purchase of intangible assets	(4,322)	(3,539)	(3,040)	(483)
Cash collected from short term investment	102,206	—	—	—
Cash paid to restricted cash – escrow account and interest reserve account	—	—	(202,323)	(32,146)
Cash used for the acquisition of subsidiaries, net of cash acquired	(9,965)	(600)	(1,732,226)	(275,223)
Net cash used in investing activities	<u>(323,501)</u>	<u>(355,962)</u>	<u>(2,669,499)</u>	<u>(424,141)</u>
Cash flows from financing activities:				
Net proceeds from issuance of ordinary shares	341,078	—	—	—
Proceeds from share option exercise	26,975	63,644	28,173	4,476
Net proceeds from issuance of convertible notes	—	1,188,823	—	—
Buy-back of convertible bonds	(462,029)	(202,687)	(45,507)	(7,230)
Payment for bond offering related issuance costs	—	—	(5,874)	(933)
Repayment of acquired subsidiaries' debts to former shareholders	(5,481)	—	—	—
Proceeds from loans, net of upfront fee	10,000	24,900	1,433,559	227,770
Repayment of short-term borrowings	(10,000)	(24,900)	—	—
Cash paid for finance lease	—	—	(1,808)	(287)
Dividend paid to noncontrolling interests shareholders of subsidiaries	(4,272)	(9,530)	(8,743)	(1,389)
Capital contribution from a noncontrolling interests shareholders of newly established majority-owned subsidiary	—	—	3,302	525
Net cash (used)/provided by financing activities	<u>(103,729)</u>	<u>1,040,250</u>	<u>1,403,102</u>	<u>222,932</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(286)	(11,195)	(56,310)	(8,947)
Net increase/(decrease) in cash and cash equivalents	221,147	1,553,051	(596,605)	(94,790)
Cash and cash equivalents, beginning of year	608,445	829,592	2,382,643	378,563
Cash and cash equivalents, end of year	<u>829,592</u>	<u>2,382,643</u>	<u>1,786,038</u>	<u>283,773</u>
Supplemental disclosure of cash flow information				
Cash paid during the year for income taxes	(82,703)	(152,547)	(179,352)	(28,496)
Cash paid during the year for interest	(43)	(211)	(39,115)	(6,215)
Supplemental schedule of non-cash activities:				
Unpaid consideration related to the acquisition of Motel 168	—	—	143,728	22,836
Non-cash consideration in settlement of the sellers' payable to Motel 168	—	—	23,222	3,690
Accruals related to the construction costs of property and equipment	—	169,196	169,134	26,873
Accruals related to the issuance costs for convertible notes	—	5,998	—	—
Restricted cash related to the exercise of the employee stock option which are yet to be transmitted to the employees	—	21,552	(17,949)	(2,852)
Issuance of ordinary shares related to the acquisition of Motel 168	—	—	667,314	106,026

The accompanying notes are an integral part of these consolidated financial statements.

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

1. ORGANIZATION AND NATURE OF OPERATIONS

The accompanying consolidated financial statements include the financial statements of Home Inns & Hotels Management Inc. ("the Company"), its subsidiaries, and variable interest entities ("VIEs") for which the Company is the primary beneficiary ("VIE subsidiary"). The Company and its consolidated subsidiaries and VIE subsidiaries are collectively referred to as the "Group".

The Company was established in Cayman Islands on May 30, 2006. In June 2006, all the then existing shareholders of Home Inns & Hotels Management (Hong Kong) Limited ("Home Inns HK"), the Company's predecessor, exchanged their respective shares in Home Inns HK for an equivalent number of shares in the Company. As a result, Home Inns HK became a wholly-owned subsidiary of the Company. Home Inns HK did not have any operations until April 2002 when Home Inns & Hotels Management (Beijing) Co., Ltd. ("Home Inns Beijing"), a hotel operation and management company, was established as a joint venture of Home Inns HK and Beijing Capital Travel International Hotel Group Co., Ltd. ("Beijing Capital Travel"), a subsidiary of Beijing Tourism Group ("BTG"). At inception, Home Inns HK and BTG, through Beijing Capital Travel, owned 55% and 45% interest in Home Inns Beijing, respectively. Through a series of financing activities and acquisitions, Home Inns Beijing has become a wholly-owned subsidiary in July 2007.

In October 2006, the Company completed an initial public offering of American Depositary Shares ("ADSs"). ADSs of the Company are traded from October 26, 2006 on Nasdaq Global Market under the symbol "HMIN" in the United States.

In October 2011, the Group completed the acquisition of 100% equity interest of Motel 168 International Holding Limited ("Motel 168"). The total consideration of RMB 2,869,045 included RMB 2,201,731 in cash and RMB 667,314 in share consideration of 8,149,616 Home Inns' ordinary shares. Thereafter, Motel 168 became a wholly owned subsidiary of the Group. (Refer to Note 6).

The principal activities of the Group are to develop, lease, operate, franchise, and manage economy hotels under the Home Inn brand, Yitel brand and Motel 168 brand in the People's Republic of China ("PRC"). The Group either leases real estate properties on which it develops and operates hotels or franchises the Home Inn brand, Yitel brand and Motel 168 brand to hotel owners and manages these hotels. The former type of hotels is referred to as "leased-and-operated hotels" and the latter type of hotels as "franchised-and-managed hotels."

Leased-and-operated hotels

The Group leases hotel properties from property owners and develops these hotels directly, by hiring, training and supervising the managers and employees to operate the hotels. The Group is responsible for hotel development and customization to conform to the standards of the Group, as well as repairs and maintenance, operating expenses and management of properties over the term of the lease. Under the lease arrangements, the Group typically enjoys rental holiday of three to six months and pays fixed rent on a quarterly basis for the first three or five years of the lease term, after which the rental payments may be subject to an increase every three to five years.

Franchised-and-managed hotels

The Group enters into certain franchise arrangements with hotel owners for which the Group is responsible for managing the hotels, including hiring and appointment of the general manager of each franchised-and-managed hotel. Under a typical franchise agreement, the franchisee is required to pay an initial franchise fee and ongoing management service fees equal to a certain percentage of the revenues of the hotel. The franchisee is responsible for the costs of hotel development and customization and the costs of its operations. The term of the franchise agreement is typically 5 years or 8 years and is renewable only upon mutual agreement between the Group and the franchisee.

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

a. Basis of presentation and use of estimates

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reporting periods. Significant accounting estimates reflected in the Group's financial statements mainly include share-based compensation, allowance for doubtful accounts, assumption of redemption rate utilized in customer loyalty program, assumptions and inputs used in fair value measurement of financial liabilities, assessment of recoverability of long-lived assets and goodwill, useful lives of long-lived assets, determination of fair value of identifiable assets and liabilities acquired through business combinations, recognition of non-controlling interests, and valuation of deferred tax assets. Such accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the Group's consolidated financial statements, and actual results could differ materially from these estimates.

Certain prior period balances have been reclassified to conform to the current period presentation in the Group's Consolidated Financial Statements. Such reclassification, which had no effect on previously reported results of operations or retained earnings, included a) reclassifying "personnel costs of franchised-and-managed hotels" as its own line item from "general and administrative expenses" for the years ended December 31, 2009 and 2010 to conform to the presentation in the consolidated statements of operations for the year ended December 31, 2011 and b) Combining "accruals for customer reward program" with "other unpaid and accruals" as of December 31, 2010 to conform to the presentation in the consolidated balance sheets as of December 31, 2011 due to that the accruals for customer reward program as of December 31, 2011 were not significant and the balances were disclosed in note 2r.

b. Basis of consolidation and accounting for investments

The consolidated financial statements include the financial statements of the Company, its subsidiaries and VIEs. All significant transactions and balances between the Company, its subsidiaries and certain VIEs have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to appoint or remove the majority of the members of the board of directors; to cast a majority of votes at the meeting of the board of directors or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

Prior to January 1, 2010, the Company followed FIN 46(R): Consolidation of Variable Interest Entities, an interpretation of ARB No. 51, in accounting for variable interest entities and the consolidation. Certain entities were considered variable interest entities because the equity at risk of each entity was not sufficient to finance its intended activities without additional financial support. The Company was considered the primary beneficiary of these entities because it absorbed a majority of the entities' expected losses and received a majority of the entities' expected residual returns. Accordingly, the financial statements of the following VIEs were consolidated into the Company's financial statements since their respective date of establishment/acquisition:

Name of VIE	The Company's ownership interest
Home Inns & Hotels Management (Xiamen) Co., Ltd. ("Home Inns Xiamen")	51%
Home Inns & Hotels Management (Fuzhou) Co., Ltd. ("Home Inns Fuzhou")	51%
Home Inns & Hotels Management (Caoxi) Co., Ltd. ("Home Inns Caoxi")	51%
Home Inns & Hotels Management (Caobao) Co., Ltd. ("Home Inns Caobao")	75%
Home Inns & Hotels Management (Dongguan) Co., Ltd. ("Home Inns Dongguan")	65%
Home Inns & Hotels Kuaijie (Fuzhou) Co., Ltd. ("Home Inns Fuzhou Kuaijie")	70%

In June 2009, the FASB issued FAS 167: Amendments to FASB Interpretation No. 46(R), codified primarily in ASC 810, Consolidation. This guidance modified the method for determining whether an entity is a variable interest entity as well as the methods permitted for determining the primary beneficiary of a variable interest entity. In addition, this guidance required ongoing reassessments of whether a company is the primary beneficiary of a variable interest entity and enhanced disclosures related to a company's involvement with a variable interest entity. The Company adopted this guidance as of January 1, 2010.

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

In accordance with the new guidance, the Company is deemed to have a controlling financial interest and is the primary beneficiary of these VIEs as it has both the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. As a result, the Company continues to consolidate the same VIEs that were consolidated prior to January 1, 2010 and the adoption of FAS 167 effective as of January 1, 2010 did not have any impact on the Company's consolidated financial statements.

The total registered capital of the six VIEs was RMB 6,010 as of December 31, 2010. The total net assets of the consolidated VIEs were RMB 26,262 as of December 31, 2010. The total net income of the six VIE was RMB 11,436 and RMB 16,257 in the year ended December 31, 2009 and 2010, respectively. Management monitors the regulatory risk associated with these contractual arrangements. There are no consolidated VIE assets that are collateral for the VIE obligations and which can only be used to settle the VIE's obligations. Creditors of the VIE have no recourse to the general credit of Home Inns & Hotels Management (Shanghai) Co., Ltd., which is the primary beneficiary of the VIEs.

In 2011, the Company has determined that equity investment of the six VIEs were no longer considered variable interest entities effective for the year ended December 31, 2011. As the group has majority legal ownership in these entities, it continues to consolidate these entities. The reconsideration event did not have any impact on the Company's consolidated financial statements.

The Company evaluates its business relationships such as those with franchisees to identify potential variable interest entities. Generally, these businesses qualify for the business scope exception under the consolidation guidance. The Company has concluded that consolidation of any such entities is not appropriate for the periods.

c. Foreign currencies

The Group's functional currency and reporting currency is Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB at the exchange rates quoted by the People's Bank of China (the "PBOC") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates quoted by the PBOC at the balance sheet dates. All such exchange gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations.

The RMB is not a freely convertible currency. The PRC State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China foreign exchange trading system market.

d. Convenience translation

Translations of balances in the statements of operations, balance sheet and statement of cash flows from RMB into United States dollars ("US\$") as of and for the year ended December 31, 2011 are solely for the convenience of the reader and were calculated at the rate of US\$ 1.00 = RMB 6.2939, on December 31, 2011, representing the certificated exchange rate published by the Federal Reserve Board. No representation is intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at that rate on December 31, 2011, or at any other rate.

e. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and liquid investment which are unrestricted as to withdrawal or use, and which have original maturities of three months or less that are placed with banks or other financial institutions. Cash and cash equivalents balance as of December 31, 2010 included US\$ 211,592 thousand and HK\$ 0.1 thousand. Cash and cash equivalents balance as of December 31, 2011 included US\$ 52,747 thousand and HK\$ 0.1 thousand.

f. Restricted cash

Restricted cash consists of cash proceeds from the exercise of share options by the Company's employees which are yet to be transmitted to them, cash reserved in specific interests reserve account ("IRA") for term loans which will be repaid in 6 months, and cash deposited in an escrow account for the settlement of the outstanding purchase consideration of Motel 168 acquisition.

g. Allowance for doubtful accounts

Provision is made against receivables to the extent collection is considered to be doubtful. Accounts receivable and other receivables in the balance sheet are stated net of such provision, if any. As of December 31, 2010 and 2011, the allowance for doubtful accounts was nil and RMB 295, respectively.

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

h. Consumables

The Group purchases consumables for the operation of leased-and-operated hotels. Consumables include fabrics, such as towels and beddings, which need to be renewed periodically. Consumables are amortized over their useful lives, generally one year or less, from the time they are put into use and are stated at purchase price less accumulated amortization.

i. Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation and amortization and impairment losses, if any. The cost of property and equipment comprises its purchase price and any directly attributable costs, including interest cost during the period the asset is brought to its working condition and location for its intended use.

Depreciation and amortization of property and equipment is provided using the straight line method over their expected useful lives. The expected useful lives are as follows:

Buildings	40 years
Leasehold improvements	Over the shorter of the economic useful life or the lease period
Machinery and equipment	5 to 10 years
Furniture, fixtures and office equipment	3 to 5 years

Construction in progress represents leasehold improvements under construction or installation and is stated at cost. Cost comprises original cost of property and equipment, installation, construction and other direct costs. Construction in progress is transferred to property and equipment and depreciation commences when the asset is ready for its intended use.

Expenditures for repairs and maintenance are expensed as incurred. Gain or loss on disposal of property and equipment, if any, is recognized in the statements of operations as the difference between the net sales proceeds and the carrying amount of the underlying asset.

j. Fair value measurement

The Company adopted Accounting Standard Codification ("ASC") 820 "Fair value measurements and disclosures" on January 1, 2008. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The guidance outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Under GAAP, certain assets and liabilities must be measured at fair value, and the guidance details the disclosures that are required for items measured at fair value.

The Company measures the fair value of financial assets and liabilities using inputs from the following three levels of the fair value hierarchy. The three levels are as follows:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets that the management has the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect the management's assumptions about the assumptions that market participants would use in pricing the asset. The management develops these inputs based on the best information available, including their own data.

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

The following table presents information about the Group's financial liabilities classified as Level 3 as of December 31, 2011 and December 31, 2010.

	Balance as of December 31, 2011			
	Carrying Value	Fair Value Measurements		
		Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Convertible notes measured at fair value	971,693	—	—	971,693
Interest rate swap transaction	7,315	—	—	7,315
Total financial liability, non-current	979,008	—	—	979,008

	Balance as of December 31, 2010			
	Carrying Value	Fair Value Measurements		
		Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Convertible notes measured at fair value	1,227,577	—	—	1,227,577
Total financial liability, non-current	1,227,577	—	—	1,227,577

A summary of changes in Level 3 financial liabilities for the year ended December 31, 2011 was as follows:

Balance at December 31, 2010	1,227,577
Less: Unrealized gains - change in fair value (note 12)	(198,547)
Less: foreign exchange gains (note 12)	(57,337)
Add: Interest rate swap transaction (note 12)	7,315
Balance at December 31, 2011	979,008

k. Fair value of financial instruments

Financial instruments of the Group primarily comprise of cash and cash equivalents, restricted cash, receivables, payables, accruals, term loans and convertible bonds and financial liability. In accordance with ASC 820, fair value of cash and cash equivalents, restricted cash, receivables, payables, and accruals is measured using Level 1 inputs and their carrying values approximated their estimated fair values due to the short-term nature of these financial instruments. The carrying values of term loans approximate their fair values as all the borrowings carry variable interest rates which approximate rates currently offered by the Group's bankers for similar debt instruments of comparable maturities. Fair value of convertible bonds is measured using Level 1 input, which is based on quotes obtained from over-the-counter trading activities (Refer to Note 11). Fair value of financial liability associated with the issuance of convertible notes in 2010 is measured using Level 3 inputs, which is measured using a binomial model. Fair value of the financial liability associated with the interest rate swap transaction in 2011 is measured using level 3 inputs, which is measured using the discounted cash flow method. (Refer to Note 12)

l. Business combinations

U.S. GAAP requires that business combinations be accounted for under the acquisition method. From January 1, 2009, the Group adopted ASC805 "Business Combinations". Following this adoption, the cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the (i) the total of cost of acquisition, fair value of the non controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the entity acquired, the difference is recognized directly in the statements of operations.

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of assets and forecasted life cycle and forecasted cash flows over that period. Although we believe that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

m. Jointly ventures

Investment in a joint venture is accounted for by the equity method of accounting as the Group has the ability to exercise significant influence but does not own a majority equity interest. Under this method, the Group's income (loss) from investment is recognized in the consolidated statements of operations. Unrealized gains on transactions between the Group and the joint venture are eliminated to the extent of the Group's interest in the joint venture, if any; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in the joint venture equals or exceeds its interest in the joint venture, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the joint venture.

The Group reviews its investment in the joint venture to determine whether a decline in fair value below the carrying value is other than temporary at period end. The primary factors the Group considers in its determination are the length of time that the fair value of the investment is below the Group's carrying value and the financial condition, operating performance and near term prospects of the investee. In addition, the Group considers the reason for the decline in fair value, including general market conditions, industry-specific or investee-specific reasons, and changes in valuation subsequent to the balance sheet date and the Group's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other than temporary, the carrying value of the security is written down to fair value. There was no impairment losses for its investment in the joint venture in the year ended December 31, 2011.

n. Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. US GAAP requires that a two-step impairment test be performed annually or whenever events or changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The first step of the test for impairment compares the book value of the Group's reporting unit under which goodwill is recorded to its estimated fair value. The second step of the goodwill impairment test, which is only required when the net book value of the reporting unit exceeds the fair value, measures the impairment as the difference between the implied fair value of goodwill and its book value. Goodwill is not amortized. No impairment of goodwill was recognized for the years ended December 31, 2009, 2010 and 2011.

o. Intangible assets, net

Intangible assets consist primarily of intangible assets acquired in business combinations and software purchased from third parties. Intangible assets acquired through business combinations are recognized as assets separate from goodwill if they satisfy either the "contractual-legal" or "separability" criterion. Intangible assets, including brand, favorable lease agreements and certain franchise agreements existing as of the date of acquisition, are recognized and measured at fair value upon acquisition.

Except brand, intangible assets arising from business combinations are amortized on a straight-line base over the remaining operating lease term, the franchise agreement term, or estimated life of customer relationship. The estimated useful lives of amortized intangibles are reassessed if circumstances occur that indicate the useful lives have changed.

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

The trademarked Motel 168 brand was registered in PRC China with remaining legal life of 7 years and can be renewed with minimal costs. Motel 168 is a well recognized brand in the economy hotel industry in PRC China. The useful life of the brand is indefinite. The Group evaluates indefinite-lived intangible asset each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

Purchased software is stated at cost less accumulated amortization and impairment, if any, and is amortized on the straight-line basis over its estimated useful life of 5 years.

p. Impairment of long-lived assets and definite-lived intangible assets

Long-lived assets and definite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying value, an indication of impairment is present and a loss is recognized in the statements of operations for the difference between the fair value, using the expected future discounted cash flows, and the carrying value of the assets. The impairment loss recognized for the year ended December 31, 2009, 2010 and 2011 was RMB 5,477, nil and RMB 1,705, respectively.

q. Employee benefits

The employees of the Group's PRC subsidiaries and VIE entities are entitled to staff welfare benefits including medical care, housing fund, unemployment insurance and pension benefits. These entities are required to accrue for these benefits based on certain percentages of the employees' salaries, subject to certain ceilings, in accordance with the relevant PRC regulations and make contributions to the government-sponsored plans out of the amounts accrued. Employee benefits expense was RMB 90,525, RMB 103,292 and RMB 180,145 for the years ended December 31, 2009, 2010 and 2011, respectively. Amounts accrued and included in salaries and welfare payable and other unpaid and accruals in the balance sheets were RMB 3,796 and RMB 12,524 for the years ended December 31, 2010 and 2011, respectively.

r. Accruals for customer reward program

The Group invites its customers to participate in a customer reward program. Prior to November 14, 2004, membership was free of charge. A one-time membership fee was charged after that date for new members. Members enjoy discounts on room rates, priority in hotel reservation, and accumulate membership points for their paid stays, which can be redeemed for membership upgrades, room night awards and other gifts. The estimated incremental costs to provide membership upgrades, room night awards and other gifts are accrued and recorded as accruals for customer reward program as members accumulate points and recognized as sales and marketing expenses in the statements of operations. As members redeem awards or their entitlements expire, the provision is reduced correspondingly.

Prior to the second quarter of 2011, the Group did not apply redemption rate to the estimation on reward cost due to limited history in its customer reward program. With sufficient historical information and accumulated knowledge on reward points redemption and expiration, the Group has applied a historical redemption rate of 20% prospectively in estimating the costs of reward points since April 1, 2011. After the acquisition of Motel 168, the terms under the Motel 168's customer reward program have been updated to conform to that of Home Inns' customer reward program. The Group reassesses the redemption rate at each period end to ensure that the estimate of redemption rate is reasonable.

As of December 31, 2010 and 2011, the accruals for customer reward program amounted to RMB 17,406 and RMB 5,211, respectively, based on the estimated liabilities under the customer reward program. Had the Group not applied the redemption rate in estimating accruals for customer reward program, the accrual balance as of December 31, 2011 would have been RMB 19,851, implying an impact of RMB 14,641 to the consolidated statement of operation in 2011.

s. Deferred Revenue

Deferred revenue generally consists of advances received from customers for room stays, initial franchise fees received prior to the Group fulfilling its commitments to the franchisee, and cash received from sale of membership programs. Non-current portion of deferred revenue represents cash received from initial franchise fees and sales of membership program, which is recognized after one year from the balance sheet date.

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

t. Revenue recognition

Revenues from leased-and-operated hotels represent primarily room rentals and food and beverage sales from the leased-and-operated hotels. Such revenues are recognized when goods are delivered and services are provided.

Revenues from franchised-and-managed hotels are derived from franchise agreements where the franchisees are required to pay (i) an initial franchise fee and (ii) on-going management and service fees based on a percentage of revenue which approximates 3% to 6% of the room revenues of the franchised hotels. The franchise fee is an initial one-time fee. For the franchise agreements signed under Home Inns brand Yitel brand and Motel 168 brand after its acquisition by the Group, the franchise fee is recognized as revenue when the franchised hotel opens for business, becomes non-refundable, and the Group has fulfilled all its commitments and obligations including the assistance to the franchisees in property design, leasehold improvement construction project management, systems installation, personnel recruiting and training. For the franchise agreements signed under Motel 168 brand prior to its acquisition by the Group, the franchise fee is recorded as deferred revenue when cash is received and recognized as revenue during the franchising period which usually is 5 years as the franchisees have a refund right that lapses gradually over a five-year period. On-going management and service fees are recognized when the underlying service revenue is recognized by the franchisees' operations. Other revenues generated from franchise agreements include system maintenance and support fee and central reservation system usage fee, which are recognized when services are provided.

Prior to the second quarter of 2011, revenue from one-time membership fees was deferred when received and was recognized when membership records show no activity after a year. With sufficient historical information and accumulative knowledge on membership activity pattern, the Group estimated that average life of members is approximately two years. Therefore, the change in accounting estimate is applied prospectively, and revenue from one-time membership fees has been recognized over two years on a straight line basis since April 1, 2011. For the years ended December 31, 2009, 2010 and 2011, the Group recognized revenue of RMB 14,434, RMB 33,846 and RMB 79,367 from one-time membership fees, respectively. Had the Group not changed the accounting estimate of average life of membership card, revenue from one-time membership fees would have been RMB 61,603, implying an impact of RMB 17,764 to the consolidated statement of operations in 2011.

The Group continues to monitor the membership activity pattern and reassess average life of members at each period end to ensure estimate of revenue recognition period is reasonable.

u. Business tax and related surcharge

The Group is subject to business tax and related surcharges on the services provided in the PRC. Such tax is levied based on turnover at a total approximate rate of 5.6% and is recorded as a reduction of revenues.

v. Leased-and-operated hotel costs

Leased-and-operated hotel costs include all direct costs incurred in the operation of the leased-and-operated hotels and consist primarily of property rentals and related expenses, utility costs, personnel compensation, amortization of guest room consumables, amortization of leasehold improvements, depreciation of equipment, amortization of consumables costs, food and beverage.

w. Sales and marketing expenses

Sales and marketing expenses consist primarily of advertising related expenses, expenses associated with the Group's membership reward program, payroll and related compensation for the Group's sales and marketing personnel and entertainment expenses relating to marketing activities. Advertising related expenses, including promotion expenses and production costs of marketing materials, are charged to the statements of operations as incurred and amounted to RMB 12,614, RMB 11,361 and RMB 21,944 for the years ended December 31, 2009, 2010 and 2011, respectively.

x. Share-based compensation

The Group accounts for share-based compensation arrangements with employees in accordance with ASC 718 "Compensation — Stock Compensation". It requires the Group to measure at the grant date the fair value of the stock-based award and recognize compensation expense, net of estimated forfeitures, on a straight-line basis, over the requisite service period. The Group uses the Black-Scholes option pricing model to determine the fair value of stock options. The requisite service period is the vesting period, which is generally 4 years. Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates.

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

y. Leases

The Company leases certain property, plant and equipment.

Leases of property, plant and equipment are classified as operating leases when substantially all the risks and rewards of ownership of assets remain with the lessor. Payments made under operating leases net of any incentives received from the lessor are charged to the consolidated statements of operations on a straight-line basis over the terms of the underlying lease.

Leases of property, plant and equipment are classified as finance leases when the Company has substantially all the risks and rewards of ownership. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in finance lease liabilities. The interest element of the finance cost is charged to the statements of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the lease term if the lease does not meet the transfer of ownership criterion or the bargain purchase option criterion. If the lease meets either the transfer of ownership criterion or the bargain purchase option criterion, then the related assets are depreciated over the useful life of the asset.

Fixed assets capitalized under finance leases are depreciated in accordance with the Group's policy for the depreciation of fixed assets.

z. Borrowing costs

Interests incurred in connection with term loan used for acquisition of Motel 168 are expensed as incurred. The upfront fee incurred in connection with the term loan are amortized and recorded as interest expenses over the loan period. (Refer to Note 13)

Interest cost incurred on funds used to construct leasehold improvements during the active construction period is capitalized. For the years ended December 31, 2009, 2010 and 2011, there was no capitalized interest cost.

aa. Pre-operating expenditure

Pre-operating expenditure represents start-up costs, other than amounts capitalized as leasehold improvements, for leased-and-operated hotels are charged to the consolidated statements of operations in the period in which it is incurred.

ab. Taxation

The provision for income taxes is based on the income and expense amounts recorded in our consolidated statements of operations. Income tax expenses are recorded using the liability method. Deferred tax assets or liabilities are recognized for the estimated future tax effects attributable to temporary differences and tax loss carry forwards. Deferred tax assets and liabilities are recognized and measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in statements of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the amount of deferred tax assets if it is considered more likely than not that such assets will not be realized.

In order to assess uncertain tax positions, the Group applies a more likely than not threshold and a two-step approach for the tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is greater than 50% likely to be realized upon settlement. As of December 31, 2010 and 2011, there were no uncertain tax positions.

ac. Other non-operating income

Other non-operating income primarily consists of financial subsidies received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. During the years ended December 31, 2009, 2010 and 2011, the Group received financial subsidies of RMB 6,379, RMB 14,903 and RMB 22,356, respectively, from various local PRC government authorities. There are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. Such amounts are recorded as other non-operating income when received as there is no additional condition attached to the subsidies.

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

ad. Statutory reserves

The Group's subsidiaries and VIE entities incorporated in the PRC are required to set aside 10% of their net income, after offsetting accumulated losses from prior years, and before profit distributions to the investors, as reported in its statutory accounts on an annual basis to the Statutory Surplus Reserve Fund. Once the total Statutory Surplus Reserve Fund reaches 50% of the registered capital of the respective subsidiaries and VIE entities, further appropriations are discretionary. The Statutory Surplus Reserve Fund can be used to increase the registered capital and eliminate future losses of the respective companies under PRC regulations. The Group's Statutory Surplus Reserve Fund is not distributable to shareholders except in the event of liquidation.

Appropriations to the Statutory Surplus Reserve Fund are accounted for as a transfer from retained earnings to statutory reserves. During the years ended December 31, 2009, 2010 and 2011, the Group made total appropriations to these statutory reserves of RMB 17,597, RMB 26,523 and RMB 31,749, respectively.

ae. Dividends

Dividends are recognized when declared. The Group has not declared or paid any dividends to its shareholders except for the noncontrolling interests.

Current PRC regulations permit PRC companies to pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. Additionally, the Company's PRC subsidiaries and VIE subsidiaries can only distribute dividends after they have met the PRC requirements for appropriation to statutory reserves (Note 2(ad)). Restricted net assets of the Company's PRC subsidiaries and VIE subsidiaries not distributable in the form of dividends to the parent as a result of the aforesaid PRC regulations were RMB 3,218,515 as of December 31, 2011. In addition to the typical statutory reserves of the Company's PRC subsidiaries and VIE subsidiaries, the restricted net assets also includes RMB 3,092,652 paid in capital.

af. Earnings per share

In accordance with ASC 260 "Earnings Per Share", basic earnings per share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The Company's convertible bonds issued in 2007 and convertible notes issued in 2010 are not participating securities because the terms of the agreements do not provide any participating rights to the holders before conversion. Diluted earnings per share is calculated by dividing net income attributable to ordinary shareholders as adjusted for the monetary effect of instruments that are dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the year. Ordinary equivalent shares consist of the ordinary shares issuable upon the conversion of convertible bonds and convertible notes (using the if-converted method) the vesting of restricted stock and ordinary shares issuable upon the exercise of outstanding share options (using the treasury stock method).

ag. Segment reporting

The Company follows "Disclosures about Segment of an Enterprise and Related Information" for its segment reporting. The Group operates and manages its business as a single segment. The Group primarily generates its revenues from customers in the PRC, and assets of the Group are also located in PRC. Accordingly, no geographical segments are presented.

ah. Recent accounting pronouncements

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" (ASU 2011-04). Key provisions of the amendments in ASU 2011-04 include: (1) a prohibition on grouping financial instruments for purposes of determining fair value, except in limited cases; (2) an extension of the prohibition against the use of a blockage factor to all fair value measurements; and (3) a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. For items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. This ASU is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-04 to have a material impact on its financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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In June 2011, the FASB issued ASU No. 2011-05, "*Comprehensive Income (Topic 220): Presentation of Comprehensive Income*" (ASU 2011-05). This newly issued accounting standard (1) eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity; (2) requires the consecutive presentation of the statement of net income and other comprehensive income; and (3) requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income nor do the amendments affect how earnings per share is calculated or presented. In December 2011, the FASB issued ASU No. 2011-12, "*Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*", which defers the requirement within ASU 2011-05 to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. During the deferral, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the issuance of ASU 2011-05. These ASUs are required to be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which for the Company means January 1, 2012. As these accounting standards do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, the adoption of these standards is not expected to have an impact on the Group's financial statements.

In September 2011 the FASB issued ASU 2011-08, "*Testing Goodwill for Impairment*" (ASU 2011-08). Under the revised guidance, entities testing for goodwill impairment have an option of performing a qualitative assessment before calculating the fair value for the reporting unit, i.e., Step 1 of the goodwill impairment test. If an entity determines, on a basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the first step of the two-step impairment test would be required. If it is not more likely than not that the fair value of the reporting unit is less than the carrying value, then goodwill is not considered to be impaired. ASU 2011-08 does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill at least annually for impairment. This ASU is effective for interim and annual periods beginning after December 15, 2011 with early adoption permitted. The Group does not expect the adoption of ASU 2011-08 to have a material impact on its financial statements.

In December 2011, the FASB issued ASU 2011-11, "*Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*" (ASU 2011-11). This newly issued accounting standard requires an entity to disclose both gross and net information about instruments and transactions eligible for offset in the statements of financial position as well as instruments and transactions executed under a master netting or similar arrangement and was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on their financial position. This ASU is required to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. As this accounting standard only requires enhanced disclosure, the adoption of this standard is not expected to have an impact on the Group's financial statements.

ai. Certain risks and concentration

Financial instruments that potentially subject the Group to significant concentrations of credit risk consist primarily of cash and accounts receivable. As of December 31, 2010 and 2011, substantially all of the Company's cash was held in major financial institutions located in the PRC, Hong Kong and the United States of America, which management considers being of high credit quality. China does not have an official deposit insurance program, nor does it have an agency similar to The Federal Deposit Insurance Corporation (FDIC) in the United States. However, the Group believes that the risk of failure of any of these PRC banks is remote. Bank failure is extremely uncommon in China and the Group believes that those Chinese banks that hold the Company's cash, cash equivalents and long term time deposit are financially sound based on public available information.

Accounts receivable are typically not collateralized and are denominated in RMB, and are derived from revenues earned from operations arising in the PRC.

No individual customer accounted for more than 10% of net revenues for the years ended December 31, 2009, 2010 and 2011. No individual customer accounted for more than 10% of accounts receivable at December 31, 2010 and 2011.

aj. Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

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3. PREPAYMENTS AND OTHER CURRENT ASSETS

Components of prepayments and other current assets as of December 31, 2010 and 2011 are as follows:

	2010	2011
Prepayment for utility and telecom expenses	21,034	31,645
Prepayment for rental expenses	19,495	28,748
Proceeds receivable from disposal of a subsidiary	—	12,418
Employee advances	5,615	10,076
Interest receivable	4,932	7,047
Prepayment for advertisement, consultation and insurance	3,509	5,778
Deposits for utility expenses	6,411	9,772
Other current assets	16,890	32,403
Total	77,886	137,887

4. INCOME TAXES

Cayman Islands, British Virgin Islands ("BVI") and the Republic of Mauritius ("Mauritius")

Under the current laws of the Cayman Islands, BVI and Mauritius, the Company and its subsidiaries registered in Cayman Islands, BVI and Mauritius are not subject to tax on income or capital gain. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Home Inns Hong Kong subsidiaries were subject to Hong Kong profit tax at a rate of 16.5% on their assessable profits. No Hong Kong profit tax has been provided as the Group did not have assessable profit that was earned in or derived from Hong Kong subsidiaries during the years presented.

PRC

The Company's subsidiaries and its VIE entities incorporated in the PRC are subject to PRC Corporate Income Tax ("CIT") on the taxable income as reported in their respective statutory financial statements adjusted in accordance with relevant PRC income tax laws. Effective January 1, 2008, the Company's subsidiaries and its VIE entities are subject to the Corporate Income Tax Law of the People's Republic of China (hereinafter "the new CIT Law") as approved by the National People's Congress on March 16, 2007, under which the corporate income tax rate applicable to most of the Group's PRC entities adjusted from 33% to 25%. Five of the Group's subsidiaries and VIE entities enjoyed a preferential income tax rate of 15% before 2008, and the income tax rate applicable to these subsidiaries is phased in at 18%, 20%, 22%, 24% and 25% in a 5 year period from 2008 to 2012.

On February 22, 2008, the Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") jointly issued Cai Shui [2008] Circular 1 ("Circular 1"). According to Article 4 of Circular 1, distributions of accumulated profits earned by a Foreign Invested Enterprise ("FIE") prior to January 1, 2008 to foreign investor(s) in 2008 or after will be exempt from withholding tax ("WHT") while distribution of the profit earned by an FIE after January 1, 2008 to its foreign investor(s) shall be subject to WHT at a rate up to 10%. For certain jurisdictions that have signed tax treaties with the PRC, the WHT rate are 5%. No dividend was declared by PRC subsidiaries in the years ended December 31, 2009 and 2010. As the Group intended to indefinitely reinvest its earnings to further expand its businesses in PRC China, undistributed earnings as of December 31, 2009 and 2010 were considered to be indefinitely reinvested. Therefore, no deferred tax liability was recognized in the years ended December 31, 2009 and 2010.

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In September 2011, in connection with the acquisition of Motel 168, the Group entered into a US\$240,000 denominated, 4-year term loan facility agreement. (Refer to Note 13) In order to service the debt, after-tax profits from its PRC subsidiaries in China will be distributed to its overseas holding company borrower. The Group has recognized the relevant deferred tax liability of RMB 38,313 as of December 31, 2011 in connection with cumulative distributable earnings since 2008 using a 5% dividend withholding tax rate provided as a preferential rate by the tax arrangement between PRC and Hong Kong. (Note a, *Reconciliation of the differences between statutory tax rate and the effective tax rate*)

Composition of income tax expense

The current and deferred portion of income tax expense included in the consolidated statements of operations for the years ended December 31 is as follows:

	2009	2010	2011
Current income tax expense	92,009	133,180	185,001
Deferred income tax (provision) /benefit	(29,843)	6,789	(15,559)
Income tax expense	<u>62,166</u>	<u>139,969</u>	<u>169,442</u>

Reconciliation of the differences between statutory tax rate and the effective tax rate

A reconciliation between the statutory CIT rate and the Group's effective tax rate for the years ended December 31 is as follows:

	2009	2010	2011
Statutory CIT rate	25%	25%	25%
Tax differential from statutory rate applicable to subsidiaries in the PRC	(3%)	(3%)	(3%)
Tax differential for the gains/expenses recorded by the Company and its subsidiaries registered in Cayman Islands, BVI and Mauritius which are not subject to tax	(2%)	5%	2%
Permanent difference for non-deductible expenses	(1%)	1%	1%
CIT refund	(2%)	—	—
Withholding tax on earnings no longer considered indefinitely reinvested	—	—	7%
Effective CIT rate	<u>19%</u>	<u>28%</u>	<u>32%</u>

Deferred tax assets and liabilities comprised:

	2010	2011
Deferred tax assets, current:		
Tax loss carry forwards	10,668	21,269
Deductible temporary differences related to:		
- rental expenses	1,091	3,009
- pre-operating expenses	5,780	8,886
- deferred revenue, current	14,376	42,670
- accruals for customer reward program	4,351	915
- others	6,682	12,154
Valuation allowance	(335)	(13,457)
	<u>42,613</u>	<u>75,446</u>
Deferred tax assets, non-current:		
Tax loss carry forwards	32,905	101,649
Deductible temporary differences related to:		
- rental expenses	66,246	185,448
- pre-operating expenses	11,560	16,100
- deferred revenue, non current	12,178	15,331
- unfavorable lease related to acquisitions	2,180	98,188
- Impairment loss of property and equipment	1,369	39,499
- others	442	1,190
Valuation allowance	(27,962)	(257,640)
	<u>98,918</u>	<u>199,765</u>
Total deferred tax assets	<u>141,531</u>	<u>275,211</u>
Deferred tax liabilities, current:		
Withholding tax for profit distribution of previous periods (refer to Income Tax – PRC)	—	38,313
Deferred tax liabilities, non-current:		
Recognition of intangible assets related to the acquisition of Motel 168	—	282,638

Other taxable temporary differences	<u>11,552</u>	<u>12,090</u>
	<u>11,552</u>	<u>294,728</u>
Total deferred tax liabilities	<u><u>11,552</u></u>	<u><u>333,041</u></u>

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The Group had tax loss carry forward of RMB491,672 as of December 31, 2011. The Group's remaining tax loss carryforward will be netted against future taxable income. According to the PRC CIT regulations, the loss incurred during a tax year may be carried forward to the following years and set off against the profits of the following years, but the period shall not exceed a maximum of 5 years. These accumulated tax losses will expire on or before January 1, 2017.

A valuation allowance of RMB 28,297 and RMB 271,097 was provided for the net deferred tax assets of the Company as of December 31, 2010 and 2011, respectively. As of December 31, 2011, a valuation allowance of RMB 237,385 was carried forward from the acquisition of Motel 168. The valuation allowances were provided on the deferred tax assets to the extent that management believed it was more likely than not that such deferred tax assets would not have been realized in the foreseeable future. Valuation allowances were also provided because it was more likely than not that the Company will not be able to utilize certain tax loss carry forwards generated by certain subsidiaries or VIE entities. As those entities continue to have accumulated tax losses and tax planning strategies are not available to utilize those tax losses in other Company companies, management believes it is more likely than not that such losses will not be utilized before they expire. However, certain valuation allowance was reversed in 2009, 2010 and 2011 when the Company generated sufficient taxable income to utilize the deferred tax assets. If events occur in the future that prevent the Company from realizing some or all of its deferred tax assets, an adjustment to the valuation allowances will be recognized when such events occur. In the PRC, tax loss carry forwards generally expire after five years.

For the tax holidays described for certain entities in the "China" section of this Note, the aggregate amount and per share effect of the tax holidays are as follows:

(in thousands, except per share data)	For the years ended December 31,		
	2009 RMB	2010 RMB	2011 RMB
Aggregate effect	8,904	13,851	14,505
Basic ordinary share effect	0.12	0.17	0.17
Diluted ordinary share effect	0.11	0.16	0.15

5. INVESTMENT IN A JOINTLY VENTURE

	Investment in a jointly controlled entity	Shareholders' loan	Subtotal	Shares of loss	Total
At October 1, 2011	500	10,000	10,500	(1,346)	9,154
Share of loss	—	—	—	(853)	(853)
At December 31, 2011	500	10,000	10,500	(2,199)	8,301

The jointly controlled entity was originally invested by Motel 168. After the acquisition by Home Inns on October 1, 2011, the amount of RMB 853 recognized as share of loss of a jointly controlled entity' in the consolidated statements of operations is equal to the share of total loss of the jointly controlled entity during the three-month ended in December, 2011. It has exceeded the original cost of the Group's investment in the entity. Before the acquisition, Motel 168 loaned RMB 10,000 to the entity without a specified repayment date. This loan has the same economic effect as a capital contribution and should be treated as being a part of the net investment in the entity. Therefore, Motel 168 treated its original investment of RMB 500, together with the loan of RMB 10,000 that in substance form part of the net investment, as the ceiling, being RMB 10,500, to pick up its share of loss of the entity. As at December 31, 2011, the Group fully picked up the share of loss of the entity of RMB 853 and records it as a reduction to the interests in a jointly control entity.

6. ACQUISITION

a. Acquisition of Motel 168

On October 1, 2011, to further strengthen the Group's diverse growth plans and multi-brand strategy, the Group completed the transaction to acquire 100% equity interest in Motel 168, a well-established economy hotel chain in China. The Group obtained control over Motel 168 and has consolidated its financial statements since then. The total purchase price for the transaction was approximately RMB 2,869,045, which consists of RMB 2,201,731 in cash consideration and RMB 667,314 in shares consideration of Home Inns' 8,149,616 ordinary shares. Fair value of the ordinary shares is measured at the quoted market price of US\$12.885 as of September 30, 2011, the date closest to the acquisition date. Total acquisition costs were RMB 63,824, which were expensed as incurred in the year ended December 31, 2011.

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Purchase Price Allocation

The total purchase price was allocated to Motel 168's tangible assets, identifiable intangible assets, and assumed liabilities based on their estimated fair values as set forth below. The excess of (i) the total of cost of acquisition, over (ii) the fair value of the identifiable net assets of Motel 168 is recorded as goodwill. The Group makes estimates and judgments in determining the fair value of the acquired assets and assumed liabilities, based on its experience with similar assets and liabilities in similar industries. In performing the purchase price allocation, the Group considered the analyses of historical financial performance and estimates of future performance of Motel 168's business.

Allocation of purchase price:

		Useful life
Fair value of net tangible assets acquired	559,267	
Intangible assets-favorable lease (1)	399,193	remaining lease terms
Intangible assets-customer relationship (2)	6,990	4 years
Intangible assets-franchise agreement (3)	48,770	8 years
Intangible assets-brand (4)	684,300	Indefinite
Unfavorable lease liability (1)	(392,608)	remaining lease terms
Goodwill (5)	1,806,846	
Net deferred tax liability, non-current	(243,713)	
Total purchase price	<u>2,869,045</u>	

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Cash and cash equivalents	299,195
Trade and other receivables (6)	92,925
Consumables	12,708
Total current assets	<u>404,828</u>
Investment in a jointly-controlled company	9,154
Property and equipment, net	873,986
Intangible assets, net	6,570
Deposits for long-term leases	7,645
Prepaid operating lease payments	9,175
Deferred tax assets, non-current	40,345
Total assets	<u>1,351,703</u>
Trade and other payables	(233,888)
Finance lease liabilities	(6,017)
Income tax payable	(32,310)
Deferred revenues	(35,878)
Provisions	(12,690)
Total current liabilities	<u>(320,783)</u>
Deferred revenues, non-current	(87,791)
Finance lease liabilities	(7,508)
Other non-current liabilities	(376,354)
Total liabilities	<u>(792,436)</u>
Fair value of net tangible assets acquired (a)	<u>559,267</u>
Fair value of intangible assets and related net deferred tax liabilities acquired (b)	<u>502,932</u>
Cumulative considerations (c)	<u>2,869,045</u>
Goodwill (c - b - a)	<u>1,806,846</u>

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

- (1) Fair value of the leases was determined based on the incremental cash flow method. The amortization period of the favorable leases is based on the remaining lease term.
- (2) Fair value of the customer relationship was determined based on multi-period excess-earnings method. The amortization period of 4 years was based on the estimated life of the corporate customers.
- (3) Fair value of the franchise agreement was determined based on multi-period excess-earnings method. The amortization period of 8 years was based on the estimated remaining franchise agreement term.
- (4) Brand represents the registered trademark, Motel 168, which was registered in PRC China with remaining legal life of 7 years and can be renewed continually with minimal costs every 10 years. The brand is an intangible asset that relates to the name recognition of a company and its services. Motel 168 is a well recognized brand in the economy hotel industry in PRC China. The useful life of the brand is indefinite. Fair value of the brand was determined based on the relief from royalty method.
- (5) Goodwill represents the expected synergies from combining operations of the Company and Motel 168, which are complementary in a way to each other, and any other intangible benefits that would accrue to the Company that do not qualify for separate recognition. In accordance with ASC 805, goodwill is not amortized but is tested for impairment and is not deductible for tax purpose.
- (6) (i) The gross amount due under the receivables acquired is RMB 39,307, of which RMB 4,673 is expected to be uncollectable. (ii) Included in the other receivables, an aggregated amount of RMB 23,222 represented the advisory service fees incurred by its former shareholders, but paid by Motel 168 on behalf, in connection with the sales of Motel 168's shares during the nine-month period ended September 30, 2011. After the completion of acquisition, Home Inns agreed with the former shareholders of Motel 168 to offset the acquisition consideration payable with the receivable balance due from the former shareholders of Motel 168 by RMB 23,222.

No significant contingencies were identified which should be valued.

Motel 168 contributed net revenues of RMB 346,365 and incurred net loss of RMB 17,516 from October 1, 2011 through December 31, 2011.

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(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

b. Unaudited Pro forma Financial Information

The following unaudited combined pro forma information presents information of the Group as if the acquisition above occurred on January 1, 2010.

(in RMB)	2010 (unaudited)	2011 (unaudited)
Net revenues	4,599,322	4,753,563
Income from operations	635,700	290,302
Net income	306,948	255,998
Basic	3.45	2.84
Diluted	3.29	0.23

The unaudited pro forma financial information includes RMB 4,203 and RMB 4,203 in 2010 and 2011, respectively for the net amortization of identifiable intangible assets and unfavorable leases. The unaudited pro forma statements of operations for the year ended December 31, 2011 excluded the transaction costs of RMB 63,824 and the unaudited pro forma statements of operations for the year ended December 31, 2010 included the transaction costs of RMB 63,824. These costs were directly related to this transaction and were non-recurring. The pro forma diluted gain per share of 2011 was RMB 0.23, primarily due to fair value impact of convertible notes (Note 16). The information presented above is for illustrative purposes only and does not purport to be indicative of results that would have been achieved if the acquisition had occurred as of January 1, 2010.

7. PROPERTY AND EQUIPMENT

The components of property and equipment are as follows:

	2010	2011
Buildings	9,815	9,310
Leasehold improvements	2,258,501	3,685,489
Machinery and equipment	182,792	285,921
Furniture, fixtures and office equipment	544,852	627,588
Construction in progress	56,805	159,985
	3,052,765	4,768,293
Less: Accumulated depreciation	(948,372)	(1,315,447)
Property and equipment, net	2,104,393	3,452,846

Depreciation expenses incurred for the years ended December 31, 2009, 2010 and 2011 were RMB 281,890, RMB 314,923 and RMB 404,901, respectively. The cost of property and equipment is stated net off impairment losses of RMB 5,477 and RMB 7,182 as of December 31, 2010 and 2011.

Included in leasehold improvements was accumulated capitalized interest of RMB 3,916 as of December 31, 2010 and 2011.

8. GOODWILL

Components of goodwill as of December 31, 2010 and 2011 are as follows:

	2010	2011
Acquisition of Home Inns Beijing	137,072	137,072
Acquisition of Top Star hotel chain	191,368	191,368
Acquisition of Motel 168	—	1,806,846
Other acquisitions	62,442	62,442
Total goodwill	390,882	2,197,728

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9. INTANGIBLE ASSETS AND UNFAVORABLE LEASE

Intangible assets and unfavorable lease as of December 31 are as follows:

	2010	2011
Intangible assets, original cost—		
Favorable lease agreements	42,489	441,682
Franchise agreements	804	49,574
Customer relationship	83	7,073
Brand	—	684,300
Purchased software	20,960	30,246
	<u>64,336</u>	<u>1,212,875</u>
Less: Accumulated amortization —		
Favorable lease agreements	(11,452)	(21,462)
Franchise agreements	(804)	(2,328)
Customer relationship	(19)	(461)
Purchased software	(9,668)	(14,172)
	<u>(21,943)</u>	<u>(38,423)</u>
Intangible assets, net	<u>42,393</u>	<u>1,174,452</u>
Unfavorable lease liability —		
	2010	2011
Unfavorable lease agreements, original cost	17,773	410,381
Less: Accumulated amortization	(4,562)	(13,607)
Unfavorable lease liability, net	<u>13,211</u>	<u>396,774</u>

Franchise agreements, and favorable and unfavorable leases agreements were acquired primarily from the acquisition of Top Star hotel chain, the purchase of minority interests in Home Inns Beijing and the acquisition of Motel 168. The value of the favorable lease agreements was determined based on the estimated present value of the amount the Company has avoided paying as a result of entering into the lease agreements. Unfavorable lease agreements were determined based on the estimated present value of the acquired leases that exceed market prices and is recognized as a liability. Franchise agreements were determined at the estimated present value of net cash flows expected to be received over the remaining terms of the franchise agreements. The value of favorable and unfavorable lease agreements is amortized using the straight-line method over the remaining lease term and the amortization is recorded as operating costs at net. The value of franchise agreements is amortized using the straight-line method over the remaining terms of the franchise agreements.

Amortization expense of intangible assets for the years ended December 31, 2009, 2010 and 2011 amounted to RMB 6,116, RMB 6,439 and RMB 16,828, respectively. Amortization expense of unfavorable lease agreements, net of favorable lease agreement amortization, for the years ended December 31, 2009, 2010 and 2011 amounted to RMB 1,431, RMB 1,374 and RMB 9,045 respectively.

The annual estimated amortization expense for intangible assets and unfavorable lease liability for the following years is as follows:

	Amortization for Intangible Assets	Amortization for Unfavourable Lease	Net Amortization
2012	43,653	(31,990)	11,663
2013	42,124	(31,988)	10,136
2014	41,170	(31,986)	9,184
2015	38,439	(31,985)	6,454
2016	35,687	(31,946)	3,741
	<u>201,073</u>	<u>(159,895)</u>	<u>41,178</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

10. OTHER PAYABLES AND ACCRUALS

	2010	2011
Accrued expenses for utilities, rental expenses and others	43,657	81,367
Accruals for professional service fees	9,178	22,702
Accrued agency fees	3,819	5,481
Accruals for customer reward program	17,406	5,211
Others	22,780	39,737
Other unpaid and accruals-subtotal	96,840	154,498
Payables on construction cost of leasehold improvement	338,753	524,792
Payables on the unpaid consideration related to the acquisition of Motel 168	—	143,728
Payables due to the then shareholders of Motel 168 incurred before acquisition	—	75,611
Deposit from franchised-and-managed hotels, current	25,180	34,135
Payables on repair and maintenance cost	12,537	30,051
Payables to employees for exercised options	30,596	11,713
Others	12,052	27,060
Other payables-subtotal	419,118	847,090
Total	515,958	1,001,588

11. CONVERTIBLE BONDS

In December 2007, the Company issued RMB 1,110,000 of USD settled zero coupon convertible bonds (the "Bonds"). The Bonds will mature on December 10, 2012.

Each Bond is, at the option of the holder, convertible (unless previously redeemed, converted or purchased and cancelled) on or after March 9, 2008 into fully paid ordinary shares with a par value of US\$ 0.005 each of the Company at the USD equivalent of its RMB principal amount. The number of shares issuable upon conversion will be a fixed amount, subject only to adjustments for dilutive events.

Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed on December 10, 2012 at an amount equal to the USD equivalent of their RMB principal amount multiplied by 102.53%. At any time after December 10, 2010 and prior to December 10, 2012, the Company may redeem all but not a portion of the Bonds at a redemption price equal to the USD equivalent of their redemption amount (represents for the bondholder a gross yield to maturity of 0.5% per annum calculated on a semi-annual basis) on the redemption date if the closing price of the ADSs for each of 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is given, was at least 125% of the conversion price then in effect translated into RMB at the fixed exchange rate of US\$ 1.00 to RMB 7.40. The Company may redeem all and not some only of the Bonds at a redemption price equal to the USD equivalent of their early redemption amount on the redemption amount if at any time at least 90% in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.

The Bonds may also be redeemed at the option of the holders at a redemption price equal to the USD equivalent of their early redemption amount upon the ADSs ceasing to be listed on the Nasdaq Global Market or the occurrence of a change of control. All and not some only of the Bonds may be redeemed at any time at a redemption price equal to the USD of their early redemption amount in the event of certain changes relating to Cayman Island or PRC taxation, subject to the non-redemption of each bondholder after the exercise by the Company of its tax redemption option.

The Company could, at the option of the holder of any Bond, redeem, in whole or in part, that holder's Bonds on December 10, 2010 (the "Put Option Date"), at an amount equal to the USD Equivalent of its RMB principal amount, multiplied by 101.51%. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice (the "Put Option Notice") together with the Certificate evidencing the Bonds to be redeemed not earlier than 60 days and not later than 20 days prior to the Put Option Date. A Put Option Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Company consents to such withdrawal) and the Company shall redeem the Bonds the subject of a Put Option Notice delivered as aforesaid on the Put Option Date.

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The Bonds contain embedded redemption and conversion features are not required to be bifurcated.

As of December 31, 2009, the fair value of the Bonds was approximately RMB 355,752 or approximately 98.88% of face value, based on quotes obtained from over-the-counter trading activities. As a result of the depressed market conditions, the Company repurchased approximately RMB 531,200 or 48% of the Bonds at approximately 86.97% of face value in 2009, which resulted in a gain of RMB 69,327 in 2009.

As of December 31, 2010, the fair value of the Bonds was approximately RMB 161,906 or approximately 103.13% of face value, based on quotes obtained from over-the-counter trading activities. As a result of the depressed market conditions, the Company repurchased approximately RMB 202,800 or 18% of the Bonds at approximately 99.94% of face value in early 2010, which resulted in a gain of RMB 2,480 in 2010.

As of December 31, 2011, the fair value of the Bonds was approximately RMB 106,922 or approximately 96.5% of face value, based on quotes obtained from over-the-counter trading activities. As a result of the depressed market conditions, the Company repurchased approximately RMB 46,200 or 4% of the Bonds at approximately 98.5% of face value in early 2011, which resulted in a gain of RMB 1,521 in 2011.

The issuance costs related to the convertible bond offering was amortized within two years from December 2007. Amortization expense for the years ended December 31, 2009, 2010 and 2011 amounted to RMB 7,878, nil and nil, respectively, and was included within interest expenses.

12. FINANCIAL LIABILITY

The financial liabilities consist of convertible notes and interest rate swap transaction.

(a) Convertible notes measured at fair value

The Company issued USD 184,000 of convertible notes (including USD 24,000 covering 30-day over-allotment option) on December 21, 2010 (the "Notes"). The Notes will mature on December 15, 2015. The interest rate is 2% per annum payable semi-annually, in arrears. No accrued interest to be paid on the Notes when they are converted.

Holders have the option to convert their Notes from the earlier of (i) when the registration statement becomes effective and (ii) the first anniversary of the date on which the Notes are first issued, through to and including the business day prior to the maturity date into ADSs representing the ordinary shares initially at a conversion rate of 20.2560 ADSs per US\$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately US\$49.37 per ADS).

The conversion rate is subject to change on anti-dilution and upon certain fundamental changes. Fundamental changes are defined as 1) any "person" or "group" beneficially owns (directly or indirectly) 50% or more of the total voting power of all outstanding classes of Company's shares or has the power to elect a majority of the members of the board of directors; 2) Company consolidates with, or merge with or into, another person or the Company sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its assets, or any person consolidates with, or merges with or into, the Company; 3) Termination of trading of Company's ADSs; and 4) adoption of a plan relating to our liquidation or dissolution.

The holder has the option to require the Company to repurchase the Notes, in whole or in part, in the event of a fundamental change for an amount equal to the 100% of the principal amount and any accrued and unpaid interest in the event of fundamental changes. Management assessed that the likelihood of fundamental change is remote.

While the Notes remain outstanding, the Company or its subsidiaries will not create or permit to subsist any security upon its property, assets or revenues (present or future) to secure any international investment securities or to secure any guarantee of or indemnity of any international investment securities unless the obligations under the notes and the indenture (a) are secured equally and ratably therewith, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by holders of a majority in aggregate principal amount of the Notes then outstanding.

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The registration rights granted under the convertible notes agreement are: (i) demand registration rights, (ii) piggyback registration rights, and (iii) Form S-3 registration rights. The Company is required to use its best effort to cause a shelf registration statement to become effective within 210 days after the original issuance of the Notes with respect to register re-sales of the Notes and the issuance of ordinary shares (represented by ADSs) issuable upon conversion of the Notes. The Company will be required to pay additional interest of up to 0.50% per annum for the first year, subject to some limitations, to the holders of the notes if it fails to comply with the obligations to register the Notes and ordinary shares represented by ADSs issuable upon conversion of the Notes or the registration statement does not become effective within the specified time periods. As of December 31, 2011, management assessed that the likelihood of the Company having to make any additional interest payments under the arrangement is remote.

The Company has RMB as its functional currency, and the Notes are denominated in USD. As a result, the conversion feature is dual indexed to the Company's stock as well as the RMB and USD exchange rate, and is considered an embedded derivative which needs to be bifurcated from the host instrument in accordance with ASC 815.

ASC 815-15-25 provides that if an entity has a hybrid financial instrument that would require bifurcation of embedded derivatives under ASC 815, the entity may irrevocably elect to initially and subsequently measure a hybrid financial instrument in its entirety at fair value with changes in fair value recognized in earnings. The fair value election can be made instrument by instrument and shall be supported by concurrent documentation or a preexisting documented policy for automatic election.

The Company elected to measure the Notes in their entirety at fair value with changes in fair value recognized as non-operating income or loss at each balance sheet date in accordance with ASC 815-15-25. Further, as the functional currency of the Company is RMB, the fair value of the Notes is translated into RMB at each balance sheet date with the difference being reported as exchange gain or loss. In addition, all issuance costs associated with the Notes offering have been expensed as incurred in the year ended December 31, 2010.

Fair value of the Notes is determined using the binomial model, one of the option pricing methods. The valuation involves complex and subjective judgment and the Company's best estimates of the probability of occurrence of future events, such as fundamental changes, on the valuation date. Under the binomial valuation model, the Group uses a weighted risk-free and risk interest rate (the combination of the risk free rate plus the credit spread for the underlying Notes) weighted by the probability of conversion as internally solved out by binomial model in discounting its cash flows. The main inputs to this model include the underlying share price, the expected share volatility, the expected dividend yield, the risk free and risk interest rate.

The estimated fair value of financial liability amounted to approximately RMB 1,227,577 (US\$185,997) and RMB 971,693 (US\$ 154,386) as of December 31, 2010 and 2011, respectively. In the year ended December 31, 2010, the Company recorded foreign exchange gain of RMB 6,848, loss from fair value change of the Notes of RMB 9,040, and one-time charge of issuance costs of RMB 42,559, respectively. In the year ended December 31, 2011, the Company recorded foreign exchange gain of RMB 57,337, and a gain from fair value change of RMB 198,547, respectively.

(b) Interest rate swap transaction

In connection with the acquisition of Motel 168, the Company entered into a US\$ 240,000 denominated, 4-year term loan facility. This term loan carries floating interest at a rate per annum equal to one-month London Interbank Offered Rate ("LIBOR") plus 3.9%. The Company entered into an interest rate swap contract on November 28, 2011. The notional principal amount of the outstanding interest rate swap contract at December 31, 2011 was US \$180,000, and the fixed interest rate was 1.13%. The floating rate was with reference to three-month US dollar LIBOR.

The Company has accounted for this derivative financial instrument at fair value with the changes in fair value recorded in the consolidated statement of operations. The Company performs valuation of the derivative at each balance sheet date and records the change in fair value as non-operating income or loss.

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Fair value of the financial liabilities is determined using the discounted cash flow method. Under this method, the value of the interest rate swap equals to the present value of the net position of its future cash flows as of each settlement date. The net position of the future cash flows as of each settlement date is determined by comparing the projected fixed cash outflows with the projected variable cash inflows. The projected fixed cash outflows are calculated based on the fixed interest rate established upon consummation of the initial swap contract. The projected variable cash inflows are calculated based on the estimated swap yield curve as of the measurement date, in respect that the interest rates swap is a fix-for-floating swap from the Company's perspective. The net position of the future cash flows is then discounted by using the estimated swap yield curve rates.

In the year ended December 31, 2011, total loss as a result of fair value measurement is approximately RMB 7,315, which was recorded as non-operating expenses.

13 . DEBT

The Group's borrowings consist of the following:

	2011
Long-term debt, current portion	346,550
Long-term debt	1,165,666
Total	<u>1,512,216</u>

On September 26, 2011, the Group entered into a senior secured credit facility under which the Group can borrow up to USD 240,000. The proceeds of the borrowing should only be used for the acquisition of Motel 168. As of December 31, 2011, the Company had drawn down the full amount of the credit facility.

The interest rate of this borrowing is LIBOR plus 3.90% and total upfront fee is RMB 91,617. The weighted average interest rate for the borrowings was 4.22% for the years ended December 31, 2011. The upfront fee is amortized and recorded as interest expenses during the loan period, which is four years.

The principal amounts of the loan will be repaid in consecutive installments (each, an "Installment") on each of the dates (each, an "Amortization Date") and in the aggregate amounts set forth in the table below:

Date		Installment
July 31, 2012	US\$	55,000,000
July 31, 2013	US\$	60,000,000
July 31, 2014	US\$	65,000,000
September 15, 2015	US\$	60,000,000
Total	US\$	<u>240,000,000</u>

14. SHARE CAPITAL

As of December 31, 2009 and 2010, the authorized share capital of the Company was US\$ 1,000,000, divided into 200,000,000 ordinary shares.

In July 2006, the Company issued 2,834,037 ordinary shares in a private placement to certain individuals including certain executives and directors of the Company, for RMB 62,918 or US\$ 2.77 per share, pursuant to a financing arrangement agreed amongst the shareholders and the Company's board of directors. The issuance price per ordinary share of US\$ 2.77 was lower than the fair value of the Company's ordinary shares as of the date of the agreement and the difference of RMB 9,564 was recognized as share-based compensation expenses.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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On October 31, 2006, upon the completion of the initial public offering, the Company issued 5,874,237 ADSs or 11,748,474 shares, which were priced at US\$ 13.8 per ADS. Each ADS represents two ordinary shares. Total proceeds, net of issuance costs paid and payable from the offering, amounted to RMB 581,252. Upon completion of the Company's initial public offering, all convertible preferred shares were automatically converted into 22,924,886 ordinary shares. The Company's authorized shares became 200,000,000 shares of US\$ 0.005 par value per ordinary share.

In May 2007, the Company completed a secondary offering, during which it issued 1,478,155 ADSs or 2,956,310 shares, which were priced at US\$ 34.27 per ADS, or US\$ 17.135 per share. Total proceeds, net of issuance costs paid and payable from the offering, amounted to RMB 370,379.

On October 22, 2007, the Company issued US\$ 28,252 in equity, or 655,831 ordinary shares, to selling shareholders of Top Star hotel chain. The purchase price per ordinary share was set at US\$ 21.539 or US\$ 43.078 per ADS. Total proceeds, net of issuance costs from the issuance, amounted to RMB 106,022.

On May 21, 2009, the Company issued US\$50,000 in equity, or 7,514,503 ordinary shares, to Ctrip.com International, Ltd. through a private placement. The purchase price per ordinary share is set at US\$6.6538 or US\$13.3076 per ADS. Total proceeds, net of issuance costs from the issuance, amounted to RMB 341,078.

On September 30, 2011, the Company issued US\$105,008 in equity, or 8,149,616 ordinary shares, to selling shareholders of Motel 168. The purchase price per ordinary share was set at US\$12.885 or US\$25.77 per ADS. The total value amounted to RMB 667,314 (Note 6).

15. SHARE BASED COMPENSATION

On February 28, 2003, the Company adopted a share option plan ("2003 Option Plan") under which the directors of the Company may, at their discretion, grant options to acquire ordinary shares to any senior executives (including directors) and employees of the Company and/or its subsidiaries. Share options vest annually over a period of 4 years and once vested can be exercised within 5 years from the date of grant. The 2003 Option Plan provides for the issuance of options of the Company's ordinary shares in the amount of up to 5% of total ordinary and preferred shares outstanding. On May 30, 2005, the Company adopted a board resolution to increase shares reserved under the share option plan to 6% of total ordinary and preferred shares outstanding. On March 30, 2006, the Company adopted a shareholder resolution to increase shares reserved for the share options plan to 9% of total ordinary and preferred shares outstanding. This represented 4,784,226 options based on the then outstanding ordinary shares, which have been fully issued.

In July 2006, the Company also issued 1,020,000 shares of restricted stocks to certain current senior managers to replace the option awards previously granted under the 2003 Option Plan. The restricted stocks were exercisable immediately upon issuance. However, the vesting and other requirements imposed on these restricted stocks were identical to the terms under the original option awards, and therefore, the modification did not result in any incremental compensation cost. At December 31, 2010, there was no deferred compensation costs related to restricted stocks. Share-based compensation expenses associated with restricted stocks were RMB 771, RMB 130 and nil during the years ended December 31, 2009, 2010 and 2011, respectively. The weighted average remaining contractual life was zero for restricted stock grants outstanding at December 31, 2010.

On October 2, 2006, the Company adopted a share incentive plan ("2006 Share Incentive Plan") under which the directors of the Company may, at their discretion, grant awards to employees, directors and consultants of the Company or any of our related entities, which include our subsidiaries or any entities in which the Company holds a substantial ownership interest. Such awards include 1) share options; 2) restricted shares, which represent non-transferable ordinary shares, that may be subject to forfeiture; 3) restricted share units, which represent the right to receive the Company's ordinary shares at a specified date in the future, which may be subject to forfeiture; 4) share appreciation rights, which provide for payment to the grantee based upon increases in the price of our ordinary shares over a set base price; and 5) dividend equivalent right, which represent the value of the dividends per share that the Company pay. The term of an award shall not exceed 10 years from the date of the grant, except that 10 years is the maximum term of share option granted. The term of each award will be stated in the award agreement. As of December 31, 2011, the number of ordinary shares that may be issued under the 2006 Share Incentive Plan is up to 15,062,194 options. The 2006 Share Incentive Plan will expire in 2016. The characteristics of the awards granted during 2006 under this plan are similar to the awards granted under the 2003 Option Plan.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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In March 2008, the Company granted 1,093,200 share options to its employees and directors under the 2006 Share Incentive Plan, which had a grant date fair value of US\$ 3.1826 per option.

The Company entered into an option cancellation and replacement ("modification") agreement for all unvested options under the 2006 Share Incentive Plan as of October 27, 2008 and adjusted the exercise price to the then current market price of US\$ 3.63. The Company modified 2,443,000 share options with an incremental value of US\$ 1.2415, US\$ 1.2601, US\$ 1.2588 and US\$ 0.9830 per option for 26/12/2006 program, 20/04/2007 program, 21/12/2007 program and 27/03/2008 program, respectively. The modification had an immaterial impact on 2008 stock compensation expense and will increase stock compensation expenses by US\$ 4,628 from 2009 to 2012.

On October 27, 2008, the Company granted 280,000 share options to its employees under the 2006 Share Incentive Plan, which had a fair value of US\$ 1.3942 per option.

On July 14, 2009 and October 30, 2009, the Company granted 1,416,000 and 220,000 share options to its employees under the 2006 Share Incentive Plan, which had a fair value of US\$ 3.2313 and US\$ 6.4533 per option, respectively.

On March 19, 2010, June 21, 2010 and November 10, 2010, the Company granted 1,760,500, 120,000 and 109,000 share options to its employees under the 2006 Share Incentive Plan, which had a fair value of US\$ 8.1764, US\$ 12.176 and US\$ 11.594 per option, respectively.

On February 24, 2011 and November 9, 2011, the Company granted 1,919,000 and 317,000 share options to its employees under the 2006 Share Incentive Plan, which had a fair value of US\$ 8.0297 and US\$ 7.4567 per option, respectively.

The following summarizes the Company's share option activity under the 2003 Option Plan and 2006 Share Incentive Plan as of and for the years ended December 31, 2009, 2010 and 2011:

	Options	Weighted Average Exercise Price (US\$)	Weighted- average remaining contractual life (years)	Aggregate Intrinsic Value (US\$ millions)
Outstanding as of January 1, 2009	5,103,670	US\$ 4.4353	3.6	US\$ (0.74)
Granted	1,636,000	US\$ 8.1315		
Exercised	(1,387,388)	US\$ 3.1468		
Forfeited	(132,650)	US\$ 4.4636		
Cancelled	(23,500)	US\$ 17.3629		
Outstanding as of December 31, 2009	5,196,132	US\$ 5.8839	3.5	US\$ 61.27
Vested and exercisable as of December 31, 2009	1,273,212	US\$ 7.0255	2.4	US\$ 13.56
Outstanding as of December 31, 2009	5,196,132	US\$ 5.8839	3.5	US\$ 61.27
Granted	1,989,500	US\$ 16.8005		
Exercised	(1,337,574)	US\$ 6.8249		
Forfeited	(79,630)	US\$ 10.2435		
Cancelled	(1,500)	US\$ 8.2183		
Outstanding as of December 31, 2010	5,766,928	US\$ 9.3709	3.3	US\$ 64.06
Vested and exercisable as of December 31, 2010	1,329,628	US\$ 5.1184	2.1	US\$ 20.43
Outstanding as of December 31, 2010	5,766,928	US\$ 9.3709	3.3	US\$ 64.06
Granted	2,236,000	US\$ 16.2501		
Exercised	(794,182)	US\$ 5.4085		
Forfeited	(122,076)	US\$ 13.0759		
Cancelled	(6,000)	US\$ 7.6418		
Outstanding as of December 31, 2011	7,080,670	US\$ 11.9253	3.09	US\$ 6.90
Vested and exercisable as of December 31, 2011	2,044,384	US\$ 7.8647	2.28	US\$ 10.29

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HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

The aggregate intrinsic value represents the total intrinsic value based on the Company's closing stock price of US\$ 17.68, US\$ 20.48 and US\$ 12.90 per share as of December 31, 2009, 2010 and 2011, respectively.

The following is information relating to options outstanding as of December 31, 2011:

Exercise price	Weighted- average grant date fair value of ordinary shares	Number of shares	Outstanding		Exercisable	
			Weighted- average remaining contractual life (years)	Number of shares	Weighted- average remaining contractual life (years)	Number of shares
US\$17.390	US\$ 17.390	47,640	0.30	47,640	0.30	47,640
US\$3.6300	US\$ 3.6300	1,718,642	1.82	1,082,982	1.82	1,082,982
US\$7.3300	US\$ 7.3300	1,075,800	2.53	401,800	2.53	401,800
US\$13.290	US\$ 13.290	160,850	2.83	74,850	2.83	74,850
US\$16.165	US\$ 16.165	1,649,738	3.21	380,362	3.21	380,362
US\$20.515	US\$ 22.975	120,000	3.86	30,000	3.86	30,000
US\$22.975	US\$ 22.975	107,000	3.86	26,750	3.86	26,750
US\$16.355	US\$ 16.355	1,884,000	4.15	—	—	—
US\$15.615	US\$ 15.615	317,000	4.86	—	—	—
		<u>7,080,670</u>		<u>2,044,384</u>		

In connection with the share options granted during the years ended December 31, 2009, 2010 and 2011, the Company recognized share-based compensation expense of RMB 31,238, RMB 53,142 and RMB76,535, respectively. As of December 31, 2011, there was RMB 180,285 of unrecognized share-based compensation cost related to unvested share options which is expected to be recognized over a weighted average period of 2.44 years.

The Company calculated the estimated fair value of share options on the date of grant using the Black-Scholes pricing model with the following assumptions:

	2009	2010	2011
Risk-free interest rate ⁽¹⁾	1.76% to 1.81%	0.795% to 1.905%	0.5128% to 1.4348%
Expected life (years) ⁽²⁾	3 to 4.5	3 to 4.5	3.41 to 3.56
Expected dividend yield ⁽³⁾	—	—	—
Expected Volatility ⁽⁴⁾	57.29% to 64.24%	67.32% to 68.92%	67.01% to 69.38%

- (1) The risk-free interest rates are based on the US Treasury yield for a term consistent with the expected life of the awards in effect at the time of grant.
- (2) The expected life of share options is based on historical exercise patterns, for options granted since 2009 which the Company has historical data of and believes are representative of future behavior.
- (3) The Company has no history or expectation of paying dividends on its ordinary shares.
- (4) For the years ended December 31, 2009 and 2011, the Company estimated the volatility of its ordinary shares at the date of grant based on the historical volatility and implied volatility of comparable companies and itself for a period equal to time from the grant date to the assumed exercised date of the respective options in accordance with the vesting schedule. Since 2011, expected volatility is estimated based on the Company's historical volatility for a period equivalent to the expected term preceding the grant date.

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HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

16. EARNINGS PER SHARE

Basic earnings per share and diluted earnings per share have been calculated as follows:

	2009	2010	2011
Numerator:			
Net income available to ordinary shareholders	256,003	359,499	351,531
Dilutive effect of issuance and buy-back of convertible bonds	(66,338)	(1,418)	(845)
Dilutive effect of issuance of convertible notes	—	—	(232,278)
Net income for diluted earnings	189,665	358,081	118,408
Denominator:			
Denominator for basic earnings per share—weighted average ordinary shares outstanding	75,922,589	80,846,617	84,221,665
Dilutive effect of share options	1,952,622	2,847,416	1,951,850
Dilutive effect of convertible bonds	3,019,901	1,053,069	671,670
Dilutive effect of convertible notes	—	—	7,454,208
Denominator for diluted earnings per share	80,895,112	84,747,102	94,299,393
Basic earnings per share	3.37	4.45	4.17
Diluted earnings per share	2.34	4.23	1.26

For the years ended December 31, 2009, ordinary share equivalents outstanding of 680,432 shares of stock options were excluded in the computation of diluted earnings per share, as their effect would have been anti-dilutive in such periods.

For the year ended December 31, 2010, outstanding stock options of 290,914 shares and 224,647 ordinary shares issuable upon the conversion of convertible notes were excluded in the computation of diluted earnings per share due to their anti-dilutive effect.

For the year ended December 31, 2011, outstanding stock options of 1,254,933 shares were excluded in the computation of diluted earnings per share due to their anti-dilutive effect.

For the year ended December 31, 2011, dilutive effect of issuance of convertible notes included gain on change in fair value of 198,547, foreign exchange gain on convertible notes of 57,337 and related interest expenses of 23,606.

17. RELATED PARTY TRANSACTIONS

Name of related parties	Relationships with the Company
BTG	Parent company of Poly Victory Investments Limited
Ctrip.com International, Ltd.	Principal shareholder of the Company, common directors
Jian Guo Inns Beijing Ltd. ("Jian Guo Inns")	Subsidiary of BTG
Shanghai Xin Zhi Trading Co., Ltd.	Noncontrolling interests of subsidiary
Xiamen Shuiwu Co., Ltd.	Noncontrolling interests of subsidiary
Fujian Yun Tong Co., Ltd.	Noncontrolling interests of subsidiary
Shanghai Dinuo Co., Ltd.	Noncontrolling interests of subsidiary
Sun Yan	Noncontrolling interests of subsidiary

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HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

Related party transactions during the years ended December 31 is as follows:

	2009	2010	2011
Agency fees paid to Ctrip.com International, Ltd.	20,942	18,191	17,661
Rental fees paid to Jian Guo Inns	2,800	2,800	2,800

As of December 31, significant balances with related parties are as follows:

Due from related parties:

	2010	2011
Shanghai Xin Zhi Trading Co., Ltd.	3,114	2,408
Shanghai Dinuo Co., Ltd.	825	1,425
Fujian Yun Tong Co., Ltd.	1,170	1,596
Sun Yan	550	950
	<u>5,659</u>	<u>6,379</u>

The amount due from all the related parties represented the advance payment for dividends.

Due to related parties:

	2010	2011
Dongguan Kanglv Co., Ltd.	1,496	—
Ctrip.com International, Ltd.	1,421	2,557
Xiamen Shuiwu Co., Ltd.	1,265	240
	<u>4,182</u>	<u>2,797</u>

The amounts due from and due to related parties as of December 31, 2010 and 2011 mainly arose from the above transactions and payments made by the Company and related parties on behalf of each other. These amounts are not collateralized, free of interest and receivable or payable on demand.

18. OBLIGATIONS UNDER FINANCE LEASES

The Company has entered into finance leases for certain electronic equipment with 3-year payment terms. The following is an analysis of the leased property under finance lease:

	December 31, 2011
Electronic equipment	19,696
Less: Accumulated depreciation	(3,173)
Total	<u>16,523</u>

The following is a schedule of future minimum lease payments under finance leases together with the present value of the net minimum lease payments as of December 31, 2011:

	December 31, 2011
2012	7,233
2013	7,233
2014	1,407
Total minimum lease payments	15,873
Less: Amount representing interest	(1,117)
Present value of net minimum lease payments	<u>14,756</u>
Analysis as:	
Current	7,006
Non Current	<u>14,756</u>

The above finance lease obligations are included in finance lease liabilities in the balance sheet.

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

19. COMMITMENTS AND CONTINGENCIES

(a) *Capital commitments*

As of December 31, 2011, the Group's commitments related to leasehold improvements, and installation of machinery and equipment for the hotel operations amounted to RMB 158,172.

(b) *Commitments under operating leases*

The Group has entered into lease agreements relating to leased-and-operated hotels that are classified as operating leases.

Future minimum lease payments for non-cancelable operating leases at December 31 are as follows:

	<u>Related party</u>	<u>Non-related party</u>	<u>Total</u>
2012	2,800	1,366,905	1,369,705
2013	2,800	1,392,707	1,395,507
2014	2,800	1,407,604	1,410,404
2015	2,800	1,416,020	1,418,820
2016	2,800	1,408,301	1,411,101
Thereafter	767	9,896,601	9,897,368
Total	<u>14,767</u>	<u>16,888,138</u>	<u>16,902,905</u>

Rental expenses amounted to RMB 585,969, RMB 644,248 and RMB 937,145 during the years ended December 31, 2009, 2010 and 2011, respectively.

(c) *Commitments under financial leases*

As of December 31, 2011, the Group's commitments under financial leases amounted to RMB 60,715.

(d) *Contingencies*

As of December 31, 2011 the Group had no significant outstanding contingencies that are likely to have a material impact on our financial condition, results of operations, liquidity or cash flows.

HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

20. ADDITIONAL INFORMATION-FINANCIAL STATEMENTS SCHEDULE I

The separate financial statements of the Company as presented below have been prepared in accordance Securities and Exchange Commission Regulation S-X Rule 5-04 and Rule 12-04 and present the Company's investments in its subsidiaries under the equity method of accounting. Such investments are presented on the separate balance sheets of the Company as Investments in subsidiaries." The Company was incorporated in May 2006 and immediately became the parent company of Home Inns & Hotels Management (Hong Kong) Limited and its operating subsidiaries. The financial statements have been prepared as if the Company had been in existence since January 1, 2006. Subsidiaries income or loss is included as the Company's "Share of income from subsidiaries" on the statement of operations. The subsidiaries did not pay any dividend to the Company for the periods presented.

The Company did not have any significant commitments or guarantees as of December 31, 2010 and 2011.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u> US\$ thousands
Statements of operations				
Net revenues	—	—	—	—
Operating expenses	(3,262)	(3,590)	(61,783)	(9,816)
Loss from operations	(3,262)	(3,590)	(61,783)	(9,816)
Share of income from subsidiaries	200,664	416,760	239,217	38,008
Interest income	268	90	8,095	1,286
Interest expense	(10,866)	(1,730)	(45,945)	(7,300)
Issuance costs for convertible notes	—	(42,559)	—	—
(Loss)/gain on change in fair value of convertible notes	—	(9,040)	198,547	31,546
Foreign exchange (loss)/gain	(128)	(2,912)	19,194	3,050
Gain on buy-back of convertible bonds	69,327	2,480	1,521	242
Non-operating expenses	—	—	(7,315)	(1,162)
Income before income tax expense	<u>256,003</u>	<u>359,499</u>	<u>351,531</u>	<u>55,854</u>
Income tax expense	—	—	—	—
Net income	<u><u>256,003</u></u>	<u><u>359,499</u></u>	<u><u>351,531</u></u>	<u><u>55,854</u></u>

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HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

	<u>2010</u>	<u>2011</u>	<u>2011</u> US\$ thousands (Note 2(d))
Balance sheets:			
Assets			
Current assets:			
Cash and cash equivalents	1,366,249	181,581	28,850
Restricted cash	—	202,323	32,146
Receivables from related parties	—	241	38
Prepayments and other current assets	1,896	1,036	165
Total current assets	<u>1,368,145</u>	<u>385,181</u>	<u>61,199</u>
Investments in subsidiaries (a)	2,918,037	6,154,925	977,919
Other assets	—	85,891	13,647
Total assets	<u>4,286,182</u>	<u>6,625,997</u>	<u>1,052,765</u>
Liabilities			
Current liabilities			
Payables to related parties	139,408	—	—
Short-term loans	—	346,550	55,061
Convertible bonds	—	113,051	17,961
Other payables and accruals	16,496	156,418	24,853
Total current liabilities	<u>155,904</u>	<u>616,019</u>	<u>97,875</u>
Non-current liabilities			
Convertible bonds	159,402	—	—
Long-term loans	—	1,165,666	185,206
Financial liability	1,227,577	979,008	155,549
Total liabilities	<u>1,542,883</u>	<u>2,760,693</u>	<u>438,630</u>
Shareholders' equity			
Ordinary shares (US\$ 0.005 par value; 200,000,000 shares authorized, 81,716,084 and 90,659,882 shares issued and outstanding as of December 31, 2010 and 2011, respectively)	3,257	3,542	563
Additional paid-in capital	1,913,734	2,683,923	426,432
Retained earnings	826,308	1,177,839	187,140
Total shareholders' equity	<u>2,743,299</u>	<u>3,865,304</u>	<u>614,135</u>
Total liabilities and shareholders' equity	<u>4,286,182</u>	<u>6,625,997</u>	<u>1,052,765</u>

(a) Investments in subsidiaries include the amounts contributed to Home Inns HK by the Company for Home Inns HK's investments in PRC subsidiaries.

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HOME INNS & HOTELS MANAGEMENT INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in RMB in thousands, except share and per share data and where otherwise stated)

	2009	2010	2011	2011
	US\$ thousands			
Statements of Cash flows:				
Cash flows from operating activities:				
Net income	256,003	359,499	351,531	55,854
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Amortization of upfront fee of term loan	—	—	5,726	910
Share of income from subsidiaries	(200,664)	(416,760)	(239,217)	(38,008)
Interest expense	2,989	1,730	—	—
Foreign exchange loss/(gain)	128	2,912	(19,194)	(3,050)
Gain on buy-back of convertible bonds	(69,327)	(2,480)	(1,521)	(242)
Issuance costs for convertible notes	—	42,559	—	—
Loss/(gain) on change in fair value of convertible notes	—	9,040	(198,547)	(31,546)
Loss from fair value change of interest rate swap transaction	—	—	7,315	1,162
Change in assets and liabilities, net of effects of acquisitions:				
Increase in receivables from related parties	—	—	(241)	(38)
Decrease/(increase) in prepayments and other current assets	8,855	(205)	540	86
Increase/(decrease) in payables to related parties	20,741	97,248	(163,258)	(25,939)
Increase/(decrease) in other payables and accruals	8,238	(673)	(4,630)	(736)
Net cash provided by/(used) in operating activities	26,963	92,870	(261,496)	(41,547)
Cash flows from investing activities:				
Cash paid to restricted cash – escrow account and interest reserve account	—	—	(202,323)	(32,146)
Cash paid for the acquisition of Motel 168	—	—	(2,031,421)	(322,760)
Investments in subsidiaries	—	(47,951)	(53,319)	(8,472)
Cash received from returns on investments	5,746	—	—	—
Cash flows provided by/ (used) in investing activities:	5,746	(47,951)	(2,287,063)	(363,378)
Cash flows from financing activities:				
Proceeds from issuance of ordinary shares, net with share issuance costs	341,078	—	—	—
Proceeds from share option exercise	26,975	63,644	28,173	4,476
Buy-back of convertible bonds	(395,842)	(75,687)	(45,507)	(7,230)
Net proceeds from issuance of convertible notes	—	1,188,823	—	—
Proceeds from loans	—	—	1,525,176	242,326
Payment for upfront fee of loan	—	—	(91,617)	(14,556)
Net cash provided by/(used in) financing activities	(27,789)	1,176,780	1,416,225	225,016
Effect of foreign exchange rate changes on cash and cash equivalents	(128)	(9,761)	(52,334)	(8,316)
Net increase/(decrease) in cash and cash equivalents	4,792	1,211,938	(1,184,668)	(188,225)
Cash and cash equivalents, beginning of year	149,519	154,311	1,366,249	217,075
Cash and cash equivalents, end of the year	154,311	1,366,249	181,581	28,850
Supplemental disclosure of cash flow information				
Cash paid during the year for interest	—	—	(33,848)	(5,378)
Supplemental schedule of non-cash investing activities:				
Unpaid consideration related to the acquisition of Motel 168	—	—	143,728	22,836
Decrease of investments in subsidiaries when Home Inns HK paid on behalf of the Company	66,187	127,000	—	—
Issuance of ordinary shares related to the acquisition of Motel 168	—	—	667,314	106,026

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "**Agreement**") is made and entered into as of September 30, 2011, by and among Home Inns & Hotels Management Inc., a Cayman Islands exempted company (the "**Company**") and each person or entity listed under the caption "Sellers" on Schedule 1 attached hereto (each a "**Seller**" and collectively, the "**Sellers**"). Terms used but not otherwise defined herein shall have the meanings assigned to them in that certain Share Purchase Agreement dated as of May 27, 2011 (the "**Purchase Agreement**") by and among the Company, the Sellers, Motel 168 International Holdings Limited ("**Motel 168**") and the other parties thereto.

RECITALS

WHEREAS, the Company, the Sellers, Motel 168 and certain other parties have entered into the Purchase Agreement, pursuant to which the Company will issue to the Sellers 8,149,616 ordinary shares of the Company, par value US\$0.005 per share (the "**Ordinary Shares**") (the Ordinary Shares to be issued to the Sellers by the Company, the "**Seller Shares**"), subject to the terms and conditions thereof; and

WHEREAS, it is a condition to the Closing that, among other things, this Agreement has been executed and delivered by the parties hereto.

NOW, THEREFORE, in consideration of the foregoing premises, mutual promises and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

AGREEMENT**1. Definitions**

For the purposes of this Agreement:

(a) Registrable Securities

"**Registrable Securities**" shall mean (i) the Seller Shares and (ii) Ordinary Shares obtained by the Sellers or an Affiliate of the Sellers through any stock split, stock dividend or any similar issuance in respect of the Seller Shares.

Notwithstanding the foregoing, "**Registrable Securities**" shall exclude any Registrable Securities sold by a person in a transaction in which rights under this Agreement are not expressly assigned in accordance with this Agreement, or any Registrable Securities sold in a public offering, whether sold pursuant to Rule 144 promulgated under the Securities Act of 1933 of the United States of America (the "**Securities Act**"), or in a registered offering, or otherwise.

(b) Outstanding Registrable Securities

The number of "**the Outstanding Registrable Securities**" at any given time means the aggregate number of Ordinary Shares held by the Holders at such time which are Registrable Securities.

(c) Holder

"**Holder**" shall mean any Seller and any permitted assignee of the Registrable Securities to whom rights under this Agreement have been duly assigned in accordance with this Agreement.

(d) Form F-3

"**Form F-3**" shall mean any such form under the Securities Act being in effect on the date hereof or any successor registration form under the Securities Act subsequently adopted by the Securities and Exchange Commission of the United States of America (the "**Commission**"). Such form permits the inclusion or incorporation of substantial information by reference to other documents filed by the Company with the Commission.

2. Demand Registration

(a) Request by Holders

Subject to Section 8 of this Agreement, if the Company shall receive a written request from the Holders possessing collectively at least fifty percent (50%) of the Outstanding Registrable Securities that the Company file a registration statement under the Securities Act covering the registration of Registrable Securities pursuant to this Section 2, then the Company shall, within ten (10) Business Days of the receipt of such written request, give written notice of such request ("**Request Notice**") to all the Holders, and use its best efforts to effect, as soon as practicable, but in any event no later than sixty (60) days after receipt of the Request Notice, the registration under the Securities Act of all Registrable Securities that the Holders request to be registered in such registration by providing written notice to the Company within twenty (20) days after receipt of the Request Notice, subject only to the limitations set forth in this Section 2.

(b) Underwriting

If the Holders initiating the registration request under this Section 2 ("**Initiating Holders**") intend to distribute the Registrable Securities covered by their request by means of an underwriting, then they shall so advise the Company as a part of their request made pursuant to this Section 2 and the Company shall include such information in the written notice referred to in Clause 2(a). In such an event, the right of any Holder to include his Registrable Securities in such registration shall be conditional upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All the Holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the managing underwriter or underwriters selected for such underwriting by the Holders of a majority of the Registrable Securities being registered and reasonably acceptable to the Company. Notwithstanding any other provision of this Section 2, if the underwriter(s) advise(s) the Company in writing that marketing factors require a limitation of the number of securities to be underwritten, then the Company shall so advise all the Holders of Registrable Securities which would otherwise be registered and underwritten pursuant hereto, and the number of Registrable Securities that may be included in the underwriting shall be reduced as required by the underwriter(s) and allocated among the Holders of Registrable Securities on a pro rata basis according to the number of the Outstanding Registrable Securities held by each Holder requesting registration (including the Initiating Holders); provided, however, that in all public offering of securities, the right of the underwriter(s) to exclude shares (including Registrable Securities) from the registration and underwriting as described above shall be restricted so that all shares that are not Registrable Securities and are held by any other person, including, without limitation, any person who is an employee, officer or director of the Company (or any subsidiary of the Company) shall first be excluded from such registration and underwriting before any Registrable Securities are so excluded. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter(s), which notice shall be delivered at least ten (10) Business Days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.

(c) Maximum Number of Demand Registrations

The Company shall be obligated to effect only two (2) such registrations pursuant to this Section 2; provided, that a registration requested pursuant to this Section 2 shall not be deemed to have been effected for purposes of this Section 2(c) unless (i) it has been declared effective by the Commission, (ii) it has remained effective for the period set forth in Section 5(a) and (iii) the offering of Registrable Securities pursuant to such registration is not subject to any stop order, injunction or other order or requirement of the Commission (other than any such stop order, injunction, or other requirement of the Commission prompted by act or omission of the Holders of Registrable Securities).

(d) Deferral

Notwithstanding the foregoing, if the Company furnishes to the Holder or Holders initiating a registration request under this Section 2 a certificate signed by a director of the Company stating that in the good faith judgment of the board of directors of the Company (the "**Board**"), it would be materially detrimental to the Company and its shareholders for such registration statement to be filed, then the Company shall have the right to defer such filing for a period of not more than ninety (90) days after receipt of the request of the Initiating Holders; provided, however, that the Company may not utilize this right more than once in any twelve (12) month period.

(e) Expenses

All expenses incurred in connection with any registration, pursuant to this Section 2, including without limitation all federal and "blue sky" registration, filing and qualification fees, printer's and accounting fees, and fees and disbursements of counsel for the Company and the Initiating Holders, shall be borne by the Company; provided, however, that the Company shall only be required to bear fees and disbursements of one counsel for the selling Holders chosen by Holders representing a major interest in the Registrable Securities being registered. Each Holder participating in a registration pursuant to this Section 2 shall bear such Holder's proportionate share (based on the total number of shares sold in such registration other than for the account of the Company) of all discounts, commissions or other amounts payable to underwriters or brokers in connection with such offering by the Holders. Notwithstanding the foregoing, the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to this Section 2 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered, unless the Holders of a majority of the Outstanding Registrable Securities agree that such registration constitutes the use by the Holders of one (1) demand registration pursuant to Section 2 (in which case such registration shall also constitute the use by all Holders of Registrable Securities of one (1) such demand registration); provided, further, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business, or prospects of the Company not known to the Holders at the time of their request for such registration and have withdrawn their request for registration with reasonable promptness after learning of such material adverse change, then the Holders shall not be required to pay any of such expenses and such registration shall not constitute the use of a demand registration pursuant to this Section 2.

3. Piggyback Registrations

Subject to Section 8 of this Agreement, the Company shall notify all the Holders of Registrable Securities in writing at least thirty (30) days prior to filing any registration statement under the Securities Act for purposes of effecting a public offering of securities of the Company (other than (i) a registration relating solely to employee benefit plans, (ii) a registration relating solely to a Rule 145 transaction or (iii) a registration upon the Holders' exercise of the demand registration rights pursuant to Section 2 of this Agreement) and will afford each such Holder an opportunity to include in such registration statement all or any part of the Registrable Securities then held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by such Holder shall within twenty (20) days after receipt of the above-described notice from the Company, so notify the Company in writing, and in such notice shall inform the Company of the number of Registrable Securities such Holder wishes to include in such registration statement. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(a) Underwriting

If a registration statement under which the Company gives notice under this Section 3 is for an underwritten offering, then the Company shall so advise the Holders. In such event, the right of any such Holder's Registrable Securities to be included in a registration pursuant to this Section 3 shall be conditional upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All the Holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the managing underwriter or underwriters selected for such underwriting. Notwithstanding any other provision of this Agreement, if the managing underwriter(s) determine(s) in good faith that marketing factors require a limitation of the number of shares to be underwritten, then the managing underwriter(s) may exclude shares from the registration and the underwriting, and the number of shares that may be included in the registration and the underwriting shall be allocated, first, to the Company in the case that the Company initiated such registration or to the shareholder of the Company that initiated such registration, as the case may be, second, to holder(s) of piggy-back registration rights granted by the Company prior to the date of this Agreement (the "**Existing Piggy-Back Rights**") pursuant to the terms of the Existing Piggy-Back Rights, third, to each of the Holders requesting inclusion of their Registrable Securities in such registration on a pro rata basis based on the total number of Registrable Securities then held by each such Holder, and fourth, to the Company in the case of a registration initiated by a shareholder of the Company and any other person, including, without limitation, any person who is an employee, officer or director of the Company (or any subsidiary of the Company), requesting inclusion of their shares in such registration. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter(s), delivered at least ten (10) Business Days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.

(b) Expenses

All expenses incurred in connection with a registration pursuant to this Section 3 (excluding underwriters' and brokers' discounts and commissions relating to shares sold by the Holders, which shall be borne by such Holders on a pro rata basis based on the total number of shares included in such registration by such Holders), including, without limitation all federal and "blue sky" registration, filing and qualification fees, printer's and accounting fees, and fees and disbursements of counsel for the Company, shall be borne by the Company.

(c) Not Demand Registration

Registration pursuant to this Section 3 shall not be deemed to be a demand registration as described in Section 2 above. Except as otherwise provided herein, there shall be no limit on the number of times the Holders may request registration of Registrable Securities under this Section 3.

4. Form F-3 Registration

4.1 Subject to Section 8 of this Agreement, in case the Company shall, at any time after it has become eligible to use Form F-3, receive from any Holder or Holders of fifty percent (50%) of all the Outstanding Registrable Securities a written request or requests that the Company effect a registration on Form F-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, then the Company will:

(a) Notice

promptly give written notice of the proposed registration and the Holder's or Holders' request therefor, and any related qualification or compliance, to all other Holders of Registrable Securities; and

(b) Registration

as soon as practicable, but in any event no later than sixty (60) days after receipt of the Request Notice, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holders or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within twenty (20) days after the Company provides the notice contemplated by paragraph (a) of this Section 4.1.

4.2 Expenses

The Company shall pay all expenses incurred in connection with each registration requested pursuant to this Section 4 (excluding underwriters' or brokers' discounts and commissions relating to shares sold by the Holders, which shall be borne by such Holders on a pro rata basis based on the total number of shares included in such registration by such Holders), including without limitation federal and "blue sky" registration, filing and qualification fees, printer's and accounting fees, and fees and disbursements of counsel for the Company and the Holders.

4.3 Deferral

Notwithstanding the foregoing, if the Holder or Holders of fifty percent (50%) of all the Outstanding Registrable Securities request the filing of a registration statement pursuant to this Section 4 and the Company furnishes to such Holder or Holders a certificate signed by a director of the Company stating that in the good faith judgment of the Board, it would be materially detrimental to the Company and its shareholders for such registration statement to be filed, then the Company shall have the right to defer such filing for a period of not more than ninety (90) days after receipt of the request of the initiating Holders; provided, however, that the Company may not utilize this right more than once in any twelve (12) month period.

4.4 Not Demand Registration

Form F-3 registrations pursuant to this Section 4 shall not be deemed to be demand registrations as described in Section 2 above. Except as otherwise provided herein, there shall be no limit on the number of times the Holder or Holders may request registration of Registrable Securities under this Section 4.

5. Obligations of the Company

Whenever required to effect the registration of any Registrable Securities under this Agreement, the Company shall, as expeditiously as reasonably possible:

(a) Registration Statement

prepare and file with the Commission a registration statement with respect to such Registrable Securities and use its commercial reasonable efforts to cause such registration statement to become effective and remain effective for a period of time required for the disposition of such Registrable Securities by the Holders thereof, provided, however, that the Company shall not be required to keep any such registration statement effective for more than: (i) one hundred and twenty (120) days, provided that such period shall be extended for a period of time equal to the period the Holder refrains, at the request of an underwriter of Ordinary Shares, from selling any securities included in such registration, or (ii) in the case of registration on Form F-3, a period of two (2) years;

(b) Amendments and Supplements

prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement;

(c) Prospectuses

furnish to the Holders such number of conformed copies of the applicable registration statement and each such amendment and supplement thereto (including in each case all exhibits), and copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of the Registrable Securities owned by them that are included in such registration;

(d) Blue Sky

register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions;

(e) Underwriting

in the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement in usual and customary form, with the managing underwriter(s) of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement;

(f) Notification

notify each Holder of Registrable Securities covered by such registration statement at any time (i) when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, (ii) of the issuance by the Commission of any stop order suspending the effectiveness of such registration statement or the initiation of any proceedings for that purpose, (iii) of the receipt by the Company or its legal counsel of any notification with respect to the suspension of the qualification of the Ordinary Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose, and (iv) of any request by the Commission for amendments or supplements to such registration statement or the prospectus included therein or for additional information;

(g) Post-Effective Amendments

upon the occurrence of any event contemplated by Section 5(f)(i) above, promptly prepare a post-effective amendment to such registration statement or a supplement to the related prospectus or file any other required document so that, as thereafter delivered to the Holders, the prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Company notifies the Holders in accordance with Section 5(f)(i) above to suspend the use of the prospectus until the requisite changes to the prospectus have been made, then the Holders shall suspend use of such prospectus and use their reasonable efforts to return to the Company all copies of such prospectus (at the Company's expense) other than permanent file copies then in such Holder's possession, and the period of effectiveness of such registration statement provided for above shall be extended by the number of days from and including the date of the giving of such notice to the date Holders shall have received such amended or supplemented prospectus pursuant to this Section 5(g);

(h) Opinion and Comfort Letter

furnish, at the request of any Holder requesting registration of Registrable Securities, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (ii) a "comfort" letter dated as of such date, from the independent auditors of the Company, in form and substance as is customarily given by independent auditors to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities;

(i) Compliance with Securities Law

comply with all applicable rules and regulations of the Commission, and make earnings statements satisfying the provisions of Section 11(a) of the Securities Act generally available to the Holders in a timely manner;

(j) Listing Applications

cause all such Registrable Securities to be listed on each securities exchange or quotation system on which similar securities issued by the Company are listed or traded;

(k) Company Disclosure

make reasonably available for inspection by a maximum of two representatives of the Holders, any underwriter participating in any disposition pursuant to such Registration Statement and any attorney, accountant or other agent retained by such representative or any such underwriter all relevant financial and other records, pertinent corporate documents and properties of the Company and cause the Company's officers, directors and employees to supply all relevant information reasonably requested by such representative or any such underwriter, attorney, accountant or agent in connection with the registration; and

(l) Transfer Agent

procure the cooperation of the Company's transfer agent in settling any offering or sale of Registrable Securities, including with respect to the transfer of physical stock certificates into book-entry form in accordance with any procedures reasonably requested by the Holders or the underwriters.

6. Furnish Information

It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 2, 3 or 4 that the selling Holder or Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them, and the intended method of disposition of such securities as shall be reasonably required to timely effect the registration of their Registrable Securities.

7. Indemnification

In the event any Registrable Securities are included in a registration statement under Section 2, 3 or 4:

(a) By the Company

To the extent permitted by law the Company will indemnify and hold harmless each Holder, the partners, officers and directors of each Holder, any underwriter (as determined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Securities Exchange Act of 1934, as amended (the "**1934 Act**"), against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "**Violation**"):

- (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto;
- (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or
- (iii) any violation by the Company of the Securities Act, the 1934 Act, any federal or state securities law or any rule or regulation promulgated under the Securities Act, the 1934 Act or any federal or state securities law in connection with the offering covered by such registration statement;

and the Company will reimburse each such Holder, partner, officer or director, underwriter or controlling person for any legal or other expenses reasonably incurred by them, as incurred, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in paragraph 7(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, partner, officer, director, underwriter or controlling person of such Holder.

(b) By Selling Holders

To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the registration statement, each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or any of such other Holder's partners, directors or officers or any person who controls such Holder within the meaning of the Securities Act or the 1934 Act, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, officer, controlling person, underwriter or other such Holder, partner or director, officer or controlling person of such other Holder may become subject under the Securities Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or other Holder, partner, officer, director or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, liability or action: provided, however, that the indemnity agreement contained in this paragraph 7(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; and provided, further, that the total amounts payable in indemnity by a Holder under this paragraph 7(b) in respect of any Violation shall not exceed the net proceeds received by such Holder in the registered offering out of which such Violation arises.

(c) Contribution

If the indemnification provided for in this Section 7 from the indemnifying party is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified parties in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified parties shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified parties, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding. If the allocation provided in this paragraph (c) is not permitted by applicable law, the parties shall contribute based upon the relevant benefits received by the Company from the offering of the Registrable Securities on the one hand and the net proceeds received by the Holders from the sale of the Registrable Securities on the other.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 7(c) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. No Person (as defined in the 1934 Act) guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

(d) Notice

Promptly after receipt by an indemnified party under this Section 7 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 7, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential conflict of interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall relieve such indemnifying party of liability to the indemnified party under this Section 7 to the extent the indemnifying party is prejudiced as a result thereof, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party other than under this Section 7.

(e) Survival

The obligations of the Company and the Holders under this Section 7 shall survive until the fifth anniversary of the completion of any offering of Registrable Securities in a registration statement, regardless of the expiration of any statutes of limitation or extensions of such statutes.

8. Exercise of Registration Rights by the Holder

Prior to the date that is 180 days after the date of the Closing, the Company shall have no obligations pursuant to Sections 2, 3 and 4 of this Agreement with respect to any Registrable Securities proposed to be sold by a Holder in a registration statement pursuant to Section 2, 3 or 4.

9. Assignment

The registration rights under this Agreement may be assigned by any Holder to a transferee of Registrable Securities that, after such transfer, holds more than one percent (1%) of the Company's outstanding Ordinary Shares; provided, however, that:

- (a) without the prior written consent of the Company, no Holder may assign any Registrable Securities to any Person (as defined in the Purchase Agreement) that engages in the Business (as defined in the Purchase Agreement);
- (b) no party may be assigned any of such rights unless the Company is given written notice by the assigning party at the time of such assignment stating the name and address of the assignee and identifying the securities of the Company as to which the rights in question are being assigned; and
- (c) any such assignee shall receive such assigned rights subject to the terms and conditions of this Agreement, including without limitation the provisions in this Section 9.

10. Reports Under the 1934 Act

With a view to making available to the Holders the benefits of Rule 144 and any other rule or regulation of the Commission that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form F-3, the Company agrees to:

- (a) make and keep public information available, as those terms are understood and defined in Rule 144, at all times after the date hereof;
- (b) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the 1934 Act; and
- (c) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company), the Securities Act and the 1934 Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form F-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested to avail any Holder of any rule or regulation of the Commission that permits the selling of any such securities without registration or pursuant to such form.

11. Termination of the Company's Obligations

The Company shall have no obligations pursuant to Sections 2, 3 and 4 from the earlier of (x) the date that is three (3) years and six (6) months after the Closing Date (as defined in the Share Purchase Agreement) and (y) such time as the Holders in the aggregate beneficially own, directly or indirectly, such number of Outstanding Registrable Securities that constitute less than twenty percent (20%) of the Seller Shares, as adjusted for any stock split, stock dividend or any similar issuance in respect of such Seller Shares.

12. Term and Amendment

(a) Term

This Agreement shall become effective immediately at the Closing, and may be terminated at any time with the written consent of all Holders of Registrable Securities then outstanding and entitled to the registration rights set forth in this Agreement.

(b) Amendment

Any provision of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of the Company and all Holders of Registrable Securities then outstanding and entitled to the registration rights set forth in this Agreement. Any amendment or waiver effected in accordance with this Section 12 shall be binding upon all parties hereto.

13. Severability

If at any time any one or more provisions hereof is or becomes invalid, illegal, unenforceable or incapable of performance in any respect, the validity, legality, enforceability or performance of the remaining provisions hereof shall not thereby in any way be affected or impaired, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

14. Entire Agreement

This Agreement constitutes the entire agreement and understanding between the parties in connection with the subject matter of this Agreement and supersedes all previous proposals, representations, warranties, agreements or undertakings relating thereto whether oral, written or otherwise and no party hereto has relied or is entitled to rely on any such proposals, representations, warranties, agreements or undertakings.

15. Specific Performance

The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement were not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

16. Counterparts

This Agreement may be executed in any number of counterparts and by the parties on separate counterparts, each of which, when so executed and delivered, shall be an original but all the counterparts shall together constitute one and the same instrument.

17. Notices and Other Communication

Any notice or other communication to be given under this Agreement shall be in writing and may be sent by post or delivered by hand or given by facsimile or by courier to the address or fax number from time to time designated, the initial address and fax number so designated by each party being set out in Schedule 1 attached hereto. Any such notice or communication shall be sent to the party to whom it is addressed and must contain sufficient reference and/or particulars to render it readily identifiable with the subject-matter of this Agreement. If so delivered by hand or given by facsimile such notice or communication shall be deemed received on the date of dispatch and if so sent by post shall be deemed received three (3) Business Days after the date of dispatch (in the case of local mail) and five (5) Business Days after the date of dispatch (in the case of overseas registered/certified mail).

Each person making a communication hereunder by facsimile shall promptly confirm by telephone to the person to whom such communication was addressed, but the absence of such confirmation shall not affect the validity of any such communication.

18. Governing Law and Jurisdiction

This Agreement shall be governed by and construed in accordance with the laws of State of New York, U.S.A. and the parties irrevocably submit to the non-exclusive jurisdiction of the New York courts in respect of this Agreement.

19. Aggregation of Shares

All Ordinary Shares held or acquired by an Affiliate of any Seller shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

20. Effectiveness

Notwithstanding anything to the contrary in this Agreement, this Agreement shall only become effective subject to, and contemporaneously with, the closing of the transactions contemplated by the Purchase Agreement.

(Signature Page to Follow)

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first above written.

COMPANY

By: /s/ David Sun

Name: David Sun

Title: Director

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

GSS III MONROE HOLD GS LIMITED

By: /s/ Jeffrey Hugh Macdonnell

Name: Jeffrey Hugh Macdonnell

Title: Alternate Director to J. Timothy Morris

Signature Page to Share Purchase Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

MERRYLIN INTERNATIONAL INVESTMENT LIMITED

By: /s/ Shen Feiyu

Name: Shen Feiyu

Title: Director

Signature Page to Share Purchase Agreement

SHARE PURCHASE AGREEMENT

by and among

**EACH ENTITY LISTED UNDER THE CAPTION
"SHAREHOLDERS" ON EXHIBIT B,**

MOTEL 168 INTERNATIONAL HOLDINGS LIMITED

and

HOME INNS & HOTELS MANAGEMENT INC.

Dated as of May 27, 2011

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SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT is made and entered into and effective as of the 27th day of May, 2011 (this "**Agreement**"), by and among each entity listed under the caption "Shareholders" on Exhibit B (each, a "**Seller**" and collectively, "**Sellers**"), Motel 168 International Holdings Limited, a company incorporated under the laws of the Cayman Islands (the "**Company**"), and Home Inns & Hotels Management Inc., a company incorporated under the laws of the Cayman Islands ("**Purchaser**") (each of Sellers, the Company and Purchaser, a "**Party**" and collectively, the "**Parties**").

RECITALS

WHEREAS, the Company is engaged in the business of hotel operations and management; and

WHEREAS, as of the date of this Agreement, Sellers own, in the aggregate, all of the issued and outstanding Ordinary Shares (as defined below) of the Company (the "**Acquired Shares**"), which constitute the only outstanding share capital of the Company; and

WHEREAS, Sellers desire to sell and to transfer to Purchaser, and Purchaser desires to purchase and accept from Sellers all of the Acquired Shares, upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing, the representations, warranties, covenants and agreements set forth in this Agreement, and other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, the Parties hereby agree as follows:

ARTICLE I DEFINITIONS

Section 1.1 Definitions. The following terms, when used in this Agreement, shall have the meanings assigned to them in this Section 1.1.

"**Acquired Shares**" shall have the meaning set forth in the recitals to this Agreement.

"**Acquisition Proposal**" means any offer, proposal or indication of interest in (i) the acquisition or recapitalization of the Company or any of the Company Subsidiaries or any securities of or other interests in the foregoing, (ii) a merger, consolidation or other business combination involving the Company or any of the Company Subsidiaries and (iii) the acquisition of in excess of 15% of the assets of the Company or the Acquired Shares.

"**Action**" shall have the meaning set forth in Section 6.16(a).

"**Additional Securities**" means any and all securities to be issued by Purchaser other than the Share Consideration prior to Closing.

"**Adjustment Amount**" means an amount equal to the sum of (i) the Net Cash plus (ii) the Net Working Capital Difference.

"**Adjustment Amount Statement**" shall have the meaning set forth in Section 2.7(a).

"**Adjustment Notice**" shall have the meaning set forth in Section 2.7(c).

"**Affiliate**" means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, a specified Person. A Person shall be deemed to control another Person if such first Person possesses, directly or indirectly, the power to direct, or cause the direction of, the management and policies of such other Person, whether through the ownership of voting securities, by contract or otherwise; provided, however, that with respect to GSSIII, an "Affiliate" shall only include Persons that are controlled by Morgan Stanley Real Estate Special Situations III-GP, L.L.C.

"**Agreement**" shall have the meaning set forth in the preamble of this Agreement.

"**Anti-Dilution Acceptance Notice**" shall have the meaning set forth in Section 6.28(b)(iii).

"**Anti-Dilution Acceptance Period**" shall have the meaning set forth in Section 6.28(b)(iii).

"**Anti-Dilution Notice**" shall have the meaning set forth in Section 6.28(b)(ii).

"**Antitrust Law**" means all Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening of competition through merger or acquisition, including the PRC Antitrust Law and its implementation rules, if any.

"**Audited Year-End Financial Statements**" shall mean (i) the audited consolidated balance sheet of the Company and the Company Subsidiaries as at December 31, 2010 and (ii) the related audited consolidated income statement, changes in shareholders' equity and consolidated statement of cash flows of the Company and the Company Subsidiaries for the year then ended and with report(s) thereon (with no exception or qualification from IFRS thereto) of PwC, including in each case the notes and schedules thereto.

"**Balance Sheet Date**" means December 31, 2010.

"**Base Purchase Price**" shall have the meaning set forth in Section 2.2(a).

"Benefit Plan" means any plan, fund, or program established or maintained by the Company or any Company Subsidiary for the purposes of providing for its employees (or their beneficiaries) medical, hospital care, accident, disability, death, unemployment, vacation, training or other welfare-related benefits, as well as for the purposes of providing pension benefits or retirement income to employees, and any other incentive, severance employment, change-in-control, deferred compensation or fringe benefit agreements, programs, policies or arrangements sponsored or maintained by the Company or any Company Subsidiary in which any current or former employee of the Company or any Company Subsidiary participates and in respect of which the Company or any Company Subsidiary has any present or future liability.

"Business" means the business of owning, operating and/or managing budget hotels within the PRC.

"Business Day" means a day other than a Saturday, or Sunday or any other day on which commercial banks are not open for business in Hong Kong, the PRC or the United States.

"Cap" shall have the meaning set forth in Section 9.3(a)(ii).

"Cash" means the aggregate amount of (i) cash on hand, plus (ii) cash equivalents, plus (iii) cash credited to a bank account and readily available, plus (iv) the fair market value of marketable securities and investments in money market funds that are readily available, plus (v) all unsettled Related Party Balances, if such Related Party Balance is a receivable from a Related Party to the Company or any Company Subsidiary, plus (vi) Receivables from 北京龙德物业管理有限公司, net of all the accrued rental expenses of 莫泰 (北京) 安贞桥店 that offset such receivables, minus (vii) Restricted Cash, , minus (viii) the amounts of cash in transit, unpaid checks, drafts and wire transfers issued by the Company and the Company Subsidiaries on or prior to the Closing Date, calculated in accordance with IFRS applied on a basis consistent with the preparation of the Financial Statements.

"Cash Consideration" means an amount that is equal to the difference between the Estimated Purchase Price and the Share Consideration Price.

"Circular 75" means the SAFE Circular on Issues Relating to the Administration of Foreign Exchange of Company Financing through Offshore Special Purpose Vehicles and Round-Tripping Investment by PRC Resident (关于境内居民通过 境外特殊目的公司融资及返程投资外汇管理相关问题的通知[汇发 2005(75)号]) issued by SAFE on October 21, 2005 with effect from November 1, 2005 and as supplemented by that certain implementing rule issued by SAFE on May 31, 2007 (known as Notice 106).

"Circular 75 Security Holder" means any "Domestic Resident" as defined in Circular 75.

"**Claim Notice**" shall have the meaning set forth in Section 9.2(e)(i).

"**Closing**" shall have the meaning set forth in Section 2.4.

"**Closing Date**" shall have the meaning set forth in Section 2.4.

"**Commitment Parties**" shall have the meaning given to it in the Debt Commitment Letter, and shall include each Lender and any representative or Affiliate of such Commitment Party and each Lender, and any agent or trustee of any of the foregoing.

"**Company**" shall have the meaning set forth in the preamble of this Agreement.

"**Company Documents**" shall have the meaning set forth in Section 4.1(b).

"**Company Excluded Reps**" shall have the meaning set forth in Section 9.3(a)(i).

"**Company Material Adverse Effect**" means any event or occurrence that, when taken individually or in the aggregate, has or would reasonably be expected to have, a material adverse effect on (i) the business, assets, properties, results of operations or financial condition of the Company and the Company Subsidiaries, taken as a whole or (ii) the ability of Sellers and/or the Company to consummate the transactions contemplated by the Transaction Agreements; provided, however, that in no event shall any of the following, alone or in combination, occurring after the date of this Agreement, be deemed to constitute a Company Material Adverse Effect pursuant to clause (i) hereto, nor shall any event or occurrence occurring after the date of this Agreement to the extent relating to or resulting from any of the following be taken into account in determining whether a Company Material Adverse Effect pursuant to clause (i) hereto has occurred or would result: (1) changes in general economic conditions in global or PRC markets (including financial, banking, credit, currency and capital markets); (2) fluctuations in currency exchange rates; (3) changes generally affecting the industry in which the Company and the Company Subsidiaries operate; (4) changes in applicable Law or in IFRS; (5) any actions taken or not taken in accordance with the terms of this Agreement or at the request of Purchaser; (6) the commencement or material worsening of a war or armed hostilities or other national or international calamity, or the occurrence of any military or terrorist attack; (7) acts of God or natural disasters and (8) the announcement, in accordance with the terms of this Agreement, of the Transaction Agreements and the transactions contemplated hereby and thereby, including by reason of the identity of Purchaser, except in the case of clauses (1), (2), (3), (4), (6) and (7), any such change, event, occurrence or effect shall be taken into account if it has or would reasonably be expected to have a materially disproportionate effect on the Company and the Company Subsidiaries, taken as a whole, relative to other similarly situated participants in the industry in which they operate.

"**Company Permits**" shall have the meaning set forth in Section 4.12.

"Company Subsidiary" means any Person of which a majority of the outstanding share capital, voting securities or other equity interests are owned, directly or indirectly, by the Company. For purposes of this Agreement, the Company Subsidiaries shall include any joint venture in which the Company holds, directly or indirectly, at least a fifty percent (50%) interest, including Suzhou Tai De Hotel Management Co. Ltd. (苏州泰得酒店管理有限公司).

"Company Transaction Expenses" means, except as otherwise expressly set forth in this Agreement (including the fees and expenses of the Independent Accountants as provided in Section 2.7(d) and the other transaction expenses as provided in Section 6.7(b)), the aggregate amount of all out-of-pocket fees and expenses, incurred by or on behalf of, or paid or to be paid by or on behalf of, the Company or any of the Company Subsidiaries in connection with the process of selling the Company or otherwise relating to the negotiation, preparation or execution of this Agreement or any documents or agreements contemplated hereby or the performance or consummation of the transactions contemplated hereby, including (i) any fees and expenses associated with obtaining necessary or appropriate waivers, consents or approvals of any Governmental Entity or third parties on behalf of the Company or any of the Company Subsidiaries; (ii) any fees and expenses associated with obtaining the release and termination of any Encumbrances; (iii) all brokers' or finders' fees; (iv) fees and expenses of counsel, advisors, consultants, investment bankers, accountants, and auditors and experts; and (v) the fees and expenses associated with obtaining the insurance "run-off" policy referred to in Section 6.16(c), including the cost of purchasing such policy and any premiums payable in connection therewith.

"Competition Clearance" means Consents granted by any Governmental Entity, or expiration or earlier termination granted by the relevant Governmental Entity of the waiting period, with respect to the Transaction pursuant to applicable Antitrust Laws as set forth in Schedule 3.5 of the Disclosure Schedules.

"Complying Circular 75 Security Holder" shall have the meaning set forth in Section 6.21.

"Confidentiality Agreement" shall mean that certain Confidentiality Agreement between the Company and Home Inns & Hotels Management Inc., dated December 4, 2010.

"Consent" means any consent, approval, authorization, order, filing, registration or qualification of, by or with any Person, other than any of the foregoing which are solely informational in nature.

"Contract" means any contract, agreement, lease, license, commitment, understanding, franchise, warranty, guaranty, mortgage, note, bond, option, warrant, right or other instrument or consensual obligation, whether written or oral and whether express or implied.

"Current Assets" means the line items included as current assets in the Financial Statements prepared in accordance with IFRS, but excluding (i) Cash, (ii) Receivables from 北京龙德物业管理有限公司, net of all the accrued rental expenses of 莫泰 (北京) 安贞桥店 that offset such receivables, (iii) Related Party Balances due from related parties, and (iv) assets related to the HFS (held for sale), which excluded items are set out in Schedule 1.1(a) of the Disclosure Schedules with amounts as of the Balance Sheet Date for illustration purposes.

"Current Liabilities" means the line items included as current liabilities in the Financial Statements prepared in accordance with IFRS, but excluding (i) Dividend Payable, (ii) Liabilities related to the HFS (held for sale); (iii) Related Party Balances due to related parties, (iv) income Tax Liabilities, (v) current portion of bank borrowings, (vi) current portion of provisions for onerous leases, (vii) current portion of deferred revenue, and (viii) Payables for purchasing property, plant and equipment, which excluded items are set out in Schedule 1.1(a) of the Disclosure Schedules with amounts as of the Balance Sheet Date for illustration purposes.

"Debt Commitment Letter" shall have the meaning set forth in Section 5.6(a).

"Debt Financing" shall have the meaning set forth in Section 5.6(a).

"Disclosure Schedules" means the disclosure schedules attached hereto as Exhibit A.

"Dispute" shall have the meaning set forth in Section 10.3(a).

"Dispute Notice" shall have the meaning set forth in Section 9.2(e)(i).

"Dividend Payable" shall have the meaning set forth in Section 2.5(c)(iii).

"Employment Agreements" shall have the meaning set forth in Section 6.13.

"Encumbrances" means any kind of encumbrance or restriction, including, without limitation, any mortgage, judgment lien, materialman's lien, mechanic's lien, other lien, charge, deed of trust, security interest, pledge, encroachment, easement, servitude, claim, option, right of first refusal, limitation, forfeiture, penalty, lease, equity or other right of another Person of any nature and description whatsoever.

"Environmental Laws" means any and all Laws relating to protection of the environment or of human health as affected by any condition in the environment, including for avoidance of doubt the presence of or exposure to harmful or deleterious substances in any indoor or outdoor air, drinking water or other water, soil, or other environmental media, or in building or other materials or products.

"**Escrow Account**" means an escrow account with the Escrow Account Agent.

"**Escrow Account Agent**" means JPMorgan Chase Bank, N.A.

"**Escrow Agreement**" means the Escrow Agreement to be entered into by and among the Founder, GSSIII, Purchaser and the Escrow Account Agent in substantially the same form as set out in Exhibit D hereto.

"**Escrow Amount**" means an amount equal to US\$25 million.

"**Estimated Adjustment Amount**" shall have the meaning set forth in Section 2.6.

"**Estimated Adjustment Amount Statement**" shall have the meaning set forth in Section 2.6.

"**Estimated Net Cash**" shall have the meaning set forth in Section 2.6.

"**Estimated Net Working Capital Difference**" shall have the meaning set forth in Section 2.6.

"**Estimated Purchase Price**" shall have the meaning set forth in Section 2.2(a).

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"**Excluded Claim**" shall have the meaning set forth in Section 9.3(a)(i).

"**Excluded Reps**" shall have the meaning set forth in Section 9.3(a)(i).

"**Existing M&A**" shall mean the Amended and Restated Articles of Association of the Company adopted on December 10, 2010.

"**Existing Shareholders Agreement**" shall have the meaning set forth in Section 10.18.

"**Expiration Date**" shall have the meaning set forth in Section 9.1.

"**FF&E**" means furniture, fixtures and equipment.

"**Final Adjustment Amount Statement**" shall have the meaning set forth in Section 2.7(d).

"**Final Purchase Price**" shall have the meaning set forth in Section 2.2(a).

"**Financial Statements**" shall have the meaning set forth in Section 4.4(a).

"First-Quarter Management Accounts" means (i) the consolidated balance sheet of the Company and the Company Subsidiaries as at March 31, 2011 and (ii) the related consolidated income statement, changes in shareholders' equity and consolidated statement of cash flows of the Company and the Company Subsidiaries for the three months then ended and with report(s) thereon of PwC, in each case including the related notes and schedules thereto, each as provided by the Company and included in Exhibit C attached hereto.

"Force Majeure Event" means an event, occurrence or series of events or occurrences that are reasonably beyond the control of Purchaser, including (and limited to): (1) natural disasters, catastrophes or cataclysms; (2) war or armed hostility occurring within the PRC; (3) act of terrorism that results in travel restrictions into or within the PRC; (4) major disruption of the financial markets in the United States, Hong Kong and/or the PRC that has caused any of the organized stock exchanges in these markets to close for three (3) consecutive Business Days or more; (5) formal issuance of an alert by a Governmental Entity of competent authority under the Law of the PRC of a pandemic and/or severe infectious disease; or (6) material adverse changes in the regulatory scheme governing or substantially affecting the budget hotel industry in the PRC (a **"Materially Adverse Regulatory Change"**); provided, however, that in no event should a Materially Adverse Regulatory Change be deemed to include: (i) any change in the relevant regulatory scheme imposing a stricter standard in health, hygiene, safety, risk management or crime prevention for the benefit of the consuming public, or (ii) any increase in the enforcement level or compliance standard of the existing regulatory scheme.

"Founder" means Mr. Shen Feiyu (沈飞宇), a citizen of the PRC (with ID# 310105195807012014) and the sole and beneficial owner of all of the outstanding and issued shares of Merrylin.

"Franchise Documents" shall have the meaning set forth in Section 4.13(c).

"GAAP" means United States generally accepted accounting principles and practices as in effect from time to time and applied consistently throughout the periods involved.

"Governmental Entity" means any governmental or quasi-governmental, national, federal, state, local or multinational (including the European Union), judicial, court, legislative, regulatory, taxing or administrative authority, agency, bureau, department, tribunal, or commission or similar body or instrumentality thereof.

"Governmental Filings" means any filing or registration with, notification to, or authorization, Consent or approval of, any Governmental Entity.

"Governmental Order" means any order, writ, judgment, injunction, decree, stipulation or determination entered by or with any Governmental Entity.

"**GSSIII**" means GSS III Monroe Holdings Limited.

"**GSSIII Redemption Amount**" means US\$8,912,500 payable to GSSIII.¹

"**Historical Intra-Sellers Claims**" shall have the meaning set forth in Section 6.19(b).

"**HKIAC**" shall have the meaning set forth in Section 10.3(a).

"**Hotel Permits**" shall have the meaning set forth in Section 4.13(g).

"**IFRS**" means International Financial Reporting Standards and interpretations thereof as established by the International Accounting Standards Board, as in effect at the time any applicable financial statements were prepared.

"**Improvements**" shall have the meaning set forth in Section 4.13(e).

"**Indebtedness**" of any Person means, without duplication, (i) the principal, accreted value, unpaid interest, prepayment, breakage and redemption costs, premiums or penalties, unpaid fees or expenses and other monetary obligations in respect of (A) indebtedness of such Person for borrowed money and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable; (ii) all obligations (contingent or otherwise) of such Person issued or assumed as the deferred purchase price of property or services, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable incurred in the ordinary course of business); (iii) all capitalized lease obligations; (iv) all obligations and Liabilities payable upon termination of interest rate protection agreements, foreign currency exchange agreements or other interest rate or exchange rate hedging or swap arrangements; (v) all obligations of the type referred to in clauses (i) through (iv) of any Persons the payment of which such Person is responsible or liable, directly or indirectly, as obligor, guarantor, surety or otherwise; (vi) unsettled property, plant and equipment payable balances (including retention amounts for purchasing property, plant and equipment) that are incurred in relation to the projects listed in Disclosure Schedule 4.16(j), which include all the construction projects in relation to first-time conversions / construction of hotels and major renovations of existing hotels; (vii) all obligations of the type referred to in clauses (i) through (vi) of other Persons secured by any Encumbrances on any property or asset of such Person (whether or not such obligation is assumed by such Person); (viii) all unsettled Related Party Balances, if such Related Party Balance is a payable from the Company or any Company Subsidiary to a Related Party, but excluding the payable to 苏州泰德酒店管理有限公司; and (ix) current income tax liabilities, but excluding those income tax accounting provisions the Company has made based on a conservative accounting principal in addition to the tax liabilities already reflected in the Company's statutory tax filings.

¹ This amount corresponds to GSSIII's share of the US\$12 million and other payables on the Company's accounts pursuant to a share redemption in 2010.

"**Indemnified Director and Officer**" shall have the meaning set forth in Section 6.16(a).

"**Indemnified Party**" shall have the meaning set forth in Section 9.2(e)(i).

"**Indemnifying Party**" shall have the meaning set forth in Section 9.2(e)(i).

"**Independent Accountants**" shall have the meaning set forth in Section 2.7(d).

"**Intellectual Property**" means patents, patent rights (including patent applications and licenses), know-how, trade secrets, trademarks (including trademark applications), trademark rights (including rights with respect to unregistered trademarks), trade names, trade name rights, service marks, service mark rights, logos, domain names and other source indicators, copyrights, works of authorship and other proprietary intellectual property rights.

"**Issuance Price**" means (i) 50% of the price per Purchaser ADS for any issuance of Purchaser ADSs; (ii) 50% of the initial conversion, exchange and/or conversion price per underlying Purchaser ADS for any issuance of securities convertible into, exchangeable for and/or otherwise exercisable in respect of Purchaser ADSs; (iii) for any issuance of equity securities other than Purchaser ADSs, the price per share of the equity securities being issued; and (iv) for any issuance of securities convertible into, exchangeable for and/or otherwise exercisable in respect of equity securities other than Purchaser ADSs, the initial conversion, exchange and/or conversion price per share of the underlying equity securities being issued.

"**Key Employees**" means employees of the Company and the Company Subsidiaries as set forth in Schedule 4.9 of the Disclosure Schedules.

"**Knowledge**" when used with respect to a Person, means the actual knowledge after commercially reasonable inquiry of such Person's senior management members.

"**Law**" means any statute, law, code, judicial decision, judgment, rule, regulation, ordinance or other pronouncement of any Governmental Entity having the effect of law.

"**Lease Documents**" shall have the meaning set forth in Section 4.13(a).

"**Leased Real Property**" shall have the meaning set forth in Section 4.13(a).

"**Legal Actions**" shall have the meaning set forth in Section 4.7.

"**Lenders**" shall have the meaning set forth in Section 5.6(a).

"**Liability**" means any debt, liability or obligation (whether direct or indirect, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, or due or to become due) and including all costs and expenses relating thereto.

"**Liability Basket Threshold**" means an amount that is equal to RMB52 million.

"**Losses**" means actual liabilities, losses, damages, claims, payments, fines, awards, judgments, penalties and related costs and expenses (including, without limitation, interests, Taxes and reasonable attorneys' fees and expenses), in each case, whether or not resulting from Third Party Claims.

"**Material Contracts**" shall have the meaning set forth in Section 4.16(l).

"**Materials of Environmental Concern**" means any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products, polychlorinated biphenyls, urea-formaldehyde foam insulation, lead-based paint, asbestos, pollutants, contaminants, molds, radioactivity, and any other substances of any kind, regulated pursuant to or that could give rise to liability under any Environmental Law.

"**Merrylin**" means Merrylin International Investment Limited.

"**Merrylin Group**" means Merrylin and its Affiliates, including those Affiliates established after the date of this Agreement.

"**Merrylin Redemption Amount**" means US\$3,087,500 payable to Merrylin.²

"**Merrylin Trademarks**" means such trademarks (including trademark applications), trademark rights (including rights with respect to unregistered trademarks), trade names, trade name rights, service marks, service mark rights, logos, domain names and other source indicators that are the same or confusingly or substantially similar to those used in the conduct of the business of the Company and the Company Subsidiaries as currently conducted, including but not limited to Merrylin (美林), Merrylin Restaurant (美林閣) and Motel (莫泰), as set forth in Schedule 1.1(b) of the Disclosure Schedules.

"**MOFCOM**" means Ministry of Commerce of the PRC.

"**Net Cash**" means the aggregate amount for the Company on a consolidated basis as of the Closing Date, of (i) Cash, minus (ii) Restricted Cash (solely to the extent included in the calculation of Cash), minus (iii) Indebtedness, minus (iv) any Company Transaction Expenses to be paid pursuant to Section 6.7.

² This amount corresponds to Merrylin's share of the US\$12 million and other payables on the Company's accounts pursuant to a share redemption in 2010.

"Net Working Capital" means, for the Company on a consolidated basis as of the Closing Date, (i) the Current Assets, less (ii) the Current Liabilities.

"Net Working Capital Difference" means (i) if the Net Working Capital is less than the Target Working Capital, the negative difference between the Net Working Capital and the Target Working Capital, (ii) if the Net Working Capital is equal to the Target Working Capital, zero; and (iii) if the Net Working Capital is more than the Target Working Capital, the positive difference between the Net Working Capital and the Target Working Capital.

"Ordinary Shares" means ordinary shares of the Company, par value US\$0.001 per share.

"Organizational Documents" means, with respect to any corporation, its articles or certificate of incorporation, memorandum and articles of association and bylaws or documents of similar substance; with respect to any limited liability company, its articles or certificate of organization, formation or association and its operating agreement or limited liability company agreement or documents of similar substance; with respect to any limited partnership, its certificate of limited partnership and partnership agreement or documents of similar substance; and with respect to any other entity, documents of similar substance to any of the foregoing.

"Original Seller Representative" means (i) with respect to GSSIII and Misto Group Limited, GSSIII, and (ii) with respect to all other Sellers, the Founder.

"Outside Date" means November 25, 2011, unless extended to December 31, 2011 at the election of Purchaser by written notice to the Seller Representatives on or prior to November 25, 2011.

"Party" and **"Parties"** shall have the meanings set forth in the preamble of this Agreement.

"Permits" means all permits, licenses, franchises, registrations, variances, authorizations, Consents, orders, certificates and approvals obtained from or otherwise made available by any Governmental Entity or pursuant to any Law.

"Permitted Encumbrances" means (i) statutory liens for Taxes (1) not yet due and payable (taking into account any extensions with respect to payment that are permitted by applicable Governmental Entities under applicable Law) or (2) which are being contested in good faith by appropriate proceedings and for which adequate reserves have been established, (ii) Encumbrances of warehousemen, mechanics and materialmen and other similar statutory Encumbrances incurred in the ordinary course of business for amounts (1) not yet due and payable or (2) which are being contested in good faith by appropriate proceedings and for which adequate reserves have been established, (iii) any Encumbrances that do not, individually or in the aggregate, materially detract from the value of any of the applicable property, rights or assets of the businesses or materially interfere with the use thereof as currently used, and (iv) zoning, entitlement, conservation, restriction or other land use regulation by any Governmental Entity have jurisdiction over the property affected thereby which are not violated by the current use of such property and do not materially affect the continued use of such property.

"**Person**" means an association, a corporation, an individual, a partnership, a limited liability company, an unlimited liability company, a trust or any other entity or organization, including a Governmental Entity.

"**PFIC**" shall have the meaning set forth in Section 5.12.

"**Post-Closing Payment**" means an amount (positive or negative) equal to the Estimated Adjustment Amount minus the actual Adjustment Amount, as determined pursuant to Section 2.7.

"**PRC**" means People's Republic of China and for purposes of this Agreement only, does not include Hong Kong, Macau and Taiwan.

"**PRC Antitrust Law**" means the Anti-Monopoly Law of the PRC, adopted at the 29th Session of the 10th Standing Committee of the National People's Congress on August 30, 2007, and the regulations promulgated thereunder.

"**Pre-Closing Monthly Management Accounts**" means for each month after the date hereof the management accounts of the Company and the Company Subsidiaries for such month, including the balance sheet, income statement and statement of cash flows of the Company and the Company Subsidiaries for such month.

"**Pre-Closing Monthly Operational Matrix**" means the monthly operational matrix prepared for each full calendar month including and after the date hereof containing the following items: (i) number of hotels in operation and number of rooms by region for leased and operated hotels, (ii) occupancy rate, average daily rate, and RevPAR (revenue per available room) for leased and operated hotels, by region and on a Company-wide basis, and (iv) number of hotels in operation and number of rooms for franchised hotels.

"**Pre-Closing Quarterly Financial Statements**" means for each quarter after March 31, 2011 (i) the reviewed consolidated balance sheet of the Company and the Company Subsidiaries as at the end of such quarter, and (ii) the related reviewed consolidated income statement, changes in shareholders' equity and consolidated statement of cash flows of the Company and the Company Subsidiaries for such quarter then ended and with report(s) thereon of PwC, in each case including the related notes and schedules thereto.

"**Pre-Closing Quarterly Operational Matrix**" means the quarterly operational matrix prepared for each quarter after the Balance Sheet Date containing the following items: (i) occupancy rate, average daily rate, and RevPAR (revenue per available room) for leased and operated hotels, by region and on a Company-wide basis, (ii) number of hotels in operation and number of rooms for leased and operated hotel, and (iii) number of hotels in operation and number of rooms for franchised hotels.

"Preemptive Acceptance Notice" shall have the meaning set forth in Section 6.28(a)(ii).

"Preemptive Acceptance Period" shall have the meaning set forth in Section 6.28(a)(ii).

"Preemptive Notice" shall have the meaning set forth in Section 6.28(a)(i).

"Pre-Signing Monthly Management Accounts" means the monthly management accounts of the Company and the Company Subsidiaries prepared for each full calendar month following December 31, 2010 and prior to the date of this Agreement, including the balance sheet, income statement and statement of cash flows of the Company and the Company Subsidiaries for each such month, each as provided by the Company and included in Exhibit C attached hereto.

"Prior Three-Year Financial Statements" means (i) the audited consolidated balance sheet of the Company and the Company Subsidiaries as at each of December 31, 2007, December 31, 2008 and December 31, 2009 and (ii) the related audited consolidated income statement, changes in shareholders' equity and consolidated statement of cash flows of the Company and the Company Subsidiaries for the year then ended and with report(s) thereon (with no exception or qualification from IFRS thereto) of PwC, in each case including the related notes and schedules thereto, each as provided by the Company and included in Exhibit C attached hereto.

"Pro Rata Share" means with respect to each of GSSIII and Merrylin, a number equal to a fraction, the numerator of which shall be the product of such Seller's Share Consideration Proportional Share multiplied by the Share Consideration and the denominator of which shall be Purchaser's entire issued and outstanding share capital on a fully diluted basis as of the Closing Date, excluding any issuance of Additional Securities between the date hereof and the Closing Date.

"Properties" shall have the meaning set forth in Section 4.13(c).

"Proportional Share" means with respect to each Seller, a percentage that is equal to (x) the number of Ordinary Shares to be sold by such Seller as set out on Exhibit B divided by (y) the aggregate number of Ordinary Shares to be sold by all Sellers.

"Purchase Agreement Deposit" shall have the meaning set forth in Section 2.3(a).

"Purchase Price Cap" shall have the meaning set forth in Section 9.3(a)(ii).

"Purchaser" shall have the meaning set forth in the preamble of this Agreement.

"**Purchaser ADSs**" means the American depositary shares of Purchaser as listed on the Nasdaq Global Market, each representing two (2) Purchaser Shares.

"**Purchaser Documents**" shall have the meaning set forth in **Section 5.2**.

"**Purchaser Excluded Reps**" shall have the meaning set forth in Section 9.3(a)(i).

"**Purchaser Indemnitees**" shall have the meaning set forth in Section 9.2(a).

"**Purchaser Material Adverse Effect**" means any event or occurrence that, when taken individually or in the aggregate, has or would reasonably be expected to have, a material adverse effect on (i) the business, assets, properties, results of operations or financial condition of Purchaser and the Purchaser Subsidiaries, taken as a whole or (ii) the ability of Purchaser to consummate the transactions contemplated by the Transaction Agreements; provided, however, that in no event shall any of the following, alone or in combination, occurring after the date of this Agreement, be deemed to constitute a Purchaser Material Adverse Effect pursuant to clause (i) hereto, nor shall any event or occurrence, occurring after the date of this Agreement, to the extent relating to or resulting from any of the following be taken into account in determining whether a Purchaser Material Adverse Effect pursuant to clause (i) hereto has occurred or would result: (1) changes in general economic conditions in global or PRC markets (including financial, banking, credit, currency and capital markets); (2) fluctuations in currency exchange rates; (3) changes generally affecting the industry in which Purchaser and the Purchaser Subsidiaries operate; (4) changes in applicable Law or in GAAP; (5) any actions taken, or failures to take action in accordance with the terms of this Agreement (other than with respect to Section 5.3) or at the request of Sellers; (6) the commencement or material worsening of a war or armed hostilities or other national or international calamity, or the occurrence of any military or terrorist attack; (7) acts of God or natural disasters; and (8) the announcement, in accordance with the terms of this Agreement, of the Transaction Agreements and the transactions contemplated hereby and thereby, including by reason of the identity of Purchaser, except in the case of clauses (1), (2), (3), (4), (6) and (7), any such change, event, occurrence or effect shall be taken into account if it has or would reasonably be expected to have a materially disproportionate effect on Purchaser and the Purchaser Subsidiaries, taken as a whole, relative to other similarly situated participants in the industry in which they operate.

"**Purchaser Shares**" means the ordinary shares of Purchaser, par value US\$0.005 per share (and two (2) Purchaser Shares represent one (1) Purchaser ADS).

"**Purchaser Share Price**" means US\$20.185.

"**Purchaser Subsidiary**" means any Person of which a majority of the outstanding share capital, voting securities or other equity interests are owned, directly or indirectly, by Purchaser.

"**PwC**" shall mean PricewaterhouseCoopers LLP, independent certified public accountants.

"**Registration Rights Agreement**" means the Registration Rights Agreement to be entered into by and Sellers and Purchaser in substantially the same form as set out in Exhibit G hereto.

"**Regulation S**" means Regulation S under the Securities Act.

"**Related Party Balances**" means unsettled balances between or amongst related parties of the Company or any Company Subsidiary as defined under IFRS, which are set forth in Schedule 4.21 of the Disclosure Schedules.

"**Released Parties**" shall have the meaning set forth in Section 6.19.

"**Releasing Parties**" shall have the meaning set forth in Section 6.19.

"**Restricted Cash**" means as of the Closing Date, any cash that is not freely usable by the Company and the Company Subsidiaries because it is subject to express contractual restrictions or limitations on use or distribution by Law, Contract or otherwise as determined on a basis consistent with the preparation of the Financial Statements.

"**Rules**" shall have the meaning set forth in Section 10.3(a).

"**SAFE**" means the State Administration of Foreign Exchange of the PRC.

"**SAFE Rules and Regulations**" means Circular 75 and any other applicable SAFE rules and regulations.

"**SEC**" means the U.S. Securities and Exchange Commission.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"**Seller**" and "**Sellers**" shall have the meanings set forth in the preamble of this Agreement.

"**Seller Designated Account**" means with respect to each Seller, the bank account as set forth next to such Seller's name on Exhibit I hereto.

"**Seller Documents**" shall have the meaning set forth in Section 3.3.

"**Seller Indemnitees**" shall have the meaning set forth in Section 9.2(c).

"**Seller Representative**" means with respect to each Seller, such Seller's Original Seller Representative unless and until such time as the Original Seller Representative has been replaced in accordance with Section 10.17(d) with a Successor Seller Representative, whereupon "**Seller Representative**" shall mean such Successor Seller Representative.

"Share Consideration" means such number of Purchaser Shares as calculated by dividing the Share Consideration Price by the Purchaser Share Price.

"Share Consideration Price" means thirty-five percent (35%) of the Base Purchase Price.

"Share Consideration Proportional Share" means (i) with respect to GSSIII, 74.25%; and (ii) with respect to Merrylin, 25.75%.

"Share Redemption Amounts" means the sum of the GSSIII Redemption Amount and Merrylin Redemption Amount.

"Small Scale Hotel Activity" means to, directly or indirectly, engage in, operate, manage, consult with, advise, partner with, lease or license any assets or provide financing to or invest in any activity involving the establishment of up to five (5) hotels of any class or standard (whether budget or otherwise) in any calendar year within the PRC. Other than as set forth in Schedule 1.1(b) of the Disclosure Schedules and/or otherwise as agreed to by the Parties, no Merrylin Trademarks may be used in connection with any Small Scale Hotel Activity.

"Specified Rate" means the rate for deposits in United States dollars for a period of three months offered by major banks in the London interbank market that appears in The Wall Street Journal, Eastern Edition (or if such rate does not appear on such date, such rate as it appears in The Financial Times on such date), determined as of the date the obligation to pay interest arises.

"Successor Seller Representative" shall have the meaning set forth in Section 10.17(d).

"Target Working Capital" means the quotient, (i) the numerator of which is equal to the sum of the consolidated Current Assets of the Company and the Company Subsidiaries less the consolidated Current Liabilities of the Company and the Company Subsidiaries, each determined as of the last day of each of the full calendar months following December 31, 2010 and prior to the Closing Date, and (ii) the denominator of which is the number of the full calendar months following December 31, 2010 and prior to the Closing Date. Target Working Capital shall be prepared by the Company in accordance with IFRS in conformity with the principles used by the Company in the preparation of the Financial Statements, taking into consideration of the definitions of the Current Assets and the Current Liabilities set forth in this Section 1.1.

"**Tax**" or "**Taxes**" means (i) any tax, duty, custom, fee, assessment, charge, or other levy separately or jointly due or payable to, or levied or imposed by any Governmental Entity, including, without limitation, income, gross receipts, license, wages, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duty, capital, capital gains, capital stock, goods and services, franchise, profits, withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, transaction, registration, value added, alternative/add-on minimum, estimated or other tax, duty, charge, custom, governmental fee, assessment or other levy of any kind whatsoever, including any interest, penalty, fine or addition thereto, and any interest with respect to such addition or penalty, and (ii) any liability for the payment of any amounts described in clause (i) for or to any other Person as a result of being a member of an affiliated, consolidated, combined or unitary group, or as a transferee or successor, by contract, or otherwise, including as a result of an express or implied obligation to indemnify any other Person with respect to the payment of any amounts described in clause (i).

"**Tax Returns**" means all tax returns, declarations, statements, reports, schedules, forms and information returns and any amendments to any of the foregoing relating to Taxes.

"**Third Party Claims**" shall have the meaning set forth in Section 9.2(e)(ii).

"**Trademark Bureau**" shall have the meaning set forth in Section 6.15.

"**Trademark Transfer Agreements**" shall have the meaning set forth in Section 6.26.

"**Transaction**" shall have the meaning set forth in Section 2.1.

"**Transaction Agreements**" means this Agreement, the Escrow Agreement and the Registration Rights Agreement.

ARTICLE II

SALE AND PURCHASE OF SHARES

Section 2.1 Sale and Purchase of Acquired Shares. Upon the terms and subject to the conditions set forth herein, Sellers hereby agree to sell and transfer to Purchaser, and Purchaser hereby agrees to purchase and accept from Sellers, free and clear of any Encumbrances, all of Sellers' right, title and interest in and to the Acquired Shares (the "**Transaction**").

Section 2.2 Purchase Price

(a) The consideration to be paid by Purchaser in respect of the purchase of the Acquired Shares pursuant to Section 2.1 shall be equal to the sum of (i) US\$470 million (the "**Base Purchase Price**"), *plus* (ii) the Estimated Adjustment Amount, if any, *less* (iii) the Share Redemption Amounts, *less* (iv) the Dividend Payable (together, the "**Estimated Purchase Price**"), subject to adjustment as determined pursuant to Section 2.7 (as adjusted, the "**Final Purchase Price**").

(b) Each Party shall be solely responsible for all Taxes accruing to such Party arising from the Transaction under all applicable Law.

(c) The Estimated Purchase Price shall be paid in the form of Cash Consideration and Share Consideration in accordance with the terms of this Agreement. Any adjustment determined pursuant to Section 2.7 shall be paid in cash only. Each of the transactions contemplated pursuant to this Article II shall be conducted in an "offshore transaction" in accordance with Regulation S.

Section 2.3 Purchase Agreement Deposit

(a) No later than five (5) Business Days after the execution of this Agreement and in consideration of the time and expense of Sellers in negotiating and executing this Agreement, Purchaser shall pay to Sellers an amount in cash equal to US\$35 million (the "**Purchase Agreement Deposit**"), by wire transfer of immediately available funds to the Escrow Account.

(b) In the event that Closing occurs, the Purchase Agreement Deposit together with all accrued interest thereon, but less the Escrow Amount, shall be released to Sellers on the Closing Date pursuant to each Seller's Proportional Share, payable in immediately available funds to the corresponding Seller Designated Account.

(c) In the event that this Agreement is duly and validly terminated prior to the Closing Date, the Purchase Agreement Deposit, together with all accrued interest thereon, shall be released to Sellers or Purchaser as the case may be as set forth in Section 8.3.

Section 2.4 Closing. The closing of the Transaction ("**Closing**") shall be held at the offices of Skadden, Arps, Slate, Meagher & Flom, located at 9 Temasek Boulevard, Suite 29-01, Suntec Tower, Singapore (or at such other places as the Parties may designate in writing), on the last Business Day of the month that includes the date on which the last of the conditions set forth in Article VII is fulfilled or waived (other than conditions that by their nature can be satisfied only at Closing, but subject to the satisfaction or waiver, if permissible, of such conditions), unless another date is agreed to in writing by the Parties. The date on which the Closing actually occurs is hereinafter referred to as the "**Closing Date**". Notwithstanding anything to the contrary herein, the Closing Date shall in no event be later than the Outside Date.

Section 2.5 Closing DeliveriesAt Closing, Purchaser shall:

(i) provide written confirmation of payment in immediately available funds to the corresponding Seller Designated Account and in accordance with Section 2.2:

(1) to each Seller, such Seller's Proportional Share of an amount equal to (i) the Cash Consideration, *minus* (ii) the Purchase Agreement Deposit, and *minus* (iii) the Escrow Amount, provided that the payment to Misto Group Limited shall be reduced by US \$1,828,465, which amount shall be paid to the account of GSSIII;

(2) to GSSIII, the GSSIII Redemption Amount; and

(3) to Merrylin, the Merrylin Redemption Amount;

(ii) subject to Section 2.5(b) below, deliver, or cause to be delivered, to each of GSSIII and Merrylin, a copy of the register of members of Purchaser dated as of the Closing Date and certified by Purchaser's registered office provider in the Cayman Islands, which reflects in favor of GSSIII and Merrylin their respective Share Consideration Proportional Share of the Share Consideration;

(iii) deliver, or cause to be delivered, to each Seller, the written legal opinion of Maples & Calder, Cayman Islands counsel for Purchaser, addressed to Sellers and dated as of the Closing Date, in the form set forth in Exhibit H;

(iv) duly deliver and execute the Escrow Agreement, the Registration Rights Agreement and all other Purchaser Documents to the extent not already provided to Sellers; and

(v) provide the minutes of the board meetings of Purchaser resolving that the transactions contemplated hereunder are approved, including without limitation the issuance of the Share Consideration to GSSIII and Merrylin.

(b) No fraction of a Purchaser Share will be issued, and no certificates or scrip for any such fractional shares shall be issued. In lieu thereof, a Seller who would otherwise be entitled to receive a fraction of a Purchaser Share shall receive from Purchaser an amount of cash (rounded to the nearest whole cent), without interest, equal to the product of (A) such fraction, *multiplied by* (B) the Purchaser Share Price.

(c) At Closing, the Company and Sellers shall deliver, or cause to be delivered, to Purchaser the following documents or instruments:

(i) duly executed instruments of transfer of the Acquired Shares in favor of Purchaser;

(ii) a duly executed certificate of repayment of the Share Redemption Amounts by each of GSSIII and Merrylin;

(iii) a duly executed certificate of declaration and payment of dividends by Shanghai Motel Hotel Management Co., Ltd. of RMB47,037,134 (the "**Dividend Payable**") to such Persons and in such proportions as set out on Schedule 2.5(c)(iii) of the Disclosure Schedules;

(iv) a duly executed certificate of payment and release of the Dividend Payable of such Persons and in such proportions as set out on Schedule 2.5(c)(iii) of the Disclosure Schedules;

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- (v) share certificates representing Sellers' ownership of the Acquired Shares (if certificated) for cancellation;
 - (vi) a copy of the register of members of the Company dated as of the Closing Date and certified by the Company's registered office provider in the Cayman Islands, which reflects the transfer of the Acquired Shares from each Seller to Purchaser and gives effect to Purchaser's acquisition of the Acquired Shares;
 - (vii) a share certificate representing Purchaser's ownership of the Acquired Shares;
 - (viii) the written legal opinion of Walkers, Cayman Islands counsel for the Company, addressed to Purchaser and the Commitment Parties and dated as of the Closing Date, in the form set forth in Exhibit E;
 - (ix) the written legal opinion of Jingtian & Goncheng Law Firm, PRC counsel for the Company, addressed to Purchaser and the Commitment Parties and dated as of the Closing Date, in the form set forth in Exhibit F;
 - (x) the minutes of the board meetings of the Company resolving that the instruments of transfer referred to in paragraph (i) above shall be approved;
 - (xi) the complete set of company stamps (including common stamp, stamps for contractual purpose, financial stamps, legal representative stamps) and business licenses of the Company and the Company Subsidiaries;
 - (xii) a copy of the register of directors of the Company dated as of the Closing Date and certified by the Company's registered office provider in the Cayman Islands, which reflects the resignation of all previous directors of the Company except those nominated by Purchaser;
 - (xiii) written resolutions of the members of the Company resolving that the Transaction contemplated hereunder shall be approved and any rights under the Existing M&A shall be waived;
 - (xiv) duly deliver and execute the Escrow Agreement and all other Seller Documents to the extent not already provided to Purchaser.

Section 2.6 Estimated Adjustment Amount

(a) Not less than three (3) Business Days prior to the Closing Date, the Company shall deliver to Purchaser a statement (the "**Estimated Adjustment Amount Statement**") setting forth in reasonable detail in each case as of the Closing Date: (1) the Company's good faith estimated Net Working Capital Difference (the "**Estimated Net Working Capital Difference**") and the calculation thereof, (2) the Company's good faith estimated Net Cash (the "**Estimated Net Cash**") and the calculation thereof, (3) the sum of the Estimated Net Working Capital Difference and Estimated Net Cash (the "**Estimated Adjustment Amount**"), each in a form reasonably acceptable to Purchaser. The Estimated Adjustment Amount Statement shall (i) with respect to the Estimated Net Cash calculation and the Estimated Net Working Capital Difference calculation, be prepared in accordance with IFRS applied on a basis consistent with the preparation of the Financial Statements and in substantially the same form as the reference statement set forth in Schedule 2.6 of the Disclosure Schedules and (ii) be certified by a director of the Company.

(b) For purposes of the calculation of the Estimated Net Working Capital Difference, the Estimated Net Cash, the Net Working Capital Difference and the Net Cash, such amounts shall be calculated in U.S. Dollars and if any underlying amounts to be used in these calculations are expressed in other currencies, such underlying amounts will be converted into U.S. Dollars at the mid-rate of the official exchange rate between the buying and selling rates between U.S. Dollars and RMB as published by the People's Bank of China on the Business Day immediately prior to the date of the Estimated Adjustment Amount Statement.

Section 2.7 Post-Closing Payment

(a) As promptly as practicable, and in any event not later than sixty (60) days after the Closing Date, Purchaser shall prepare and deliver to the Seller Representatives a written statement (the "**Adjustment Amount Statement**") setting forth Purchaser's calculation of the Adjustment Amount as of the Closing Date and based thereon, a statement of Purchaser's calculation of the Post-Closing Payment. The Adjustment Amount Statement shall (i) with respect to the Net Cash calculation and the Net Working Capital Difference calculation, be prepared in accordance with IFRS applied on a basis consistent with the preparation of the Financial Statements and in substantially the same form as the reference statement set forth in Schedule 2.6 of the Disclosure Schedules and (ii) be certified by a financial officer of the Company.

(b) Purchaser shall give, and shall exercise the voting, governance and contractual powers available to it to cause the Company and the Company Subsidiaries to give, the Seller Representatives and their representatives reasonable access during normal business hours to such employees, officers, facilities and such books and records of the Company and the Company Subsidiaries, as is reasonably necessary to allow the Seller Representatives and their representatives to review the Adjustment Amount Statement.

(c) The Seller Representatives may, in good faith, dispute the Adjustment Amount Statement by delivery of a joint written notice thereof (an "**Adjustment Notice**") to Purchaser within thirty (30) days following receipt by the Seller Representatives of the Adjustment Amount Statement. The Adjustment Notice shall set forth in reasonable detail all items disputed by the Seller Representatives, together with the Seller Representatives' proposed changes thereto, including an explanation in reasonable detail of the basis on which the Seller Representatives propose such changes. If (i) by written notice to Purchaser, either of the Seller Representatives accepts the Adjustment Amount Statement or (ii) the Seller Representatives fail to jointly deliver an Adjustment Notice within the prescribed thirty (30)-day period (which failure shall result in the Seller Representatives and Sellers being deemed to have agreed to the Adjustment Amount Statement delivered by Purchaser), the Adjustment Amount Statement delivered by Purchaser shall become final and binding on the Seller Representatives, Sellers and Purchaser as of the date on which the earlier of the foregoing events occurs.

(d) If the Seller Representatives have timely jointly delivered an Adjustment Notice, then Purchaser and the Seller Representatives shall attempt to reach agreement on the matters identified in the Adjustment Notice. If, by the thirtieth (30th) day following Purchaser's receipt of the Adjustment Notice, Purchaser and the Seller Representatives have not agreed in writing to the resolution of the matters identified in the Adjustment Notice, then such matters shall be submitted to Ernst & Young or such other independent accounting firm as may be agreed by the Seller Representatives and Purchaser, as the case may be (the "**Independent Accountants**") for resolution. For the avoidance of doubt, if Purchaser and both Seller Representatives (and not one only) have agreed in writing to the resolution of the matters identified in the Adjustment Notice, such resolution of the matters identified in the Adjustment Notice shall become final and binding on the Seller Representatives, Sellers and Purchaser as of the date on which the foregoing events occurs. Each of Sellers and Purchaser agree that it shall not engage, directly or indirectly, or agree to engage, the Independent Accountants to perform any services other than as the Independent Accountants pursuant hereto until the Adjustment Amount Statement and items thereon have been finally determined pursuant to this Section 2.7(d). Each of the Seller Representatives and Purchaser agrees to execute, if requested by the Independent Accountants, a reasonable engagement letter. Purchaser and the Seller Representatives shall instruct the Independent Accountants to review this Agreement and the disputed items or amounts for the purpose of calculating the Adjustment Amount and the Post-Closing Payment. In making such calculation, the Independent Accountants shall consider only those items or amounts in the Adjustment Amount Statement and Purchaser's calculation of the Adjustment Amount and the Post-Closing Payment as to which the Seller Representatives have disagreed in the Adjustment Notice. The Independent Accountants shall deliver to Purchaser and the Seller Representatives, as promptly as practicable (but in any case no later than thirty (30) days from the date of engagement of the Independent Accountants), a report setting forth such calculation and the Adjustment Amount Statement shall be deemed to be amended to reflect the calculation of the Adjustment Amount and the Post-Closing Payment as determined by the Independent Accountants and shall be deemed the "**Final Adjustment Amount Statement.**" The scope of the disputes to be resolved by the Independent Accountants is limited to whether the amounts set forth on the line items on the Adjustment Amount Statement were obtained from and in accordance with the books and records of the Company and the Company Subsidiaries and are in accordance with IFRS applied on a basis consistent with prior periods and in conformity with the principles used by the Company in the preparation of its Financial Statements, and whether there were mathematical errors in the Adjustment Amount Statement, in each case, to the extent related to the unresolved items set forth in the Adjustment Notice, and the Independent Accountants are not to make any other determination. Purchaser shall, and shall exercise the voting, governance and contractual powers available to it to cause the Company and the Company Subsidiaries to, furnish or cause to be furnished to the Independent Accountants access to such employees, officers, and facilities and such books and records relating to the disputed items as the Independent Accountants may reasonably request. The fees and expenses of the Independent Accountants shall be borne fifty percent (50%) by Sellers (allocated among Sellers according to their respective Proportional Shares), on the one hand, and fifty percent (50%) by Purchaser, on the other hand. The Final Adjustment Amount Statement (including the calculation of the Post-Closing Payment thereon) as determined by the Independent Accountants shall be final, non-appealable and binding upon Purchaser, the Seller Representatives and Sellers. The Independent Accountants shall act as an expert, not as an arbitrator.

(e) If the Post-Closing Payment is a negative amount, then Purchaser shall pay to each Seller an amount in cash equal to such Seller's Proportional Share of the Post-Closing Payment plus interest on such amount from (and including) the Closing Date to (but excluding) the date of payment at the Specified Rate. If the Post-Closing Payment is a positive amount, then Sellers shall collectively pay to Purchaser an amount in cash equal to the Post-Closing Payment (allocated among Sellers according to their respective Proportional Shares) plus interest on such amount from (and including) the Closing Date to (but excluding) the date of payment at the Specified Rate. Each payment (if any) required by this Section 2.7(e) shall be made within five (5) Business Days following the date the Post-Closing Payment is deemed to be finally determined pursuant to this Section 2.7. All payments required to be made pursuant to this Section 2.7 shall be made by wire transfer of immediately available funds to, in the case of payment made by Purchaser, the Seller Designated Accounts or, in the case of payments made by Sellers, an account to be designated in writing by Purchaser.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF EACH SELLER

Each Seller, severally but not jointly, represents and warrants as to itself to Purchaser as follows as of the date hereof and the Closing Date:

Section 3.1 Organization and Qualification. Such Seller is duly incorporated and validly existing under the Laws of the jurisdiction of its formation and has full corporate power and authority to own, lease and operate its assets and properties and to conduct its business as presently conducted, except where the failure to have such power and authority would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

Section 3.2 Ownership of Acquired Shares. Such Seller is the record and beneficial owner of, and holds valid title to, the Acquired Shares set forth on Exhibit B attached hereto next to its name, free and clear of any and all Encumbrances. Except for this Agreement and the transactions contemplated hereby and the Existing M&A, there are no agreements, arrangements, warrants, options, puts, calls, rights or other commitments or understandings of any character to which such Seller is a party or by which any of its assets are bound and relating to the issuance, sale, purchase, redemption, conversion, exchange, registration, voting or transfer of the Acquired Shares. Each Seller has the corporate power and authority to sell, transfer, assign and deliver such Acquired Shares as provided in this Agreement and such delivery will convey to Purchaser good, legal and marketable title to such Acquired Shares, free and clear of any and all Encumbrances.

Section 3.3 Authorization. Such Seller has all requisite corporate power and authority to enter into the Transaction Agreements and each other agreement, document, instrument or certificate contemplated by the Transaction Agreements or to be executed by such Seller in connection with the consummation of the transactions contemplated by the Transaction Agreements (the "**Seller Documents**") and to perform its obligations under the Transaction Agreements and the Seller Documents and to consummate the transactions contemplated by the Transaction Agreements and the Seller Documents. The execution and delivery of the Transaction Agreements and each of the Seller Documents and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all required corporate action on the part of such Seller. The Transaction Agreements have been, and each of the Seller Documents has been or will be at or prior to the Closing, duly executed and delivered by such Seller, and (assuming due authorization, execution and delivery by each other Seller and Purchaser) the Transaction Agreements constitute, and each Seller Document constitutes or when so executed and delivered will constitute, the legal, valid and binding obligation of such Seller, enforceable against such Seller in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 3.4 No Conflict. The execution and delivery by such Seller of the Transaction Agreements or the Seller Documents does not, and the performance by such Seller of its obligations under the Transaction Agreements or the Seller Documents or the consummation by such Seller of the transactions contemplated by the Transaction Agreements or the Seller Documents will not (i) subject to obtaining the third party consents and/or waivers set forth on Schedule 3.4 of the Disclosure Schedules, which consents and/or waivers shall be obtained on or before the Closing Date, conflict with, or result in or constitute any violation or breach of or default under, or give rise to any right of termination, amendment, cancellation or acceleration or any obligation to pay or repay with respect to, or result in the loss of any benefit under, any provision of the Organizational Documents of such Seller or any material license, lease, mortgage, indenture, note, bond, deed of trust, or other instrument or agreement of any kind to which such Seller is a party, or by which any of the properties or assets of such Seller are bound, or (ii) subject to obtaining the Competition Clearance, conflict with, or result in or constitute any violation of any Law, Permit or Governmental Order applicable to such Seller or by which any of the properties or assets of such Seller are bound or result in the creation or imposition of (or the obligation to create or impose) any Encumbrances on the Acquired Shares owned by such Seller. Schedule 3.4 of the Disclosure Schedules set forth all third party Consents required for such Seller to enter into the Transaction Agreements and the Seller Documents, to perform its obligations set forth hereunder or thereunder and the consummation of the transactions contemplated hereby and hereby.

Section 3.5 Governmental Filings. No Governmental Filing is required in connection with the execution and delivery of the Transaction Agreements or the Seller Documents by such Seller, the performance by such Seller of its obligations under the Transaction Agreements or the Seller Documents or the consummation by such Seller of the transactions contemplated hereby or thereby, except for (a) the Competition Clearance and (b) such other Governmental Filings, the failure of such other Governmental Filings to be made or obtained would not materially impair or delay such Seller's ability to perform its obligations under the Transaction Agreements or consummate the transactions contemplated hereby or thereby.

Section 3.6 Litigation. There is no judicial, administrative or arbitral action, claim, suit, investigation or other proceeding at law or in equity or Governmental Order pending or, to the Knowledge of such Seller, threatened that seek to prohibit or restrain the ability of such Seller to enter into the Transaction Agreements or execute the Seller Documents or consummate the transactions contemplated hereby or thereby.

Section 3.7 Brokers and Finders. No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission that would be payable by Purchaser or the Company in connection with the Transaction Agreements or the transactions contemplated hereby and thereby based upon arrangements made by or on behalf of such Seller or any of its Affiliates.

Section 3.8 Related Party Transactions. Except (i) as set forth on Schedule 3.8 of the Disclosure Schedules and (ii) transactions between the Company or any Company Subsidiary and a Person that is wholly owned by the Company or any Company Subsidiary, neither such Seller nor any of its Affiliates is involved in any business arrangement or relationship or party to any Contract or any understanding with the Company or any of the Company Subsidiaries and neither the Seller nor any of its Affiliates owns or has any material interest in any property or right, tangible or intangible, which is used by the Company or any of the Company Subsidiaries.

Section 3.9 Exemption from Registration. Such Seller (i) is not a U.S. Person (as defined in Rule 902 of Regulation S), (ii) is outside the United States and is undertaking any transaction contemplated in this Agreement as an offshore transaction (as defined in Rule 902 of Regulation S) and (iii) is acquiring the Purchaser Shares for its own account and not with a view to the distribution of the Purchaser Shares.

Section 3.10 Acquisition for Investment. Such Seller is a sophisticated investor and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of such Seller's acquisition of the Purchaser Shares. Such Seller can bear the economic risk of its investment in the Purchaser Shares and can afford to lose its entire investment in the Purchaser Shares. Such Seller is acquiring the Purchaser Shares for its own account, for investment only and not with a view toward or for sale in connection with any distribution thereof, or with any present intention of distributing or selling such Purchaser Shares. Such Seller acknowledges that the Purchaser Shares may not be sold, transferred, offered for sale, pledged, hypothecated or otherwise disposed of without qualification under applicable securities Laws, except pursuant to an exemption from such qualification available under such securities Laws.

Section 3.11 Restricted Securities. Such Seller understands that the Purchaser Shares issued to such Seller will be characterized as "restricted securities" under the United States federal securities Laws inasmuch as they are being acquired from Purchaser in a transaction not involving a public offering and that under such Laws and applicable regulations such securities may be resold without registration under the Securities Act only in certain limited circumstances. Such Seller understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Purchaser Shares of the fairness or suitability of the investment in the Purchaser Shares.

Section 3.12 Legends. Such Seller understands that, except as provided below, the certificates evidencing the Purchaser Shares issued to such Seller shall bear the following legend until such time as the resale thereof has been registered under the Securities Act, such Purchaser Shares may be sold to the public without registration pursuant to Rule 144 under the Securities Act or any other rule or regulation of the Securities and Exchange Commission, or the restriction described in such legend otherwise cease to be applicable to such Purchaser Shares:

(a) "THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, PLEDGED, OFFERED FOR SALE, OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR AN OPINION FROM COUNSEL IN A FORM REASONABLY ACCEPTABLE TO HOME INNS & HOTELS MANAGEMENT INC. AND ITS LEGAL COUNSEL STATING THAT SUCH REGISTRATION IS NOT REQUIRED."

(b) If required by the securities laws of any U.S. state or foreign country in connection with the issuance of the Purchaser Shares issued to such Seller, any legends required to in order to comply with such laws.

Section 3.13 Reliance on Exemptions. Such Seller understands that the Purchaser Shares are being offered to it in reliance upon specific exemptions from the registration requirements of U.S. federal and state securities laws and that Purchaser is relying upon the truth and accuracy of the representations and warranties of such Seller set forth in this Article III in order to determine the availability of such exemptions and the eligibility of such Seller to acquire the Purchaser Shares.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Purchaser as follows as of the date hereof and the Closing Date:

Section 4.1 Organization and Qualification; No Conflict

(a) Organization and Qualification. Except as set forth in Schedule 4.1(a) of the Disclosure Schedules, the Company and each Company Subsidiary is duly formed, validly existing and in good standing (to the extent such concepts are recognized under applicable Law) under the laws of the jurisdiction of its formation, has full corporate, limited liability company or similar power and authority to own, lease and operate its assets and properties and to conduct its business as presently conducted and is duly qualified to do business and is in good standing (to the extent such concepts are recognized under applicable Law) as a corporation or limited liability company or otherwise in all jurisdictions in which such qualification is necessary under applicable Law as a result of the conduct of its business or the ownership or lease of its properties.

(b) No Conflict. The execution and delivery by the Company of this Agreement and each other agreement, document, instrument or certificate contemplated by this Agreement or to be executed by the Company in connection with the consummation of the transactions contemplated by this Agreement (the "**Company Documents**") does not, and the consummation of the transactions contemplated hereby will not, subject to obtaining the third party consents and/or waivers as set forth on Schedule 4.1(b) of the Disclosure Schedules, which consents and/or waivers shall be obtained on or before the Closing Date, result in a violation, default (with or without notice or lapse of time, or both) or acceleration, giving rise to a right of termination, Consent or cancellation or increase in any fee, liability or obligation, or creation of additional obligations or liabilities or the creation of any Encumbrances upon any of the properties, rights or assets of the Company or any Company Subsidiary pursuant to any provision of (i) the Organizational Documents of the Company or any Company Subsidiary; (ii) any license, lease, mortgage, indenture, note, bond, deed of trust, or other instrument or agreement of any kind to which the Company or any Company Subsidiary is a party or by which any of the Company or Company Subsidiaries may be bound; or (iii) subject to obtaining the Competition Clearance, any Law, Permit or Governmental Order applicable to the Company or any Company Subsidiary or by which any of the Company or Company Subsidiaries may be bound, other than in the case of clauses (ii) and (iii), any such violation, default or acceleration, right of termination, Consent or cancellation or increase, or Encumbrances which would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. Schedule 4.1(b) of the Disclosure Schedules set forth all third party Consents required for the Company to enter into this Agreement and the Company Documents, to perform its obligations set forth hereunder or thereunder and the consummation of the transactions contemplated hereby and hereby.

Section 4.2 Authorization. The Company has all requisite corporate power and authority to enter into this Agreement and each Company Document and to perform its obligations under this Agreement and the Company Documents and to consummate the transactions contemplated by this Agreement and the Company Documents. This Agreement has been, and each of the Company Documents has been or will be at or prior to the Closing, duly executed and delivered by the Company, and (assuming due authorization, execution and delivery by each Seller and Purchaser) this Agreement constitutes, and each of the Company Documents constitute or will constitute, the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 4.3 Capitalization

(a) Company. The authorized share capital of the Company is US\$50,000 divided into 50,000,000 Ordinary Shares, of which 1,157,894 Ordinary Shares are issued and outstanding. The Acquired Shares constitute all of the issued and outstanding share capital of the Company and all of the issued and outstanding Acquired Shares were, and as of the Closing will be, duly authorized for issuance and validly issued, fully paid and non-assessable and were not issued in violation of any purchase option, call option, right of first refusal or offer, preemptive rights, subscription right or other similar right, the Organizational Documents of the Company or all applicable Law, including the laws of the Cayman Islands. Except as set forth in Schedule 4.3(a) of the Disclosure Schedules, there is no existing option, warrant, call, right (including preemptive rights), or Contract of any character requiring, and there are no securities of the Company outstanding which upon conversion or exchange would require, the issuance, of any shares of capital stock, other equity interests or other voting securities of the Company or other securities convertible into, exchangeable for or evidencing the right to subscribe for or purchase shares of capital stock, other equity interests or other voting securities of the Company.

(b) Company Subsidiaries. Schedule 4.3(b) of the Disclosure Schedules sets forth the name of each Company Subsidiary and for each Company Subsidiary: (i) its jurisdiction of formation; (ii) its authorized share capital or approved registered capital; (iii) the number of its issued and outstanding share capital or the registered capital that has been paid; and (iv) the share interests that are wholly owned, directly or indirectly, by the Company. The share interests of each Company Subsidiary that are owned, directly or indirectly, by the Company, as set forth in Schedule 4.3(b) of the Disclosure Schedules, are owned free and clear of all Encumbrances, other than Permitted Encumbrances and other than as set forth in Schedule 4.3(b) of the Disclosure Schedules. All of the issued and outstanding share capital in each Company Subsidiary that are owned, directly or indirectly, by the Company have been duly authorized and, to the extent such concepts are recognized under applicable Law, are validly issued, fully paid and non-assessable and were not issued in violation of any purchase option, call option, right of first refusal or offer, preemptive rights, subscription right or other similar right, the Organizational Documents of the relevant Company Subsidiary or all applicable Law. Except as set forth in Schedule 4.3(b) of the Disclosure Schedules, all capital contributions to the Company Subsidiaries have been paid in accordance with all applicable Law. Except as set forth in Schedule 4.3(b) of the Disclosure Schedules, there is no existing option, warrant, call, right (including preemptive rights), or Contract of any character requiring, and there are no securities of any Company Subsidiary outstanding which upon conversion or exchange would require, the issuance, of any shares of capital stock, other equity interests or other voting securities of any Company Subsidiary or other securities convertible into, exchangeable for or evidencing the right to subscribe for or purchase shares of capital stock, other equity interests or other voting securities of any Company Subsidiary.

(c) No Other Share Interests. The Company does not own, directly or indirectly, any share interests in any Person other than the Company Subsidiaries.

(d) No Other Obligations. Except as set forth in Schedule 4.3(d) of the Disclosure Schedules, neither the Company nor any of the Company Subsidiaries is a party to any voting trust or other Contract with respect to the voting, redemption, sale, transfer or other disposition of the Ordinary Shares or share of capital stock, other equity interests or other voting securities of the Company or the Company Subsidiaries. Neither the Company nor any of the Company Subsidiaries has an obligation to issue any subscription, warrant, option, convertible security or other such right, or to issue or distribute to holders of any shares of its capital stock, other equity interests or other voting securities or any evidence of Indebtedness or assets of the Company or any of the Company Subsidiaries. Except as set forth in Schedule 4.3(d) of the Disclosure Schedules, (i) neither the Company nor any of the Company Subsidiaries has an obligation to (x) purchase, redeem or otherwise acquire any shares of its capital stock or other equity interests or voting securities, or any interest therein, or to pay any dividend or to make any other distribution in respect thereof or (y) vote or dispose of any capital stock, or other equity interests or voting securities in the Company or any of the Company Subsidiaries and (ii) there are no outstanding or authorized stock appreciation, phantom stock, profit participation or similar rights with respect to the Company or any of the Company Subsidiaries. Except as set forth in this Section 4.3, no shares of capital stock, other equity interests or other voting securities of the Company or any Company Subsidiary are issued, reserved for issuance or outstanding.

(e) Schedule 4.3(e) of the Disclosure Schedules sets forth a schedule of all Indebtedness of the Company and the Company Subsidiaries, existing as of the date hereof, of the type described in clause (i) of the definition thereof (other than Indebtedness solely between the Company and one or more of the wholly-owned Company Subsidiaries), including the name of the facility, amount outstanding, maturity and interest rate.

Section 4.4 Financial Statements

(a) The Company has provided to Purchaser copies of: (i) the Prior Three-Year Financial Statements and the Audited Year-End Financial Statements (collectively, the "**Financial Statements**"); (ii) the First-Quarter Management Accounts; and (iii) within thirty (30) days after the date hereof, the Pre-Signing Monthly Management Accounts. True and correct copies of the Financial Statements and the First-Quarter Management Accounts are attached hereto as Exhibit C. The Financial Statements present fairly, in all material respects, the consolidated financial position of the Company and the Company Subsidiaries at the dates thereof, and the results of their operations and their cash flows for the periods presented, in conformity with IFRS consistently applied. The First-Quarter Management Accounts and Pre-Signing Monthly Management Accounts (upon delivery to Purchaser after the date hereof in accordance with this Section 4.4(a)) have been prepared with reasonable care and attention from the accounting records of the Company and the Company Subsidiaries and have been prepared in all material respects on a basis consistent with past practice having regard to the purpose for which they were created and are accurate in all material respects and are not misleading in any material respect.

(b) The books of account and other financial records of the Company and the Company Subsidiaries are true, complete and correct in all material respects, have been prepared and maintained in reasonable detail and accurately and fairly reflect in all material respects the transactions and dispositions of the assets of the Company and the Company Subsidiaries.

(c) The books and other records of the Company and the Company Subsidiaries have been prepared to record substantially all material corporate actions of the shareholders, directors and any board committees of the Company and the Company Subsidiaries.

(d) The Company has devised and maintains a system of internal accounting controls sufficient in all material respects to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary (x) to permit preparation of financial statements in conformity with IFRS consistently applied and (y) to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general and specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Section 4.5 No Undisclosed Liabilities. There are no Liabilities of the Company or the Company Subsidiaries other than Liabilities (a) reflected or reserved against on the Audited Year-End Financial Statements, including any notes thereto or (b) incurred since the Balance Sheet Date in the ordinary course of business consistent with past practice.

Section 4.6 Taxes. Except as set forth in Schedule 4.6 of the Disclosure Schedules:

(a) All Tax Returns required to be filed by or with respect to the Company or any of the Company Subsidiaries have been timely filed (after taking into account all applicable extensions).

(b) All such Tax Returns are complete and correct in all material respects.

(c) Each of the Company and the Company Subsidiaries has paid or caused to be paid in full all Taxes shown as due on such Tax Returns and all Taxes owed by the Company and the Company Subsidiaries for which no return was required to be filed, or has made adequate provision for all Taxes for the period ended March 31, 2011 in the Financial Statements and/or First-Quarter Management Accounts.

(d) To the Company's Knowledge, no deficiency, adjustment or special adjustment for any Taxes has been or is expected to be asserted in writing, proposed in writing or assessed in writing against the Company or any of the Company Subsidiaries or any of their assets or properties and there is no ground for any such deficiency, adjustment or special adjustment for any Taxes.

(e) There are no examinations, audits currently in progress, pending or, to the Knowledge of the Company, threatened against the Company or any of the Company Subsidiaries.

(f) There are no outstanding agreements, waivers or arrangements extending the statutory period of limitation applicable to any claim for, or the period for the collection or assessment of, Taxes due from or with respect to the Company or any of the Company Subsidiaries for any taxable period.

(g) No power of attorney granted by or with respect to the Company or any of the Company Subsidiaries relating to Taxes is currently in force.

(h) The Company has, no later than thirty (30) days prior to the Closing Date, delivered or made available to Purchaser for inspection (i) complete and correct copies of all income Tax Returns for the calendar years 2008, 2009, and 2010, and (ii) complete and correct copies of rulings, closing agreements, settlement agreements, deficiency notices and any similar documents submitted by, received by or agreed to by or on behalf of the Company or any of the Company Subsidiaries and relating to material Taxes for such taxable periods.

(i) Neither the Company nor any of the Company Subsidiaries has any liability for the Taxes of any Person (other than the Company or any of the Company Subsidiaries) under any applicable Law, as a transferee or successor, by Contract, or otherwise.

(j) There are no Encumbrances for Taxes upon any of the assets or properties of the Company or any of the Company Subsidiaries, other than for Taxes not yet due and payable.

(k) To the Knowledge of the Company, no claim has ever been made by a Governmental Entity in a jurisdiction where the Company or any of the Company Subsidiaries does not file Tax Returns that the Company or any of the Company Subsidiaries is or may be subject to taxation by that jurisdiction, and to the Knowledge of the Company, there is no basis for any such claim to be made.

(l) The Company and the Company Subsidiaries have duly deducted, withheld, collected and timely paid to the appropriate Governmental Entities all Taxes required to be deducted, withheld, collected or paid in connection with amounts paid or owing to any Person.

(m) The Company and the Company Subsidiaries have complied with all reporting and record keeping requirements with respect to Taxes, and have retained copies of all Tax Returns and all material documents relating to Taxes, including, without limitation, Tax payment certificates, Tax deduction approvals and Tax filing supporting documents.

(n) Neither the Company nor any of the Company Subsidiaries is a party to, or bound by, or has any obligation under, any Tax allocation or sharing agreement or similar Contract or arrangement or any agreement that obligates it to make any payment computed by reference to the Taxes.

(o) All related party transactions conducted by the Company or any of the Company Subsidiaries have been conducted and are conducted at arm's length and have been properly documented.

(p) To the Company's Knowledge, no financial subsidies or Tax incentives (including, without limitation, a reduction in a Tax rate, exemption from Tax or Tax refund) will be required to be repaid or clawed back prior to the Closing as a result of any action taken or event occurring on or before the Closing Date (including, without limitation, entering into this Agreement, any Company Document and the Transaction).

Section 4.7 Litigation. Except as set forth in Schedule 4.7 of the Disclosure Schedules, there is no action, claim, suit, investigation or other proceeding at law or in equity (collectively, the "**Legal Actions**") pending or, to the Knowledge of the Company, threatened against the Company or any Company Subsidiary or any of their assets, rights or properties that involves an amount in excess of RMB1,000,000. The Company is not, and none of the Company Subsidiaries are, subject to or in default under any Governmental Order.

Section 4.8 Compliance with Laws. Except as set forth in Schedule 4.8 of the Disclosure Schedules, the businesses of the Company and each Company Subsidiary have not been for the period commencing three (3) years prior to the date of this Agreement, and are not being, conducted in violation of any applicable Law (including, but not limited to, applicable anti-bribery Laws) and none of the Company or any Company Subsidiary has received written notice from any Governmental Entity alleging that it is in violation of any Law or Governmental Order, except in each case for violations which would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. The Company and Company Subsidiaries maintain internal controls reasonably designed to identify violations of any Law and to ensure that all transactions involving the assets of the Company or any Company Subsidiary are properly authorized and recorded. None of the Company or any Company Subsidiary is a party to an action by any U.S. Governmental Authority arising from an alleged violation by any of them of any sanction administered by the Office of Foreign Asset Control of the United States Treasury Department.

Section 4.9 Key Employees. To the Company's Knowledge, no officer of the Company or any Company Subsidiary or any of the Key Employees is in violation of any term of any employment contract, patent disclosure agreement, proprietary information agreement, non-competition agreement, or any other Contract, agreement, understanding or any restrictive covenant relating to the right of any such officer or Key Employee to be employed by the Company or any Company Subsidiary because of the nature of the business conducted or presently proposed to be conducted by the Company and the Company Subsidiaries or relating to the use of trade secrets or proprietary information of others, and to the Knowledge of the Company, the continued employment of the officers of the Company and the Company Subsidiaries and the Key Employees does not subject the Company or any Company Subsidiary to any Liability to third parties. Neither the Company nor any Company Subsidiary has received any communication from the most recent former employer of an officer or Key Employee regarding such Person's existing or proposed role as a director, officer or employee of or consultant to the Company or any Company Subsidiary, regarding or indicating any alleged violation of any term of any employment contract, patent disclosure agreement, proprietary information agreement, non-competition agreement, or any other Contract, agreement, understanding or any restrictive covenant relating to the right of any such Person to be employed by the Company or any Company Subsidiary because of the nature of the business conducted by the Company and the Company Subsidiaries or relating to the use of trade secrets or proprietary information of others. Except as set forth on Schedule 4.9 of the Disclosure Schedules, the Company has no Knowledge that any such officer or Key Employee intends to terminate his or her employment with the Company or the applicable Company Subsidiary, nor does the Company have any present intention to terminate the employment of any such officer or Key Employee.

Section 4.10 Labor

(a) Neither the Company nor any Company Subsidiary is a party to or otherwise bound by any labor or collectively bargaining agreement or contract, agreement or understanding with any labor union and no labor union has requested, sought or attempted to represent any employees, representatives or agents of the Company or any Company Subsidiary. There is no existing, threatened or pending strike, work slowdown, lockout or other similar labor disputes involving any of the Company or the Company Subsidiaries and neither the Company nor any of the Company Subsidiaries has experienced any such labor controversy for the period commencing three (3) years prior to the date of this Agreement. Except as set forth in Schedule 4.10(a) of the Disclosure Schedules or would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, each of the Company and the Company Subsidiaries has, for the period commencing three (3) years prior to the date of this Agreement, complied with all applicable Law relating to employment, including but not limited to those related to wage, working time, overtime payment, the payment and withholding of Taxes and other sums as required by the appropriate Governmental Entity, health and safety, intern and labor agent, in all material respects; and there is no existing, threatened or pending dispute involving any of the Company or the Company Subsidiaries nor has any such dispute arisen for the period commencing three (3) years prior to the date of this Agreement and the Company has no Knowledge of any circumstance which might give rise to any such dispute that would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. Except as set forth in Schedule 4.10(a) of the Disclosure Schedules, each of the employees of the Company and the Company Subsidiaries is subject to a written employment agreement with the Company or the applicable Company Subsidiary in full compliance with applicable Law.

(b) The Company and each Company Subsidiary have completed the social insurance registration with the competent labor and social security authorities. The Company and each Company Subsidiary have, for the period commencing three (3) years prior to the date of this Agreement, paid the contributions in full for the statutory social insurance and housing funds for all of their employees with whom the Company and each Company Subsidiary have entered into employment Contracts.

Section 4.11 Employee Benefit Plans. Schedule 4.11 of the Disclosure Schedules contains a true and complete list of each Benefit Plan. Neither the Company nor any Company Subsidiary maintains any Benefit Plan that is an equity incentive plan or equity arrangement for participation by its employees. Employees of the Company and the Company Subsidiary have not entered into any collective bargaining agreements. With respect to any Benefit Plan, (i) all Benefit Plans have been established, maintained and administered in material compliance with their terms, social security, overtime payment, intern, and labor agent Laws, as well as any other applicable Laws, and except as set forth in Schedule 4.11 of the Disclosure Schedules, has so complied in all material respects with all applicable Laws for a period of three (3) years prior to the date of this Agreement; (ii) to the Knowledge of the Company, all Benefit Plans that are required to be funded are fully funded, and with respect to all other Benefit Plans, adequate reserves have been established on the accounting statements of the applicable Company or Company Subsidiary; and (iii) to the Knowledge of the Company, no material liability or obligation of the Company or any Company Subsidiary exists with respect to such Benefit Plans.

Section 4.12 Permits. Except as set forth in Schedule 4.12 of the Disclosure Schedules: (i) each of the Company and the Company Subsidiaries holds all material Permits that are reasonably necessary for it to conduct its operations in the manner in which they are presently conducted (collectively, "**Company Permits**"); (ii) each Company Permit is in full force and effect; (iii) neither the Company nor any of the Company Subsidiaries is in default or violation (and no event has occurred which, with notice or the lapse of time or both, would constitute a default or violation) in any respect of any material term, condition or provision of any Company Permits and none of the Company or any Company Subsidiary has received any written notice from any Governmental Entity alleging that it is in violation of any Company Permit held by it; and (iv) no suspension or cancellation of any of the Company Permits is pending or threatened and no such suspension or cancellation will result from the transactions contemplated by this Agreement or the Company Documents. The Company and the Company Subsidiaries have kept all material required records and have filed with Governmental Entities all material required notices, supplemental applications and annual or other reports for the operations of the Company's and the Company Subsidiaries' business.

Section 4.13 Real Property

(a) Neither the Company nor any Company Subsidiary owns any real property. Schedule 4.13(a) of the Disclosure Schedules sets forth a list (which list shall be updated by the Company as of the Closing) of all real property leased or subleased by the Company or any Company Subsidiary (as updated, the "**Leased Real Property**") and all Leased Real Property that has been subleased or assigned by the Company or any Company Subsidiary to any other Person and sets forth the names of the parties thereto, the date of the lease or sublease and each amendment thereto (collectively, the "**Lease Documents**"). True and complete copies of the Lease Documents have been made available to Purchaser no later than fifteen (15) days prior to the Closing Date. Each of the Lease Documents is valid, binding and in full force and effect and neither the Company, the Company Subsidiaries nor, to the Knowledge of the Company, any other party thereto is in material violation of or in material default thereunder. No event has occurred or circumstance or condition exists, that (with or without notice, lapse of time or both) would reasonably be expected to (i) result in a material breach or material violation of or material default thereunder, (ii) give any party the right to cancel or accelerate payments thereunder or terminate or materially modify any Lease Document or (iii) give any party to any Lease Document or any property formerly leased by the Company, any Company Subsidiary or any of their predecessors the right to seek damages or other remedies.

(b) Except as set forth in Schedule 4.13(b) of the Disclosure Schedules, the Company and each Company Subsidiary has valid leasehold interests in (or has analogous property rights under applicable Law) all Leased Real Property used by it.

(c) Schedule 4.13(c) of the Disclosure Schedules sets forth a list (which list shall be updated by the Company as of the Closing) of each franchise, license or similar agreement pursuant to which the Company or any Company Subsidiary grants rights to any third party to use the Intellectual Property of the Company and the hotel reservation system of the Company and the Company Subsidiaries, and described the property that is subject to such agreement (such property, as updated, together with the Leased Real Property, collectively the "**Properties**" or individually a "**Property**"), the names of the parties thereto, the date of such franchise agreement and each amendment thereto (including side letters and other agreements) (collectively, the "**Franchise Documents**"). True and complete copies of the Franchise Documents have been made available to Purchaser no later than fifteen (15) days prior to the Closing Date. Each of the Franchise Documents is valid, binding and in full force and effect and neither the Company, the Company Subsidiaries nor, to the Knowledge of the Company, any other party thereto is in material violation of or in material default thereunder. No event has occurred or circumstance or condition exists, that (with or without notice, lapse of time or both) would reasonably be expected to (i) result in a material breach or material violation of or material default thereunder, (ii) give any party the right to cancel or accelerate payments thereunder or terminate or materially modify any Franchise Document or (iii) give any party to any Franchise Document or any property formerly subject to any franchise, license or similar agreement with the Company, any Company Subsidiary or any of their predecessors the right to seek damages or other remedies.

(d) None of the Company or any Company Subsidiary nor, to the Knowledge of the Company, any other party to any Franchise Document has received written notice of a proceeding in eminent domain proceedings affecting any of the Properties.

(e) With respect to all buildings, structures (surface and sub-surface), fixtures and improvements (collectively, the "**Improvements**") on each Property, (i) such Improvements are in good working condition, except for ordinary wear and tear, (ii) all mechanical systems therein are in good operating condition, except for ordinary wear and tear, (iii) all FF&E therein are in good operating condition, except for ordinary wear and tear, (iv) all of the guest rooms are available for regular occupancy and the lobby, restaurant(s), lounge(s), board rooms, meeting and banquet rooms, "back-of-house" areas, parking facilities (if any) and other public areas are available for regular use, with FF&E reasonably installed, (v) all are reasonably accessible to and from public access ways over roads adequate to provide all necessary vehicular and pedestrian ingress and egress for the use thereof for its intended purpose as currently used, (vi) all utilities, including water, gas, heat, drainage, storm and sanitary septic facilities, telecommunication (including telephone, internet and cable), electrical systems and fire protection are available and operable in adequate capacity to permit the use thereof for its intended purposes as currently used, and all introduction and connection charges have been paid, (vii) all have the parking area (if any) shown on the plans and specifications, and (viii) all have adequate signs in place.

(f) All Improvements on each Property conform to and are in compliance with all Laws in all material respects. Except as set forth in Schedule 4.13(f) of the Disclosure Schedules, each Property and each Improvement thereon has been completed in all material respects in accordance with all applicable zoning and land use regulations and permits and all restrictions and/or conditions contained in any zoning or land use variance or other similar approval relating to such Property or Improvement. There are no pending or, to the Knowledge of the Company, threatened proceeding to change the current land use classification of the Property or the conditions applicable thereto.

(g) Except as set forth in Schedule 4.13(g) of the Disclosure Schedules, all Permits and licenses (including specific industry licenses), certificates and approvals and all governmental concessions required by applicable Law to be issued by any Governmental Entity and material to the operation of each hotel and Property as presently conducted (collectively, the "**Hotel Permits**") have been obtained and all such Hotel Permits are in full force and effect and all obligations (including payments) thereunder have been complied with.

(h) Schedule 4.13(h) of the Disclosure Schedules describes all current and planned material construction and renovation projects relating to the Properties, including (i) the cost of each construction or renovation project and any cost overruns and (ii) the planned completion date for each construction or renovation project.

Section 4.14 Personal Property. Except as set forth on Schedule 4.14 of the Disclosure Schedules or would not reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries have good and marketable title to, or a valid and enforceable leasehold interest in, all personal property owned, used or held for use by them. Except as set forth on Schedule 4.14 of the Disclosure Schedules, neither the Company's nor any of the Company Subsidiaries' ownership of or leasehold interest in any such personal property is subject to any Encumbrances, except for the Permitted Encumbrances.

Section 4.15 Environmental Matters. Neither the Company nor any Company Subsidiary nor, to the Knowledge of the Company, any other party to any Franchise Document has used Materials of Environmental Concern at any of the Properties, or elsewhere, in a manner that has resulted in or could reasonably be expected to result in liability to any of them, other than exceptions to the foregoing that would not, individually or in the aggregate, reasonably be expected to result in a Company Material Adverse Effect. To the Knowledge of the Company, no Materials of Environmental Concern are otherwise present at any Property or are present elsewhere under conditions or in circumstances that have resulted in or could reasonably be expected to result in liability to the Company or any Company Subsidiary, other than exceptions to any of the foregoing that would not, individually or in the aggregate, reasonably be expected to result in a Company Material Adverse Effect. To the Knowledge of the Company, copies of any reports regarding any environmental assessment, audit or other review of any of the Properties or any property formerly owned or leased by, or subject to any franchise, license or similar agreement with, the Company or any Company Subsidiary or any of their predecessors, have been made available to Purchaser to the extent such reports are in the possession or control of the Company or any Company Subsidiary.

Section 4.16 Material Contracts. Except as set forth in Schedule 4.16 of the Disclosure Schedules, none of the Company or any Company Subsidiary is a party to or obligated under:

(a) any Contract which obligates the Company or any Company Subsidiary for payments in any future calendar year in excess of RMB2,000,000, in the aggregate, and which is not terminable by the Company or the Company Subsidiaries without additional payment or penalty within ninety (90) days of delivery of notice of such termination;

(b) any Contract which restricts the Company or any Company Subsidiary from engaging in any line of business or competing with any Person in any geographic region;

(c) any partnership, limited liability company agreement, joint venture or other similar agreement or arrangement relating to the formation, creation, operation, management or control of any partnership or joint venture which is not a wholly-owned subsidiary of the Company;

(d) any Contract (other than among the Company Subsidiaries) under which Indebtedness in excess of RMB2,000,000 is outstanding or pursuant to which any property or asset of the Company or any of the Company Subsidiaries having a book value of more than RMB2,000,000 is mortgaged, pledged or otherwise subject to an Encumbrance or any Contract restricting the incurrence of Indebtedness or the incurrence of Encumbrances or restricting the payment of dividends;

(e) any Contract entered into within three (3) years prior to the date hereof for the acquisition or disposition, directly or indirectly (by merger or otherwise), of assets or capital stock or other equity interests of another Person for aggregate consideration in excess of RMB2,000,000 and any term sheets or letters of intent in effect and not expired as of the date hereof, whether or not binding, relating to any of the foregoing in this clause (e);

(f) other than Contracts for ordinary repair and maintenance, any Contract relating to the development or construction of, or additions or expansions to, the Properties, under which the Company or any of the Company Subsidiaries has, or expects to incur, an obligation in excess of RMB2,000,000 in the aggregate that has not been satisfied as of the date hereof;

(g) any Contract to which the Company or any of the Company Subsidiaries has continuing indemnification obligations or potential liability under any purchase price adjustment that, in each case, could reasonably be expected to result in future payments of the Company or such Company Subsidiary of more than RMB2,000,000 or any Contract relating to the settlement or proposed settlement of any Legal Action, which involves the issuance of equity securities or payment of an amount, in any such case, having a value of more than RMB2,000,000;

(h) any Contract for the employment of, or receipt of any services from, any director, officer or other employee on a full-time, part-time, consulting or other basis providing annual base compensation from the Company or any Subsidiary in excess of RMB500,000;

(i) any Contract which relates to any material Intellectual Property;

(j) any Contract (other than Contracts referenced in clause (a) through (i) of this Section 4.16) which by its terms call for payments by the Company and the Company Subsidiaries in excess of RMB2,000,000;

(k) any Contract with any Sellers or any current officer or director of the Company or any Company Subsidiary or any other Affiliates of the Company or any Company Subsidiary; or

(l) any Contract that requires a consent to or otherwise contains a provision relating to a "change of control", or any Contract that would prohibit or delay the consummation of the transactions contemplated by this Agreement or the Company Documents, or that would trigger, give rise to, accelerate or augment any liabilities or terminate or modify any rights of the Company or any Company Subsidiary as a result of the consummation of the transactions contemplated hereby (the Contracts described in clause (a) through (k) of this Section 4.16 and those agreements set forth in Schedule 4.13 of the Disclosure Schedules together with all exhibits and schedules thereto collectively, the "**Material Contracts**").

(m) (i) Neither the Company nor any Company Subsidiary is in material breach of or material default (with or without notice, lapse of time or both) under the terms of any Material Contract, (ii) to the Knowledge of the Company, as of the date hereof, no other party to any Material Contract is in breach of or default (with or without notice, lapse of time or both) under the terms of any Material Contract and (iii) each Material Contract is a valid and binding obligation of the Company or the Company Subsidiary a party thereto and is in full force and effect assuming that each such Material Contract is a valid and binding obligation of the other party or parties to the Material Contract. The Company has, no later than fifteen (15) days prior to the Closing Date, made available to Purchaser true and complete copies of all Material Contracts, including any amendment thereto.

Section 4.17 Intellectual Property. Except as set forth in Schedule 4.17 of the Disclosure Schedules, (i) none of the Company or any Company Subsidiary has received any written notice of any pending or threatened claim that the conduct of the businesses of the Company and the Company Subsidiaries as currently conducted infringes the Intellectual Property rights of any third party, (ii) to the Knowledge of the Company, no Person is materially infringing the material Intellectual Property rights of the Company or any Company Subsidiary; (iii) no Seller or Affiliate thereof is using any Intellectual Property rights that are the same as, or confusingly or substantially similar to, those used in the conduct of the businesses of the Company and the Company Subsidiaries as currently conducted; (iv) the Company and the Company Subsidiaries do not own any registrations or applications for Intellectual Property rights; (v) all of the registrations and applications on such schedule are subsisting and unexpired, and to the Knowledge of the Company, valid and enforceable; (vi) all Persons who contributed to the creation or development of material proprietary Intellectual Property of the Company and the Company Subsidiaries have assigned to the Company in writing all of their rights therein; (vii) the Company and the Company Subsidiaries take all reasonable actions to protect their material Intellectual Property and the integrity, security and continued operation of their material software, networks and systems, and there have been no material violations, outages or interruptions of same; or (viii) no Person has the current or contingent right to access or possess any material source code of the Company or any Company Subsidiary or has actually done the foregoing.

Section 4.18 Insurance. Set forth on Schedule 4.18 of the Disclosure Schedules is a list of all material policies of insurance under which any of the Company's or any Company Subsidiary's assets or business activities are covered. True and complete copies of such insurance policies have been made available to Purchaser no later than fifteen (15) days prior to the Closing Date. Except as set forth on Schedule 4.18 of the Disclosure Schedules, there is no claim by the Company or any Company Subsidiary pending under any such policies which (a) has been denied or disputed by the insurer or (b) if not paid, would have a Company Material Adverse Effect. With respect to each such insurance policy, except as set forth in Schedule 4.18 of the Disclosure Schedules, (i) the policy is legal, valid, binding and enforceable in accordance with its terms and is in full force and effect; (ii) neither the Company nor any Company Subsidiary is in breach or default (including any such breach or default with respect to the payment of premiums or the giving of notice), and no event has occurred which, with notice or lapse of time, would constitute such a breach or default, or permit termination or modification, under the policy; (iii) no notice of cancellation or termination has been received; (iv) to the Knowledge of the Company, no insurer of the policy has been declared insolvent or placed in receivership, conservatorship or liquidation; and (v) the policy is sufficient for compliance with all requirements of Law and the express requirements of all Contracts to which the Company or the Company Subsidiaries are parties.

Section 4.19 Brokers and Finders. None of the Company or any Company Subsidiary has entered into any agreement or arrangement entitling any agent, broker, investment banker, financial advisor or other firm or Person to any broker's or finder's fee or any other commission or similar fee payable by the Company or any of the Company Subsidiaries in connection with any of the transactions contemplated by this Agreement or the Company Documents, except for such Persons set forth in Schedule 4.19 of the Disclosure Schedules, whose fees and expenses are governed by Section 6.7.

Section 4.20 Absence of Certain Changes. Except as set forth on Schedule 4.20 of the Disclosure Schedules, since the Balance Sheet Date, (i) (x) the Company and the Company Subsidiaries have conducted their respective businesses only in the ordinary course of business consistent with past practice and (y) there has not been any fact, event, change, development, condition, occurrence or circumstances that has had or would, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect and (ii) there has not been any action, event or occurrence that would have required the consent of Purchaser pursuant to Section 6.5 had such action, event or occurrence taken place after the execution and delivery of this Agreement.

Section 4.21 Related Party Transactions. Schedule 4.21 of the Disclosure Schedules contains a certain balance between or amongst related parties of the Company as defined under IFRS that the Company intends to settle prior to Closing. Except as set forth on Schedule 4.21 of the Disclosure Schedules, there is no unsettled balance between or amongst related parties of the Company as defined under IFRS.

Section 4.22 Circular 75 Registration. Schedule 4.22 of the Disclosure Schedules sets forth all the reporting and/or registrations made to date pursuant to the SAFE Rules and Regulations by each present and former holder or beneficial owner of any share capital of the Company who is a Circular 75 Security Holder.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to each Seller as follows as of the date hereof and the Closing Date:

Section 5.1 Organization and Qualification. Purchaser is duly organized as a Cayman Islands company limited by shares and validly existing under the laws of the Cayman Islands and has all requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder.

Section 5.2 Authorization. Purchaser has all requisite corporate power and authority to enter into the Transaction Agreements and each other agreement, document, instrument or certificate contemplated by the Transactions Agreements or to be executed by such Seller in connection with the consummation of the transactions contemplated by the Transaction Agreements (the "**Purchaser Documents**") and to perform its obligations under the Transaction Agreements and the Purchaser Documents and to consummate the transactions contemplated by the Transaction Agreements and the Purchaser Documents. The execution and delivery of the Transaction Agreements and the Purchaser Documents by Purchaser and the consummation by Purchaser of the transactions contemplated hereby and thereby have been duly and validly authorized by the board of directors of Purchaser and no other corporate proceedings of Purchaser are necessary to authorize the Transaction Agreements or the Purchaser Documents or to consummate the transactions contemplated hereby and thereby. The Transaction Agreements and the Purchaser Documents have been duly executed and delivered by Purchaser and (assuming due authorization, execution and delivery by each Seller and the Company where applicable) constitute valid and binding obligations of Purchaser enforceable against Purchaser in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3 No Conflict. The execution and delivery of the Transaction Agreements and the Purchaser Documents by Purchaser does not, and the performance by Purchaser of its obligations under the Transaction Agreements and the Purchaser Documents and the consummation by Purchaser of the transactions contemplated hereby and thereby will not (i) subject to obtaining the Competition Clearance, violate any applicable Law to which Purchaser is subject, (ii) conflict with, result in a violation or breach of, or constitute a default under, result in the acceleration of or create in any party the right to accelerate, terminate or cancel any contract or agreement to which Purchaser is bound or (iii) violate the Organizational Documents of Purchaser other than, in the case of clauses (i) and (ii) above, any such violations, conflicts, breaches, defaults, accelerations or rights that would not materially impair or delay Purchaser's ability to perform its obligations under the Transaction Agreements or consummate the transactions contemplated hereby and thereby.

Section 5.4 Government Filings. No Governmental Filings are required in connection with the execution and delivery of the Transaction Agreements or the Purchaser Documents by Purchaser or the consummation by Purchaser of the transactions contemplated hereby and thereby, except (a) the Competition Clearance, (b) those that become applicable as a result of the regulatory or corporate status of Sellers or their Affiliates, and (c) such other Governmental Filings, the failure of such other Governmental Filings to be made or obtained would not materially impair or delay Purchaser's ability to perform its obligations under the Transaction Agreements or consummate the transactions contemplated hereby and thereby.

Section 5.5 Acquisition for Investment. Purchaser is a sophisticated investor and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of Purchaser's purchase of the Acquired Shares. Purchaser can bear the economic risk of its investment in the Acquired Shares and can afford to lose its entire investment in the Acquired Shares. Purchaser is acquiring the Acquired Shares for its own account, for investment only and not with a view toward or for sale in connection with any distribution thereof, or with any present intention of distributing or selling such Acquired Shares. Purchaser acknowledges that the Acquired Shares may not be sold, transferred, offered for sale, pledged, hypothecated or otherwise disposed of without qualification under applicable securities Laws, except pursuant to an exemption from such qualification available under such securities Laws.

Section 5.6 Access to Funds.

(a) Purchaser has delivered to the Company a true, accurate and complete copy of an executed commitment letter for a US\$300 million senior secured term loan facility (the "**Debt Commitment Letter**") from the financial institutions identified therein (the "**Lenders**") pursuant to which the Lenders have agreed to provide debt financing to Purchaser in an aggregate amount set forth therein (the "**Debt Financing**"), subject to the terms and conditions set forth therein, the proceeds of which shall be used to finance the consummation of the transactions contemplated by this Agreement. The Debt Commitment Letter contains all of the conditions precedent to the obligations of the parties thereunder to make the Debt Financing available to Purchaser on the terms therein.

(b) As of the date hereof, the Debt Commitment Letter is in full force and effect and has not been withdrawn or terminated or otherwise amended or modified in any respect. The Debt Commitment Letter is a legal, valid and binding obligation of Purchaser and, to the Knowledge of Purchaser, the other parties thereto as of the date hereof, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law). As of the date hereof, there are no other agreements, side letters or arrangements relating to the Debt Commitment Letter to which Purchaser is a party that could adversely affect the availability of the Debt Financing. Subject to (x) the accuracy of the representations and warranties set forth in Article III and Article IV, and (y) the performance by each of Sellers and the Company of its obligations under this Agreement, as of the date hereof, to the Knowledge of Purchaser, no event has occurred which, with or without notice, lapse of time or both, would constitute a default or breach on the part of Purchaser under any term or condition of the Debt Commitment Letter. Assuming (i) the Debt Financing is funded in accordance with the Debt Commitment Letter, (ii) the accuracy of the representations and warranties set forth in Article III and Article IV, and (iii) the performance by each of Sellers and the Company of its obligations under this Agreement, as of the date hereof, the net proceeds from the Debt Financing will, together with the cash on hand, in the aggregate, be sufficient for Purchaser to pay the Estimated Purchase Price and any other amounts payable under this Agreement.

(c) As of the date hereof, Purchaser has no Knowledge of any circumstance that would reasonably be expected to prevent Purchaser from obtaining the Debt Financing on substantially the same terms and conditions as set out in the Debt Commitment Letter.

Section 5.7 Brokers and Finders. No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission from Sellers or the Company in connection with this Agreement or the transactions contemplated hereby based upon arrangements made by or on behalf of Purchaser or any of its Affiliates.

Section 5.8 Due Issuance of Share Consideration. The Purchaser Shares constituting the Share Consideration have been duly authorized and, when issued to GSSIII and Merrylin pursuant to this Agreement, will be validly issued, fully paid and non-assessable and free and clear of Encumbrances, except for restrictions arising under the Securities Act or the Transaction Documents, and upon entry into Purchaser's register of members will provide GSSIII and Merrylin with good and valid title to the Share Consideration in accordance with this Agreement.

Section 5.9 Compliance with Laws. The business of Purchaser or the Purchaser Subsidiaries is not being conducted in violation of any applicable Law except for violations which do not and would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect. The information publicly disclosed by Purchaser conforms in all material respects to the requirements of the Securities Act, the Exchange Act and the rules and regulations of the SEC thereunder and does not and will not, as of the applicable effective date(s) of such information, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

Section 5.10 Litigation. Except as otherwise disclosed publicly, there are no actions by or against Purchaser or the Purchaser Subsidiaries or affecting the business or any of the assets of Purchaser or the Purchaser Subsidiaries pending before any Governmental Entity, or, to Purchaser's Knowledge, threatened to be brought by or before any Governmental Entity that would reasonably be expected to result in a Purchaser Material Adverse Effect.

Section 5.11 Investment Company. Purchaser is not and will not be an "investment company," as such term is defined in the U.S. Investment Company Act of 1940, as amended.

Section 5.12 PFIC. The Purchaser does not expect to be a passive foreign investment company for U.S. federal income tax purposes ("**PFIC**") for its 2011 taxable year and has no current plans to become one.

Section 5.13 Regulation S. No directed selling efforts (as defined in Rule 902 of Regulation S under the Securities Act) have been made by any of Purchaser, any of its Affiliates or any Person acting on its behalf with respect to the Purchaser Shares to be issued to Sellers pursuant to this Agreement; and all such persons have complied with the offering restrictions requirement of Regulation S in connection with the issuance of Purchaser Shares to be issued to Sellers pursuant to this Agreement.

ARTICLE VI **COVENANTS**

Section 6.1 Publicity. Except as may be required by applicable Law or by obligations pursuant to any listing agreement with or rules of any national securities exchange or by any Governmental Entity, prior to Closing, neither a Party nor any of its respective Affiliates shall, and Sellers shall cause the Company and the Company Subsidiaries to not, without the express written approval of the other Parties, make any press release or other public announcements concerning the transactions contemplated by this Agreement, except as and to the extent that any such Party shall be so obligated by applicable Law or pursuant to any such listing agreement or rules of any national securities exchange or by any Governmental Entity, in which case the other Parties shall be advised and all the Parties shall use reasonable efforts to cause a mutually agreeable release or announcement to be issued.

Section 6.2 Confidentiality.

(a) Purchaser and its Representatives (as such term is defined in the Confidentiality Agreement) shall treat all materials and information obtained in connection with this Agreement and the transactions contemplated hereby (including the terms and conditions of this Agreement) as confidential in accordance with the terms of the Confidentiality Agreement; provided, that Purchaser may make such disclosure as required by applicable Law or by obligations pursuant to any listing agreement with or rules of any national securities exchange or by any Governmental Entity. Purchaser may disclose the terms and conditions of this Agreement to any of its Representatives to the extent such disclosure complies with the terms of the Confidentiality Agreement. Purchaser shall be permitted to disclose this Agreement and any other agreements contemplated hereby in connection with any approvals, filings or registrations contemplated by this Agreement.

(b) For a period from the date of this Agreement to the date that is two (2) years from and after the Closing Date, each Seller shall not and shall cause its officers, employees and Affiliates not to, directly or indirectly, disclose, reveal, divulge or communicate to any Person other than authorized officers and employees of Purchaser or the Company or any of their respective subsidiaries, any Confidential Information (as defined in the Confidentiality Agreement and which shall include any information obtained pursuant to this Agreement); provided, that the foregoing shall not prohibit disclosure of the investment in the Company, the proceeds received hereunder and the rate of return on such investment by any of Sellers (together with any of their Affiliates) to any investor or prospective investor of such Seller (or any of their respective affiliated investment funds) if such Person is informed that such Confidential Information is confidential and expressly agrees in writing to maintain such Confidential Information in confidence and the relevant Seller agrees that it shall be liable for any breach by any such Person. Each Seller shall be permitted to disclose any Confidential Information to the extent disclosure thereof is specifically required by applicable Law or by any stock exchange or listing rules or requirements; provided, that such disclosure shall be in accordance with the procedures set forth in the Confidentiality Agreement as if such Seller were a party receiving Information thereunder.

Section 6.3 Filings, Authorizations and Consents; Regulation S Compliance.

(a) Purchaser shall, as promptly as practicable, take all commercially reasonable actions required in order to obtain the Competition Clearance, including promptly making all filings with MOFCOM or other Governmental Entity under any applicable Antitrust Law, promptly providing all information requested or required in connection therewith, and promptly responding to all inquiries, and to the extent reasonably practicable and permitted by applicable Law, providing copies of any such documents to the non-filing Parties prior to filing. Each of the Company and Sellers shall use its commercially reasonable efforts to furnish to Purchaser all such information and assistance as may reasonably be required in connection therewith. Purchaser shall, to the extent reasonably practicable and permitted by applicable Law, inform the Company and the Seller Representatives, of any communications with (and provide copies of any written communications), and the status of any inquiries or requests for additional information from, MOFCOM or any other Governmental Entity. Purchaser shall, as soon as reasonably practicable and no later than thirty (30) Business Days after the date hereof apply for the Competition Clearance as long as each of the Company and Sellers provides to Purchaser all information with respect to each of them as is reasonably required to complete the application within ten (10) Business Days after the date hereof.

(b) None of the Company or Seller shall independently participate in any formal meeting with MOFCOM or any other Governmental Entity in respect of any filings, investigation or other inquiry under any applicable Antitrust Law with respect to the Transactions without giving Purchaser prior notice of the meeting and, to the extent permitted by MOFCOM or such other Governmental Entity, the opportunity to attend and/or participate. Purchaser shall not independently participate in a formal meeting with MOFCOM or any other Governmental Entity in respect of any such filings, investigation or other inquiry, unless (i) pursuant to a request from MOFCOM that specifically excludes participation by the Company and/or Seller Representatives; or (ii) the Purchaser has, to the extent legally permissible, given the Company and the Seller Representatives prior notice of the meeting and, to the extent permitted by MOFCOM or such other Governmental Entity, the opportunity to attend. Subject to applicable Law, the Company and Sellers shall consult and cooperate with Purchaser, and Purchaser shall consult and cooperate with the Company and the Seller Representatives, in connection with any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any Party relating to proceedings under the PRC Antitrust Law or any other Antitrust Law.

(c) Each Seller shall comply with the requirements of Regulation S in undertaking any transaction contemplated in this Agreement.

Section 6.4 Commercially Reasonable Efforts.

(a) Each Party shall use (and shall cause its Affiliates to use) commercially reasonable efforts to take, or cause to be taken, all actions, and do, or cause to be done, all things, necessary, proper or advisable to cause the conditions to Closing set forth in Article VII to be satisfied as promptly as practicable and to consummate in the most expeditious manner practicable, the transactions contemplated by this Agreement; provided, that notwithstanding anything to the contrary set forth herein, neither Party nor any of its Affiliates (including, the Company) shall be required to sell, license, divest, hold separate, or otherwise dispose of any interest in any Person (including, the Company).

(b) Subject to the foregoing, the Company, Sellers and Purchaser agree that, from time to time before and after the Closing Date, they will execute and deliver, and Sellers shall cause the Company and the Company Subsidiaries to execute and deliver such further instruments, and take, or cause their respective Affiliates to take, such other action, as may be reasonably necessary to carry out the purposes and intents of this Agreement.

(c) Purchaser shall cause the Company and the Company Subsidiaries to timely provide Sellers with such audited financial information of the Company and each of the Company Subsidiaries for calendar years 2010 and 2011 as well as any other information that may be reasonably requested by Sellers after Closing to enable them and their direct and indirect equity holders, to timely file all relevant Tax Returns.

(d) None of the Parties shall take any action that would reasonably be expected to prevent or delay in any material respect the ability of any other Party to obtain the Competition Clearance or to consummate the transactions contemplated by this Agreement.

Section 6.5 Conduct Prior to Closing. From the date of this Agreement until the earlier of Closing or the termination of this Agreement, except as (i) otherwise expressly required or provided herein, (ii) set forth in Schedule 6.5 of the Disclosure Schedules, (iii) required by applicable Law or Governmental Entity or (iv) consented to in writing by Purchaser in advance, which decision regarding consent shall be made promptly and which consent shall not be unreasonably withheld, conditioned or delayed, the Company shall, and Sellers shall cause the Company and each of the Company Subsidiaries to:

(a) conduct its businesses in the ordinary and usual course in substantially the same manner as heretofore conducted and use reasonable efforts to preserve its business organization intact and maintain its existing relations and goodwill with customers, suppliers, creditors, lessors, employees and business associates;

(b) maintain its books of account and records consistent with its past practice in all material respects;

(c) not (i) amend its Organizational Documents other than amendments which are ministerial in nature; (ii) split, combine or reclassify its outstanding share capital; or (iii) repurchase, redeem or otherwise acquire any shares of its share capital or any securities convertible into or exchangeable or exercisable for any shares of its share capital;

(d) except as set forth in Section 7.2(j), not declare or pay any dividends on or make other distributions in respect of any of its share capital;

(e) with respect to any present or former, director, officer or employee of the Company, not (i) enter into any employment or severance agreements or arrangements (except as may be required by the terms of any employment agreements existing on the date hereof or by applicable Law), (ii) increase compensation or benefits (except for increases in salary or hourly wage rates, in the ordinary course of business consistent with past practice), (iii) loan or advance any money or other property, or (iv) establish, adopt, enter into, amend or terminate any Benefit Plan or any plan, agreement, program, policy, fund or other arrangement that would be a Benefit Plan if it were in existence as of the date of this Agreement;

(f) not issue, sell, or dispose of any shares of, or securities convertible into or exchangeable or exercisable for, or options, warrants, calls, commitments or rights of any kind to acquire, any shares of its share capital, other than any issuance, sale or disposal, solely between the Company and any wholly-owned Company Subsidiary;

(g) not incur any Indebtedness;

(h) other than as set forth on Schedule 6.5(h) of the Disclosure Schedules, not make any commitments for or make capital expenditures in excess of RMB5,000,000 in the aggregate;

(i) not make any acquisition of, or investment in, assets or share interests of any other Person or entity;

(j) not sell, assign, lease, license, allow to expire or lapse, encumber or otherwise dispose of any of its properties and assets, including Intellectual Property, other than (i) the sale of inventory or (ii) the disposition of used or excess equipment;

(k) not make or change any Tax election, unless required by Law (in which case Sellers shall promptly notify Purchaser), settle or compromise any Tax liability other than in the ordinary course of business, change an annual accounting period, adopt or change any accounting method with respect to Taxes, file any amended Tax Return, enter into any closing agreement, settle or compromise any proceeding with respect to any Tax claim or assessment, surrender any right to claim a refund of Taxes, consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment, or take any other similar action relating to the filing of any Tax Return or the payment of any Tax;

(l) except as set forth in Schedule 6.5(l) of the Disclosure Schedules, not adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization (other than the Transaction);

(m) other than as set forth in Schedule 6.5(m) of the Disclosure Schedules, not (i) amend or modify any Material Contract in any material respect, (ii) fail to renew or terminate any Material Contract or (iii) enter into any Contract that would have been required to be set forth on Schedule 4.16 of the Disclosure Schedules had it been entered into prior to the date of this Agreement;

(n) not subject to any Encumbrance any of its properties or assets, including Intellectual Property;

(o) not cancel or compromise any debt or claim in excess of RMB1,000,000 or waive or release any material right;

(p) not assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other Person or make any loan, advance or capital contribution to or investment in any Person;

(q) not change its accounting practices, except as required by IFRS;

(r) except as to those litigations, claims, arbitrations and/or proceedings set forth on Schedule 6.5(r) of the Disclosure Schedules, not settle or compromise any litigation, or release, dismiss or otherwise dispose of any claim or arbitration, other than settlements or compromises of litigation, claims or arbitration that do not exceed RMB1,000,000 in the aggregate and are reasonably expected to be paid at or following the Closing and do not involve any injunctive or other non-monetary relief or impose restrictions on its business or operations;

(s) not commit to take any of the actions set forth in subsections (c)-(r) of this Section 6.5.

Section 6.6 Financing.

(a) Subject to the terms and conditions of this Agreement, Purchaser shall use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to arrange and obtain the Debt Financing on the terms and conditions described in or contemplated by the Debt Commitment Letter and shall not agree to any amendment or modification to be made to, or any waiver of any provision or remedy under the Debt Commitment Letter without the prior written consent of the Company if such amendments, modifications or waivers would or would reasonably be expected to (x) reduce the aggregate amount of the Debt Financing below the amount contemplated in the Debt Commitment Letter or (y) impose new or additional conditions to the receipt of the Debt Financing (provided, that, for the avoidance of doubt, Purchaser may replace or amend the Debt Commitment Letter to add lenders, lead arrangers, bookrunners, syndication agents or similar entities, if the addition of such additional parties, in the aggregate, would not prevent or materially delay or impair the availability of the financing under the Debt Commitment Letter). Purchaser shall keep the Seller Representatives reasonably informed of the status of Purchaser's efforts to arrange the Debt Financing. Without limiting the generality of the foregoing, Purchaser shall give the Seller Representatives prompt notice: (A) of any material breach or material default (or any event or circumstance that, with or without notice, lapse of time or both, could reasonably be expected to give rise to any material breach or material default) by any party to the Debt Commitment Letter or definitive document related to the Debt Financing of which Purchaser becomes aware; (B) of the receipt of any written notice or other written communication from any party to the Debt Commitment Letter with respect to any breach, default, termination or repudiation by any party to the Debt Commitment Letter or any definitive document related to the Debt Financing or any provisions of the Debt Commitment Letter or any definitive document related to the Debt Financing; and (C) if Purchaser will not be able to obtain all or any portion of the Debt Financing on the terms, in the manner or from the sources contemplated by the Debt Commitment Letter or the definitive documents related to the Debt Financing. If any portion of the Debt Financing becomes unavailable on the terms and conditions contemplated in the Debt Commitment Letter, Purchaser shall use its reasonable best efforts to arrange and obtain alternative financing from alternative sources in an amount sufficient to consummate the transactions contemplated by this Agreement upon terms and conditions not less favorable, taken as a whole, to Purchaser (in the reasonable judgment of Purchaser) than those in the Debt Commitment Letter as promptly as practicable following the occurrence of such event but no later than the Business Day immediately prior to the Closing Date. For the avoidance of doubt, in no event shall Purchaser be required to seek or obtain equity financing.

(b) Prior to the Closing, the Company shall use reasonable best efforts and shall cause the Company Subsidiaries to use reasonable best efforts, and shall use its reasonable best efforts to cause its respective representatives to, provide to Purchaser, at Purchaser's sole expense and in each case without undue hardship on or interference to the Company or any Company Subsidiary, all reasonable cooperation reasonably requested by Purchaser that is necessary in connection with the Debt Financing or any alternative financing arranged by Purchaser in compliance with Section 6.6(a), including:

(i) furnishing Purchaser and the Debt Financing sources and any alternative sources arranged by Purchaser in compliance with Section 6.6(a) all financial and other information relating to the Company and Company Subsidiaries as Purchaser shall reasonably request in order to consummate the Debt Financing or any alternative financing arranged by Purchaser in compliance with Section 6.6(a), including, if Purchaser is to pursue equity financing by way of a public offering of its share capital, all Company information, financial statements and financial data of the type required in registration statements on an applicable form by Regulation S-X and Regulation S-K under the Securities Act (subject to exceptions customary for private placements pursuant to an applicable exemption under the Securities Act) and of a type and form customarily included in private placements pursuant to an applicable exemption under the Securities Act for financings similar to the Debt Financing or any alternative financing arranged by Purchaser in compliance with Section 6.6(a) and subject to exceptions customary for such financings (including, to the extent applicable with respect to such financial statements, the report of the Company's auditors thereon and related management discussion and analysis of financial condition and results of operations),

(ii) using reasonable best efforts to help the financing sources benefit from the existing lending relationships of the Company and the Company Subsidiaries;

(iii) participating in a reasonable number of meetings (including customary one-on-one meetings with the parties acting as lead arrangers or agents for, and prospective lenders and purchasers of, the Debt Financing or any alternative financing arranged by Purchaser in compliance with Section 6.6(a) and senior management and representatives, with appropriate seniority and expertise, of the Company), presentations, road shows, due diligence sessions, drafting sessions and sessions with rating agencies in connection with the Debt Financing or any alternative financing arranged by Purchaser in compliance with Section 6.6(a);

(iv) assisting with the preparation of materials for rating agency presentations, bank information memoranda, offering documents, private placement memoranda and similar documents required in connection with the Debt Financing or any alternative financing arranged by Purchaser in compliance with Section 6.6(a) (including requesting any consents of accountants for use of their reports in any materials relating to the Debt Financing or any alternative financing arranged by Purchaser in compliance with Section 6.6(a) and the delivery of one or more customary representation letters),

(v) facilitating communications by Purchaser with existing lenders of the Company and the Company Subsidiaries;

(vi) obtaining accountants' comfort letters and legal opinions as reasonably requested by Purchaser and facilitating the pledging of collateral by Purchaser and in connection with the Debt Financing or any alternative financing arranged by Purchaser in compliance with Section 6.6(a), including, executing and delivering any documents as may be reasonably requested by Purchaser (including a certificate of the financial director or another officer of similar standing of the Company with respect to solvency matters as of the Closing, on a pro forma basis);

(vii) causing the taking of corporate actions (subject to the occurrence of the Closing) by the Company and the Company Subsidiaries reasonably necessary to permit the completion of the Debt Financing or any alternative financing arranged by Purchaser in compliance with Section 6.6(a);

(viii) facilitating the execution and delivery at the Closing of definitive documents related to the Debt Financing on the terms contemplated by the Debt Commitment Letter or any alternative financing arranged by Purchaser in compliance with Section 6.6(a), and

(ix) cooperating with consultants or others engaged to undertake field examinations and appraisals, including furnishing information to such persons in respect of accounts receivable, inventory and other applicable assets.

(c) The Company hereby consents to the reasonable use by Purchaser prior to Closing of the Company's and the Company Subsidiaries' logos for the sole purpose of obtaining the Debt Financing or any alternative financing arranged by Purchaser in compliance with Section 6.6(a), which right to use shall not be licensed or assigned by Purchaser to any third party.

Section 6.7 Fees and Expenses.

(a) Transaction Expenses In General. Except as provided in Section 2.7(d) and Section 6.7(b), whether or not Closing occurs, all costs and expenses incurred in connection with this Agreement and the transactions contemplated by this Agreement (including any fees and expenses of investment bankers, brokers, finders, counsel, advisors, experts or other agents, in each case, incident to or in connection with the negotiation, preparation, execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby (whether payable prior to, at or after the Closing Date)) shall be paid by the Party incurring such expenses.

(b) Other Transaction Expenses. Notwithstanding anything to the contrary set forth in this Agreement, Purchaser shall pay fifty percent (50%) of the sum of (i) all stamp Taxes arising as a result of entering into this Agreement and the transfer of the Acquired Shares and (ii) any out-of-pocket fees, costs and expenses, including any filing fees, incurred in connection with obtaining the Competition Clearance (it being understood that payment of the Parties' legal fees and expenses is the subject of Section 6.7(a)) and Sellers shall pay the remaining fifty percent (50%) in accordance with their respective Proportional Share.

Section 6.8 Notification. Each Party shall notify the other Parties in writing immediately upon becoming aware of any fact or condition that would cause any condition set forth in Article VII not to be satisfied.

Section 6.9 Access to Information. Prior to the Closing, Purchaser shall be entitled, through its officers, employees and representatives (including its legal advisors and accountants), to make such investigation of the properties, assets, businesses and operations of the Company and the Company Subsidiaries and such examination of the books and records of the Company and the Company Subsidiaries as it may reasonably request and to make extracts and copies of such books and records. Any such investigation and examination shall be conducted during regular business hours upon reasonable advance notice and shall be accompanied by duly authorized representatives of the Company and/or Company Subsidiaries. Subject to applicable Law and its internal policies, the Company shall, and shall cause its officers and employees and shall use its commercially reasonable efforts to cause the consultants, agents, accountants, attorneys and other representatives of the Company and the Company Subsidiaries to cooperate with, and promptly furnish any information reasonably requested in advance by, Purchaser and Purchaser's representatives in connection with such investigation and examination, and Purchaser and its representatives shall cooperate with the Company and its representatives and shall use their commercially reasonable efforts to minimize any disruption to the business. Subject to applicable Law and any confidentiality obligations to which the Company or any of the Company Subsidiaries is bound, in furtherance of the foregoing, the Company shall (and shall cause each of the Company Subsidiaries to) make available to Purchaser upon reasonable advance notice and during regular business hours the appropriate individuals for discussion of such entity's business, properties and personnel as Purchaser or any of its officers, employees, and representatives (including its legal advisors and accountants) may reasonably request (it being understood that the Company or any of its Company Subsidiaries, as applicable, shall use commercially reasonable efforts to provide any such information in a manner that does not result in a violation of such confidentiality obligations, including by obtaining consents or entering into joint defense agreements).

Section 6.10 Exclusive Dealing. During the period from the date of this Agreement through (i) the Closing Date, or (ii) the date that is six (6) months after the termination of this Agreement by Purchaser in accordance with Section 8.1(d), the Company and Sellers shall not take, nor will the Company or Sellers permit any of their respective Affiliates, representatives, consultants, financial advisors, attorneys, accountants or other agents to take, any action to solicit, encourage, initiate or engage in discussions or negotiations with, or provide any information to or enter into any agreement with or cooperate in any other way with any Person (other than Purchaser, its Affiliates and their respective representatives) concerning any Acquisition Proposal; provided, however, that Purchaser hereby acknowledges that prior to the date of this Agreement, the Company has provided information relating to the Company and the Subsidiaries and has afforded access to, and engaged in discussions with, other Persons in connection with Acquisition Proposals. The Company shall notify Purchaser promptly (but in no event later than forty eight (48) hours) after receipt by any of the Company, the Company Subsidiaries or any of their representatives of any Acquisition Proposal from any Person other than Purchaser or any request for non-public information relating to an Acquisition Proposal or for access to the properties, books or records of the Company or any Company Subsidiary by any Person other than Purchaser. Sellers with Knowledge thereof and the Company shall keep Purchaser informed, on a current basis, of any material changes in the status of any such Acquisition Proposal or request. Sellers and the Company shall (and Sellers and the Company shall cause their representatives to) immediately cease and cause to be terminated any existing discussions or negotiations with any Person (other than Purchaser) conducted heretofore with respect to any Acquisition Proposals. To the extent it has not already done so, the Company shall, or shall cause its representatives to, promptly request that all confidential information previously furnished to any Person be promptly returned or destroyed. The Company agrees not to, without the prior written consent of Purchaser, release any Person from, or waive any provision of, any confidentiality agreement entered into in connection with any potential Acquisition Proposal to which the Company is a party.

Section 6.11 Financial Statements.

(a) The Company shall provide to Purchaser (i) no later than twenty (20) days following the end of each month after the date hereof the Pre-Closing Monthly Management Accounts, (ii) no later than twenty (20) days following the end of each month after the date hereof the Pre-Closing Monthly Operational Matrix, (iii) no later than twenty (20) days following the end of each quarter after the Balance Sheet Date the Pre-Closing Quarterly Operational Matrix, and (iv) reasonably promptly following the end of each quarter after March 31, 2011 true and correct copies of such quarter's Pre-Closing Quarterly Financial Statements.

(b) Each of the Pre-Closing Monthly Management Accounts, Pre-Closing Monthly Operational Matrix and Pre-Closing Quarterly Operational Matrix, when delivered, will have been prepared with reasonable care and attention from the accounting records of the Company and the Company Subsidiaries and will have been prepared in all material respects on a basis consistent with past practice having regard to the purpose for which they were created and will be accurate in all material respects and will not be misleading in any material respect. Each Pre-Closing Quarterly Financial Statement, when delivered, will have been prepared in accordance with IFRS (except for the absence of footnotes and any normal year-end adjustments) consistently applied and present fairly, in all material respects, the consolidated financial position of the Company and the Company Subsidiaries at the dates thereof, and the results of their operations and their cash flows for the periods presented.

(c) Promptly following the date hereof, the Company and Sellers shall engage independent auditors in conducting a review of the First-Quarter Management Accounts.

(d) The cost of outside auditors to prepare all Pre-Closing Quarterly Financial Statements and review the First-Quarter Management Accounts shall be borne as to fifty percent (50%) by Purchaser and the remainder by Sellers in accordance with their respective Proportional Share.

Section 6.12 Assignment of Lease Agreement. Prior to the Closing, Sellers shall use their respective reasonable best efforts to cause certain entities to assign certain existing lease agreement(s) to certain Company Subsidiaries as provided in Schedule 6.12 of the Disclosure Schedules.

Section 6.13 Employment Agreements. Prior to the Closing, and to the extent a key employee whose name is set forth in Schedule 6.13 of the Disclosure Schedules does not have an employment agreement that will remain effective beyond the Closing Date, the Company shall use reasonable best efforts and shall cause the Company Subsidiaries to use reasonable best efforts to enter into an employment agreement (collectively, the "**Employment Agreements**") with such employee on substantially similar terms and conditions as such employee's existing employment terms and conditions as of the date hereof.

Section 6.14 Certain Licenses.

(a) Prior to the Closing, the Company and Sellers shall use their respective reasonable best efforts to cause Hubei Motel Wangjiadun Hotel Management Co., Ltd. (湖北莫泰王家墩店酒店管理有限公司) to amend its business license to include accommodation into its business scope.

(b) Prior to the Closing, the Company and Sellers shall use their respective reasonable best efforts to update and renew business licenses which have expired including those specific permits set forth on certain business licenses as expired as set forth on Schedule 4.12 of the Disclosure Schedules.

Section 6.15 Application for Trademark Registration. The Company and Sellers shall use their respective reasonable best efforts to cause Shanghai Yiju Hotel Management Co., Ltd. (上海驿居酒店管理有限公司) to submit to the Trademark Bureau of the State Administration of Industry and Commerce (the "**Trademark Bureau**") applications to register the trademarks of "莫泰" and "Motel 168" in Class 35, which covers the business of franchise and hotel management, and that such applications shall be duly accepted by the Trademark Bureau, in each case prior to the Closing. The Company and Sellers shall, and shall cause the applicable Company Subsidiaries to, provide copies of any such application to Purchaser prior to filing and consider all reasonable additions, deletions or changes suggested by Purchaser in connection therewith.

Section 6.16 Indemnification of Directors and Officers.

(a) Indemnification. From and after the Closing Date, Purchaser shall exercise the voting, governance and contractual powers available to it to cause the Company, to the fullest extent permitted under applicable Law and the Company's Organizational Documents, to indemnify, defend and hold harmless each individual who on or prior to the Closing Date was a director or officer of the Company, as applicable, appointed by or at the request of Sellers (each, together with such Person's heirs, executors or administrators, an "**Indemnified Director and Officer**" and collectively, the "**Indemnified Directors and Officers**") against any costs or expenses (including advancing attorneys' fees and expenses in advance of the final disposition of any claim, suit, proceeding or investigation to each Indemnified Directors and Officers to the fullest extent permitted by applicable Law), judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement in connection with any actual or threatened claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative (an "**Action**"), arising out of, relating to or in connection with any action or omission by such Indemnified Directors and Officers in his or her capacity as a director or officer occurring before the Closing Date (including acts or omissions in connection with such Person's service as an officer, director or other fiduciary in any entity if such service was at the request or for the benefit of the Company or any Company Subsidiary). In the event of any such Action, Purchaser shall cooperate with the Indemnified Person in the defense of any such Action. Notwithstanding anything herein to the contrary, none of Purchaser, the Company and the Company Subsidiaries shall bear or be liable for Taxes of any of the Indemnified Directors and Officers.

(b) Survival of Indemnification. Purchaser shall exercise the voting, governance and contractual powers available to it to ensure that, to the fullest extent not prohibited by applicable Law, from and after the Closing Date, all rights to discharge and indemnification now existing in favor of the Indemnified Directors and Officers with respect to their activities as such prior to or on the Closing Date, as provided in the Company's Organizational Documents, or indemnification agreements in effect on the date of such activities or otherwise in effect on the date hereof, shall survive the Closing and shall continue in full force and effect for a period of not less than six (6) years from the Closing Date; provided, that in the event any claim or claims are asserted or made within such survival period, all such rights to indemnification in respect of any claim or claims shall continue until final disposition of such claim or claims.

(c) Insurance. Purchaser shall exercise the voting, governance and contractual powers available to it to cause the Company to purchase and maintain in effect a run-off policy of directors' and officers' liability insurance with a claim period of six (6) years from and after the Closing Date equivalent to those maintained by the Company prior to the Closing Date, for the benefit of the Indemnified Director and Officer on terms no less favorable than the terms of such current insurance coverage with respect to claims arising out of or relating to events which occurred prior to the Closing Date.

(d) Successors. In the event that, after the Closing Date, the Company or Purchaser or any of their respective successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or a substantial portion of its properties and assets to any Person, then, and in either such case, proper provisions shall be made so that the successors and assigns of the Company or Purchaser, as the case may be, shall assume the obligations set forth in this Section 6.16.

(e) Benefit. The provisions of this Section 6.16 are intended to be for the benefit of, and shall be enforceable by, each Indemnified Director and Officer, his or her heirs, executors or administrators and his or her other representatives.

Section 6.17 Tax Matters.

(a) Each Seller shall duly and timely comply with all of its Tax payment obligations as required by applicable Law.

(b) Sellers shall cause all Tax allocation agreements or Tax sharing agreements with respect to the Company or any of the Company Subsidiaries to be terminated as of the Closing Date, and shall ensure that such agreements are of no further force or effect as to the Company or any of the Company Subsidiaries on and after the Closing Date and that there shall be no further liabilities or obligations imposed on the Company or any of the Company Subsidiaries under any such agreements.

Section 6.18 Non-Compete; Non-Solicitation.

(a) Without Purchaser's prior written approval, for a period of one (1) year from the Closing Date, GSSIII shall not, and shall cause its Affiliates not to, directly or indirectly engage in, operate, manage, provide equity financing to or acquire ownership of more than a five percent (5%) interest in, a Person that engages in the Business; provided, however, that the foregoing will not prohibit (i) the ownership in a Person whose securities are traded in a recognized stock exchange or traded in an over-the-counter market; or (ii) the ownership (but not the management or operation) of any budget hotels in the PRC or the provision of debt financing to any Person engaged in the Business.

(b) Without Purchaser's prior written approval, for a period of three (3) years from the Closing Date, Merrylin shall not, and shall cause its Affiliates not to, directly or indirectly engage in, operate, manage, consult with, advise, partner with, lease or license any assets or provide financing to or acquire ownership of more than a five percent (5%) interest in, a Person that engages in the Business; provided, however, that the foregoing will not prohibit (i) the ownership in a Person whose shares are traded in a recognized stock exchange or traded in an over-the-counter market, or (ii) any Small Scale Hotel Activity.

(c) For a period of five (5) years from the Closing Date, none of Sellers shall and each shall cause its respective Affiliates not to (i) solicit, entice, persuade or induce any of the senior employees of Purchaser, the Company or any of their respective subsidiaries to terminate his or her employment, (ii) solicit the employment of any such individual, or (iii) hire or engage, as an officer, employee, consultant, independent contractor or otherwise, any such individual, in each case without the prior written consent of Purchaser; provided however, that nothing in this Section 6.18(c) shall (X) prohibit any of the foregoing activities with respect to any individual who has been terminated by Purchaser, the Company or any of their respective subsidiaries without cause or who has not been employed by Purchaser, the Company or any of their respective subsidiaries during the ninety (90) days preceding any of such action by any Seller or its Affiliates after such individual's resignation if neither Sellers nor any of their Affiliates has induced or attempted to induce such employee to leave the employ of such entity at any time prior to such termination or resignation; or (Y) prohibit any general advertisement or solicitation for employment by any Seller in any medium or format that is not specifically targeted at any of the senior employees of Purchaser, the Company or any of their respective subsidiaries.

(d) The length of time for which any covenant contained in this Section 6.18 shall be in force shall not include any period of violation or any other period required for litigation during which Purchaser seeks to enforce such covenant. In the event that any such covenant shall be determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too long a period of time or over too large a geographical area or by reason of its being too extensive in any other respect, it shall be interpreted to extend only over the longest period of time for which it may be enforceable, and/or over the largest geographical area as to which it may be enforceable and/or to the maximum extent in all other respects as to which it may be enforceable, all as determined by such court in such action.

(e) The covenants contained in this Section 6.18 are each independent of any other provision of this Agreement, and the existence of any claim which any party may allege against any other Party to this Agreement, whether based on this Agreement or otherwise, shall not prevent the enforcement of these covenants. Sellers acknowledge that Purchaser is purchasing the Acquired Shares in reliance on the goodwill of the business and the covenants contained in this Section 6.18 are essential to the protection of Purchaser's purchase and that Purchaser would not purchase the Acquired Shares but for these covenants. Sellers (i) acknowledge and agree that the monetary damages for any material breach of this Section 6.18 would be inadequate, and (ii) agree and consent that without intending to limit any additional remedies that may be available, temporary and permanent injunctive and other equitable relief may be granted in any action that may be brought to enforce any of the provisions of this Section 6.18.

Section 6.19 Release.

(a) For and in consideration of the covenants and promises set forth in this Agreement, and subject to and effective upon the Closing, each Seller, on behalf of itself and its assigns, heirs, beneficiaries, creditors, representatives, agents and Affiliates (other than the Company and the Company Subsidiaries, the "**Releasing Parties**"), hereby fully and finally releases, acquits and forever discharges the Company, each Company Subsidiary and each of the Company's and Company Subsidiary's present and former direct or indirect partners, members and shareholders and past and present officers, directors, partners, members, stockholders, trustees, shareholders, representatives, employees, agents, Affiliates, subsidiaries, predecessors, successors, assigns, beneficiaries, heirs, trustees, executors, insurers and attorneys of any of them (collectively, the "**Released Parties**") from any and all actions, debts, claims, counterclaims, demands, liabilities, damages, causes of action, costs, expenses, and compensation of every kind and nature whatsoever, past, present, or future, at law or in equity, whether known or unknown, which such Releasing Parties, or any of them, had, has, or may have had at any time in the past until and including the date of this Agreement against the Released Parties, or any of them, including but not limited to any claims which relate to or arise out of such Releasing Party's prior relationship with the Company or his rights or status as a shareholder, officer or director of the Company, except for (i) claims arising under or pursuant to Section 9.2(c) of this Agreement, and (ii) any claim of the type set forth in Section 6.19(b). Each Seller hereby represents and warrants that it has adequate information regarding the terms of this Agreement, the scope and effect of the releases set forth in this Section 6.19, and all other matters encompassed by this Section 6.19 to make an informed and knowledgeable decision with regard to this Section 6.19, and that it has independently and without reliance upon the Released Parties made its own analysis and decision to enter into this Agreement. Each Seller further agrees not to institute any litigation, lawsuit, claim or action against any Released Party with respect to any and all claims released in this Section 6.19. Each Seller acknowledges that it has had the benefit of advice of competent legal counsel with respect to its decision to enter into the release provided for in this Section 6.19. Each Seller further acknowledges that the consideration payable to him pursuant to this Agreement provides good and sufficient consideration for the releases set forth in this Section 6.19. This Section 6.19 is intended to benefit each of the Released Parties and their respective heirs and personal representatives, each whom shall be entitled to enforce the provisions hereof.

(b) Notwithstanding Section 6.19(a), Purchaser understands that there may arise certain claims by and among the Sellers after the date hereof that may relate to historical matters which occurred prior to the date hereof that relate to the Company and/or Company Subsidiaries (the "**Historical Intra-Sellers Claims**"). Each Seller hereby expressly waives any right he may have under any applicable Law or otherwise for claims or enforcement against and/or indemnification by the Company, Company Subsidiaries, Purchaser and/or their respective Affiliates for any Losses accruing to such Seller as a result of any Historical Intra-Sellers Claim. Purchaser hereby expressly acknowledges that the Historical Intra-Sellers Claims are not subject to the release set forth in Section 6.19(a), provided that each Seller hereby indemnifies and holds harmless the Company, the Company Subsidiaries, Purchaser Indemnitees and their respective Affiliates for any Losses that for whatever reason result in any Losses to any of the Company, Company Subsidiaries, Purchaser Indemnitees and their respective Affiliates which may arise as a result of or relating to the Historical Intra-Sellers Claims. Each of Sellers hereby expressly agrees and acknowledges that his entry into this Agreement and any related agreement(s) shall not serve as a waiver of his rights against another Seller in respect of the Historical Intra-Sellers Claims.

(c) Without limiting the generality of Section 6.19, subject to and effective upon the Closing, GSSIII, on behalf of itself and its assigns, heirs, beneficiaries, creditors, representatives, agents and Affiliates, hereby fully and finally releases, acquits and forever discharges the Released Parties from any and all actions, debts, claims, counterclaims, demands, liabilities, damages, causes of action, costs, expenses, and compensation of every kind and nature whatsoever relating to or arising from the compensation in an amount of RMB31,693,967 payable to GSSIII as a result of the failure of the inclusion of certain restaurant business and certain three/four star hotels owned and operated by the Founder into the scope of the Company based on certain reorganization agreements entered into among the Founder, GSSIII and certain other individuals in December 2006.

Section 6.20 Lock-Up. Each of GSSIII and Merrylin hereby agrees that, for a period of six (6) months following the Closing Date, he will not offer, sell, contract to sell, pledge, grant any option to purchase, purchase any option or contract to sell, right or warrant to purchase, make any short sale, or otherwise dispose of (including entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequence of ownership interest) any Purchaser Shares received by such Seller as part of the Share Consideration.

Section 6.21 Pre-Closing Circular 75 Registration. Prior to the Closing, each Seller who (i) is a Circular 75 Security Holder and (ii) has failed to comply with the reporting and/or registration requirements under the SAFE Rules and Regulations shall, and the Company and Sellers shall use their respective best efforts to cause each Circular 75 Security Holder who has failed to comply with the reporting and/or registration requirements under the SAFE Rules and Regulations (collectively, the "**Complying Circular 75 Security Holders**") to, comply with the reporting and/or registration requirements under the SAFE Rules and Regulations. The Company and Sellers shall provide copies of any such report, filing or application to Purchaser prior to filing and consider all reasonable additions, deletions or changes suggested by Purchaser in connection therewith. Each of the Company and Sellers shall keep Purchaser apprised of any communication with, and the status of any inquiries or requests for additional information from, SAFE in connection therewith.

Section 6.22 Governmental Filings for Issuance of Share Consideration. Each of the Parties shall promptly make all required Governmental Filings pursuant to the Securities Act, the Exchange Act and all other applicable Laws in connection with the issuance or acquisition of the Share Consideration.

Section 6.23 PFIC. Purchaser shall promptly inform GSSIII in writing if it becomes or elects to become a PFIC and provide such information as may be reasonably requested by GSSIII to enable GSSIII to timely file and/or amend all relevant United States Tax Returns.

Section 6.24 Related Party Balances. Prior to Closing, the Company shall settle substantially all Related Party Balances set forth on Schedule 4.21 of the Disclosure Schedules in a manner to be reasonably agreed by Purchaser in writing.

Section 6.25 Post-Closing Circular 75 Registration. Each Seller who is a Circular 75 Security Holder shall use his reasonable best efforts to (i) report and file with SAFE the sale of his portion of the Acquired Shares as contemplated under this Agreement, as soon as practicable after the Closing, in accordance with the requirements under the SAFE Rules and Regulations, or (ii) provide the Company with all documents, information and assistance as is reasonably necessary to enable the Company to promptly make such report and filing with SAFE on behalf of such Seller.

Section 6.26 Trademark Transfer. Prior to the Closing, an agreement to transfer the Merrylin Trademarks by the Company to the Merrylin Group and a perpetual royalty free license for use of the Merrylin Trademarks by the Company and the Company Subsidiaries after Closing shall have been entered into by the relevant parties with effect at or prior to Closing (together the "**Trademark Transfer Agreements**"), pursuant to which (and upon their due registration with the relevant PRC Governmental Entities in accordance with applicable Law, which registration may become effective after Closing) Purchaser and its Affiliates will have a nonexclusive, perpetual, royalty-free, non-assignable license to use the Merrylin Trademarks solely in connection with the Business. Merrylin hereby covenants to not, and shall cause the other members of the Merrylin Group to not, after the Closing, sue, challenge or object to the use by Purchaser or any of its Affiliates of certain source indicators that are the same as, or confusingly or substantially similar to, those used in the conduct of the Company's business as conducted immediately prior to the Closing (including, but not limited to Merrylin (美林), Merrylin Restaurant (美林閣) and Motel (美林)); provided, however, that Purchaser and its Affiliates shall not at any time use such source indicators outside of the Business.

Section 6.27 Amendment of Existing M&A. Sellers agree that prior to Closing, they shall procure that the Existing M&A be amended to allow for the transfer of the Acquired Shares to Purchaser free of any transfer restrictions.

Section 6.28 Additional Issuances of Securities by Purchaser.

(a) Prior to the Closing, in the event that Purchaser proposes to issue any Additional Securities at an Issuance Price less than the Purchaser Share Price and the Additional Securities proposed to be issued constitutes less than two percent (2%) of Purchaser's entire issued and outstanding share capital on a fully diluted basis as of the date hereof for purposes other than relating to closing the Transaction as contemplated herein, then:

(i) Purchaser will offer in writing (the "**Preemptive Notice**") to each of GSSIII and Merrylin, at least fifteen (15) Business Days prior to the consummation of such transaction, the right to purchase their Share Consideration Proportional Share of such Additional Securities on the same terms as such Additional Securities are to be issued; and

(ii) The Preemptive Notice shall specify (1) the number of Additional Securities to be issued or sold, (2) Purchaser's good faith estimate of the total amount of capital to be raised by Purchaser pursuant to the issuance or sale of Additional Securities, (3) the Issuance Price and other material terms of the proposed issuance or sale, (4) the number of such Additional Securities which GSSIII or Merrylin, as the case may be, is entitled to purchase, which number shall equal such Seller's Share Consideration Proportional Share multiplied by the total number of Additional Securities to be issued or sold, and (5) the period during which GSSIII or Merrylin, as the case may be, may elect to purchase such Additional Securities, which period shall extend for at least five (5) Business Days following the receipt by GSSIII or Merrylin, as the case may be, of the Preemptive Notice (the "**Preemptive Acceptance Period**"). Each of GSSIII or Merrylin, as the case may be, shall notify Purchaser within the Preemptive Acceptance Period of the number of Additional Securities it wishes to purchase, which number shall not exceed its Share Consideration Proportional Share multiplied by the total number of Additional Securities to be issued or sold (the "**Preemptive Acceptance Notice**"). A Preemptive Acceptance Notice shall be binding and irrevocable, except as set forth in Section 6.28(e). The purchase price for the Additional Securities shall be paid in cash contemporaneously with the closing of the transaction which gave rise to the Preemptive Notice and the terms of such purchase shall otherwise be on terms and conditions not less favorable to Purchaser than those set forth in the Preemptive Notice.

(b) Prior to the Closing, in the event that Purchaser proposes to issue any Additional Securities at an Issuance Price less than the Purchaser Share Price and the Additional Securities proposed to be issued constitutes two percent (2%) or more of Purchaser's entire issued and outstanding share capital on a fully diluted basis as of the date hereof for purposes other than relating to closing the Transaction as contemplated herein, then:

(i) Purchaser shall not consummate any such issuance without the prior written consent of both Seller Representatives (and not one only) and any violation of this Section 6.28(b)(i) shall be deemed a material breach by Purchaser of this Agreement; and

(ii) In the event that both Seller Representatives consent in writing to such issuance, Purchaser will offer in writing (the "**Anti-Dilution Notice**") to each of GSSIII and Merrylin, at least fifteen (15) Business Days prior to the consummation of such transaction, the right to purchase their respective Pro Rata Share of such Additional Securities on the same terms as such Additional Securities are to be issued; and

(iii) The Anti-Dilution Notice shall specify (1) the number of Additional Securities to be issued or sold, (2) Purchaser's good faith estimate of the total amount of capital to be raised by Purchaser pursuant to the issuance or sale of Additional Securities, (3) the Issuance Price and other material terms of the proposed issuance or sale, (4) the number of such Additional Securities which GSSIII or Merrylin, as the case may be, is entitled to purchase, which number shall equal such Seller's Pro Rata Share multiplied by the total number of Additional Securities to be issued or sold, and (5) the period during which GSSIII or Merrylin, as the case may be, may elect to purchase such Additional Securities, which period shall extend for at least five (5) Business Days following the receipt by GSSIII or Merrylin, as the case may be, of the Anti-Dilution Notice (the "**Anti-Dilution Acceptance Period**"). Each of GSSIII or Merrylin, as the case may be, shall notify Purchaser within the Anti-Dilution Acceptance Period of the number of Additional Securities it wishes to purchase, which number shall not exceed its Pro Rata multiplied by the total number of Additional Securities to be issued or sold (the "**Anti-Dilution Acceptance Notice**"). An Anti-Dilution Acceptance Notice shall be binding and irrevocable, except as set forth in Section 6.28(e). The purchase price for the Additional Securities shall be paid in cash contemporaneously with the closing of the transaction which gave rise to the Anti-Dilution Notice and the terms of such purchase shall otherwise be on terms and conditions not less favorable to Purchaser than those set forth in the Anti-Dilution Notice.

(c) Notwithstanding Section 6.28(b), prior to the Closing, if (1) Purchaser is unable to obtain Debt Financing, in whole or in part, in accordance with Section 6.6 despite its exercise of reasonable best efforts, and (2) Purchaser notifies both Seller Representatives in writing that it wishes to issue Additional Securities at an Issuance Price less than the Purchaser Share Price for the sole purpose of closing the Transaction as contemplated herein, then:

(i) Purchaser shall not consummate any such issuance without the prior written consent of both Seller Representatives (and not one only), provided however, that if either Seller Representative does not consent to such issuance within five (5) Business Days of receiving the notice, Purchaser may terminate this Agreement in accordance with Section 8.1(g) so long as it is not otherwise in material breach of this Agreement; and

(ii) In the event both Seller Representatives consent in writing to such issuance, the anti-dilution rights of GSSIII and Merrylin as set forth in Section 6.28(b) shall apply *mutatis mutandis* to the issuance of Additional Securities pursuant to this Section 6.28(c).

(d) The rights contained in this Section 6.28 are personal to GSSIII and Merrylin and may not be transferred or assigned or delegated to another Person.

(e) In the event the subject transaction of an Anti-Dilution Notice or Preemptive Notice is terminated or withdrawn, no purchase of securities shall occur pursuant to this Section 6.28, and the applicable notices shall be cancelled.

ARTICLE VII
CONDITIONS OF CLOSING

Section 7.1 Conditions to Obligations of Sellers and Purchaser. The respective obligations of Sellers and Purchaser to consummate the transactions contemplated by this Agreement are subject to the fulfillment or waiver by each of the Parties, to the extent legally permissible, on or prior to the Closing Date of each of the following conditions:

(a) there shall not be any Law in effect making illegal the consummation of the transactions contemplated hereby, and there shall not be any Governmental Order in effect prohibiting the consummation of the transactions contemplated hereby; and

(b) the Competition Clearance shall:

(i) have been obtained without imposing (A) any requirements on the Company, Purchaser or any of their respective Affiliates to sell, divest, hold separate or otherwise dispose of any material interest in any Person or any material assets or businesses, or (B) any material restriction or limitation on the operations of the Company, Purchaser or any of their respective Affiliates; and

(ii) be in full force and effect.

Section 7.2 Additional Conditions to Obligations of Purchaser. The obligation of Purchaser to consummate the transactions contemplated by this Agreement is subject to the fulfillment or waiver by Purchaser, on or prior to the Closing Date, of each of the following conditions:

(a) (i) The representations and warranties set forth in Section 3.2 (Ownership of Acquired Shares), Section 3.3 (Authorization), Section 4.2 (Authorization), Section 4.3 (Capitalization) and Section 4.20 (Absence of Certain Changes) shall be true and correct on and as of the Closing Date, and (ii) the other representations and warranties of the Company and Sellers set forth in this Agreement (without regard to any "material," "Company Material Adverse Effect" or other materiality qualifier) shall be true and correct on and as of the Closing Date (except to the extent such representations and warranties shall have been expressly made as of an earlier date, in which case such representations and warranties shall have been true and correct as of such earlier date); provided, however, that in the event of a breach of a representation and warranty of the type described in this Section 7.2(a)(ii) by the Company, the condition set forth in this Section 7.2(a)(ii) shall be deemed satisfied unless the failures of such representations and warranties to be so true and correct, individually or in the aggregate, has had, would have, or would reasonably be expected to have, a Company Material Adverse Effect;

(b) The Company and Sellers shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by them respectively on or prior to the Closing Date;

(c) Purchaser shall have received a certificate of an executive officer of each of the Company and Sellers that the conditions set forth in subsections (a) and (b) of this Section 7.2 have been satisfied;

(d) From and after the date hereof, there shall have been no change, event, effect or circumstances that, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect;

(e) Purchaser shall have received on the Closing Date the closing deliverables set forth in Section 2.5(c);

(f) All third party Consents set forth in Schedules 3.4 and 4.1(b) of the Disclosure Schedules shall have been duly obtained and be in full force and effect as of the Closing Date;

(g) No key employee whose name is set forth on Schedule 4.9 of the Disclosure Schedules shall have become unable or unwilling to provide such individual's services to the Company and the Company Subsidiaries, unless the effect of which, individually or in the aggregate, would not reasonably be expected to have, a Company Material Adverse Effect;

(h) Purchaser shall have received satisfactory evidence that the Company Transaction Expenses due and payable on or prior to the Closing Date have been paid;

(i) Purchaser shall have received satisfactory evidence that the Company's and the Company Subsidiaries' existing indebtednesses, including any outstanding balance under the existing RMB400 million facility with the Industrial and Commercial Bank of China, Shanghai Branch, have been or will be repaid on the Closing Date and any related security has been or will be released on the Closing Date;

(j) Shanghai Motel Hotel Management Co., Ltd shall have declared and paid the Dividend Payable;

(k) Purchaser shall have received satisfactory evidence that substantially all the Related Party Balances have been settled in a manner to be reasonably agreed by Purchaser in writing on or prior to the Closing Date;

(l) the Trademark Transfer Agreements shall have been entered into by the relevant parties thereto; and

(m) Purchaser shall have received satisfactory evidence that the existing pledges against the Acquired Shares owned by GSSIII and Merrylin, respectively, have been duly released.

Section 7.3 Additional Conditions to Obligations of Sellers. The obligation of each Seller to consummate the transactions contemplated by this Agreement is subject to the fulfillment or waiver by the Company, on or prior to the Closing Date, of each of the following conditions:

(a) (i) The representations and warranties of Purchaser set forth in Section 5.1 (Organization and Qualification), Section 5.2 (Authorization), Section 5.6 (Access to Funds) and Section 5.8 (Due Issuance of Share Consideration) shall be true and correct on and as of the Closing Date, and (ii) the other representations and warranties of the Purchaser set forth in this Agreement (without regard to any "material," "Purchaser Material Adverse Effect" or other materiality qualifier) shall be true and correct on and as of the Closing Date (except to the extent such representations and warranties shall have been expressly made as of an earlier date, in which case such representations and warranties shall have been true and correct as of such earlier date), provided, however, that in the event of a breach of a representation and warranty of the type described in this Section 7.3(a)(ii) by the Purchaser, the condition set forth in this Section 7.3(a)(ii) shall be deemed satisfied unless the failures of such representations and warranties to be so true and correct, individually or in the aggregate, has had, would have, or would reasonably be expected to have, a Purchaser Material Adverse Effect;

(b) Purchaser shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by Purchaser on or prior to the Closing Date;

(c) The Purchase Agreement Deposit shall have been deposited into the Escrow Account in accordance with Section 9.5 and the Escrow Agreement;

(d) From and after the date hereof, there shall have been no change, event, effect or circumstances that, individually or in the aggregate, has had or would reasonably be expected to have a Purchaser Material Adverse Effect;

(e) The Company shall have received a certificate of an executive officer of Purchaser that the conditions set forth in subsections (a) and (b) of this Section 7.3 have been satisfied; and

(f) Sellers shall have received on the Closing Date the closing deliverables set forth in Section 2.5(a).

ARTICLE VIII **TERMINATION**

Section 8.1 Termination of Agreement. This Agreement may be terminated at any time prior to the Closing Date as follows:

(a) by mutual written consent of either of the Seller Representatives and Purchaser;

(b) by either both of the Seller Representatives (and not one only) or Purchaser if Closing shall not have occurred on or before the Outside Date or is not capable of being completed by such date (including because the Competition Clearance has been denied or the application for the Competition Clearance has not been accepted); provided, however, that the right to terminate this Agreement under this Section 8.1(b) shall not be available to such Party if the material breach by such Party of this Agreement shall have been the principal cause of the failure of Closing to occur on or prior to such date;

(c) by either both of the Seller Representatives (and not one only) or Purchaser if there shall be a Law in effect making illegal the consummation of the transactions contemplated hereby, or there shall be a final and non-appealable Governmental Order in effect prohibiting the consummation of the transactions contemplated hereby; provided, however, that the right to terminate this Agreement under this Section 8.1(c) shall not be available to such Party if the material breach by such Party of this Agreement shall have been the principal cause of such Law or Governmental Order;

(d) by Purchaser if there shall have been (i) a material breach of any of the representations and warranties of any Seller or the Company set forth in this Agreement, which breach would cause the condition set forth in Section 7.2(a) not to be satisfied, or (ii) a material breach of any of the covenants or agreements on the part of any Seller or the Company set forth in this Agreement, which breach would cause the condition set forth in Section 7.2(b) not to be satisfied (and, in the case of either (i) or (ii) above, such breach is not cured within fifteen (15) days after receipt of written notice thereof or is incapable of being cured by Sellers or the Company by the Outside Date); provided, however, Purchaser shall not have the right to terminate this Agreement pursuant to this Section 8.1(d) if Purchaser shall have materially breached or failed to perform any of its representations, warranties or covenants set forth in this Agreement which breach or failure to perform would give rise to the failure of the conditions set forth in Section 7.3(a) or Section 7.3(b);

(e) by both of the Seller Representatives (and not one only) if there shall have been (i) a material breach of any of the representations and warranties of Purchaser set forth in this Agreement, which breach would cause the condition set forth in Section 7.3(a) not to be satisfied, or (ii) a material breach of any of the covenants or agreements on the part of Purchaser set forth in this Agreement, which breach would cause the condition set forth in Section 7.3(b) not to be satisfied (and, in the case of either (i) or (ii) above, such breach is not cured within fifteen (15) days after receipt of written notice thereof or is incapable of being cured by Purchaser by the Outside Date); provided, however, the Seller Representatives shall not have the right to terminate this Agreement pursuant to this Section 8.1(e) if Sellers or the Company shall have materially breached or failed to perform any of their representations, warranties or covenants set forth in this Agreement which breach or failure to perform would give rise to the failure of the conditions set forth in Section 7.2(a) or Section 7.2(b);

(f) by Purchaser if there shall have occurred a Force Majeure Event that has prevented, or would be reasonably expected to prevent, Purchaser from procuring the Debt Financing (or, if alternative financing is being used in accordance with Section 6.6, such alternative financing) on terms and conditions that are equal to, or not substantially less favorable to Purchaser than, the terms and conditions of the Debt Financing and as a result Purchaser has been so prevented, or would reasonably be expected to be so prevented, for a period of thirty (30) calendar days, or such number of remaining days prior to the Outside Date if such Force Majeure Event has occurred less than thirty (30) days prior to the Outside Date, provided, however, Purchaser shall not have the right to terminate this Agreement pursuant to this Section 8.1(f) if Purchaser shall have materially breached or failed to perform any of its representations, warranties or covenants set forth in this Agreement, which breach or failure to perform would give rise to the failure of the conditions set forth in Section 7.3(a) or Section 7.3(b); or

(g) by either both of the Seller Representatives (and not one only) or Purchaser if (1) Purchaser is unable to obtain Debt Financing in accordance with Section 6.6, (2) Purchaser notifies both of the Seller Representatives in writing that it wishes to issue Additional Securities at an Issuance Price of less than the Purchaser Share Price for the sole purpose of closing the Transaction as contemplated herein, and (3) at least one Seller Representative objects to such issuance or does not respond within five (5) Business Days after receiving prior notice from Purchaser, provided, however, that the right to terminate this Agreement under this Section 8.1(g) shall not be available to such Party if the material breach by such Party of this Agreement shall have been the principal cause of the failure of Closing to occur.

For the avoidance of doubt in this Section 8.1: (i) Purchaser's failure to close due to the unavailability of the Debt Financing (or, if alternative financing is being used in accordance with Section 6.6, such alternative financing) shall not be deemed to be a material breach of this Agreement by Purchaser if Purchaser is entitled to terminate this Agreement in accordance with Section 8.1(f); and (ii) Purchaser's failure to close due to the unavailability of the Debt Financing (or, if alternative financing is being used in accordance with Section 6.6, such alternative financing) shall be deemed to be a material breach of this Agreement by Purchaser if Purchaser is not entitled to terminate this Agreement in accordance with Section 8.1(f).

Section 8.2 Effect of Termination. In the event of termination of this Agreement by a Party pursuant to Section 8.1, written notice thereof shall forthwith be given by the terminating Party to the other Parties, and this Agreement shall thereupon terminate and become void and have no effect, and the transactions contemplated hereby shall be abandoned without further action by the Parties and there shall be no liability on the part of Sellers or Purchaser; provided, that no such termination shall (i) relieve either Party from liability for fraud or any willful or intentional breach of any provision of this Agreement prior to such termination, or (ii) relieve any Party of their obligations under Section 6.1 (Publicity), Section 6.2 (Confidentiality), Section 6.7 (Fees and Expenses), this Article VIII (Termination) or Article X (Miscellaneous) (other than Section 10.18 (Waiver and Termination of Existing Shareholders Agreement)). In the event of the valid termination of this Agreement as provided in Section 8.1, each Party shall comply with all of its obligations under the Confidentiality Agreement.

Section 8.3 Termination and Purchase Agreement Deposit. Notwithstanding any provision in this Agreement to the contrary:

(a) In the event that (i) this Agreement is duly terminated by the Seller Representatives pursuant to Section 8.1(e) as a result of the failure of Purchaser to effect the Closing when required by Section 2.4 and (ii) all of the conditions to Closing set forth in Section 7.1 and Section 7.3 (other than those other conditions that, by their nature, cannot be satisfied until the Closing Date, but, which conditions would be satisfied if the Closing Date were the date of such termination) have been satisfied or waived on or prior to the date of such termination, the Escrow Account Agent shall be required to pay to Sellers, in accordance with the Escrow Agreement, an amount equal to the Purchase Agreement Deposit together with the interest accrued thereon by wire transfer of immediately available funds to such accounts of the Sellers as may be designated in the Escrow Agreement.

(b) Except as otherwise set forth in Section 8.3(a) above, in the event that this Agreement is terminated by any Party in accordance with Section 8.1, the Escrow Account Agent shall be required to pay to Purchaser, in accordance with the Escrow Agreement, an amount equal to the Purchase Agreement Deposit together with the interest accrued thereon received in the Escrow Account pursuant to Section 2.3 by wire transfer of immediately available funds to an account designated by Purchaser.

(c) Each Party agrees that notwithstanding anything in this Agreement to the contrary (including Section 8.2), in the event that Purchaser fails to effect the Closing when required by Section 2.4 for any reason, then the termination of this Agreement as provided by Section 8.1 and retention of the amount of the Purchase Agreement Deposit by Sellers to the extent permitted by and in accordance with Section 8.3(a) shall be the sole and exclusive remedy (whether at law, in equity, in contract, in tort or otherwise) of Sellers and the Company, their respective former, current and future subsidiaries, shareholders, Affiliates, officers, directors, employees, representatives, financing sources, general or limited partners or assignees against Purchaser or any of its representatives or Affiliates, or the Commitment Parties, for, and in no event will any Seller, the Company or any of their respective subsidiaries, shareholders, Affiliates, officers, directors, employees, representatives, financing sources, general or limited partners or assignees seek to recover any other money damages or seek any other remedy based on a claim in law, equity, contract, tort or otherwise with respect to, (1) any loss or damage suffered, directly or indirectly, as a result of the failure of the transactions contemplated by this Agreement to be consummated, (2) the termination of this Agreement, (3) any liabilities or obligations arising under this Agreement or the Debt Commitment Letter, or (4) any claims or actions arising out of or relating to any breach, termination or failure of or under this Agreement, and neither Purchaser, nor any representative or Affiliate of Purchaser, nor any Commitment Party shall have any further liability or obligation to any other party relating to or arising out of this Agreement, the Debt Commitment Letter or the transactions contemplated hereby or thereby (and the abandonment or termination thereof). The Parties acknowledge and agree that the agreements contained in this Section 8.3 are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, the Parties would not have entered into this Agreement.

ARTICLE IX
LIMITS OF LIABILITY AND INDEMNIFICATION

Section 9.1 **Survival of Representations and Warranties.** Except as expressly provided in subsections (a)-(d) in this Section 9.1, representations, warranties, covenants and agreements contained in this Agreement shall survive the Closing until eighteen (18) months after the Closing Date (the "**Expiration Date**"):

(a) the representations and warranties of (x) Sellers set forth in Section 3.1 (Organization and Qualification), Section 3.2 (Ownership of Acquired Shares), Section 3.3 (Authorization) and Section 3.7 (Brokers and Finders), (y) the Company set forth in Section 4.1(a) (Organization and Qualification), Section 4.2 (Authorization), Section 4.3 (Capitalization) and Section 4.19 (Brokers and Finders) and (z) Purchaser set forth in Section 5.1 (Organization and Qualification), Section 5.2 (Authorization) and Section 5.7 (Brokers and Finders) shall survive the Closing indefinitely;

(b) the representations and warranties set forth in Section 4.6 (Taxes), Section 4.11 (Employee Benefit Plans) and Section 4.15 (Environmental Matters) shall survive the Closing until thirty (30) months after the Closing Date;

(c) the covenants and agreements of the Parties contained in this Agreement that by their terms are to be performed after the Closing shall survive the Closing in accordance with their terms, unless and to the extent only that non-compliance with such covenants or agreements is waived in writing by the Party entitled to such performance.

No claim or cause of action arising out of the inaccuracy or breach of any warranty, covenant or agreement of Sellers or Purchaser may be made following the termination of the applicable survival period referred to in this Section 9.1. The Parties intend to shorten the statutory limitations and agree that, after the Closing Date, with respect to Sellers and Purchaser, any claim or cause of action against any of the Parties, or any of their respective directors, officers, employees, Affiliates, successors, permitted assigns, advisors, agents, or representatives based upon, directly or indirectly, any of the warranties, covenants or agreements contained in this Agreement, or any other agreement, document or instrument to be executed and delivered in connection with this Agreement may be brought only as expressly provided in this Article IX.

Section 9.2 Indemnification

(a) Indemnification by Sellers for Company Breaches. From and after the Closing, each Seller shall severally and not jointly, in accordance with such Seller's Proportional Share, indemnify Purchaser and its Affiliates (including the Company and the Company Subsidiaries) and their respective officers, directors, employees, agents, successors and permitted assigns (collectively, the "**Purchaser Indemnitees**") from and against Losses arising out of or relating to:

(i) a breach of any representation or warranty made by the Company contained in Article IV of this Agreement (other than that relating to Taxes);

(ii) a breach of any covenant or obligation to be performed by the Company under this Agreement (other than that relating to Taxes); or

(iii) any Legal Action set forth in Schedule 9.2(a)(iii) of the Disclosure Schedules to the extent the aggregate Losses arising out of or relating to such Legal Actions exceeds 0.5% of the Final Purchase Price.

(b) Indemnification by Sellers for Seller's Breaches. From and after the Closing, each Seller shall indemnify the Purchaser Indemnitees from and against all Losses arising out of or relating to:

(i) a breach of any representation or warranty made by such Seller contained in Article III of this Agreement;

(ii) a breach of any covenant or obligation to be performed by such Seller under this Agreement.

(c) Indemnification by Purchaser. From and after the Closing, Purchaser shall indemnify each Seller and their respective Affiliates and their respective officers, directors, employees, agents, successors and permitted assigns (collectively, the "**Seller Indemnitees**") from and against all Losses, arising out of or relating to:

(i) a breach of any representation or warranty made by Purchaser contained in Article V of this Agreement; or

(ii) a breach of any covenant or obligation to be performed by Purchaser under this Agreement.

(d) Determination of Breach and Calculation of Losses. Notwithstanding anything to the contrary in this Agreement and for the avoidance of doubt, for purposes of the indemnification provisions in Section 9.2(a)(i), Section 9.2(b)(i), Section 9.2(c)(i) and 9.2(c)(ii):

(i) any determination of whether any breach of a representation, warranty and/or covenant has occurred under this Agreement shall be made in strict accordance with the terms of the relevant representation, warranty and/or covenant, taking into account any and all "Company Material Adverse Effect" or "Purchaser Material Adverse Effect" qualification or any materiality or similar qualification contained therein; and

(ii) once a breach is determined to have occurred in accordance with Section 9.2(d)(i), the calculation of any Losses resulting from such breach shall then be made without discounting for any "Company Material Adverse Effect" or "Purchaser Material Adverse Effect" qualification or any materiality or similar qualification contained in the relevant representation, warranty and/or covenant so breached.

(e) Procedures Relating to Indemnification.

(i) Any party seeking indemnification under this Section 9.2 (an "**Indemnified Party**") shall promptly give the party from whom indemnification is being sought (an "**Indemnifying Party**") notice (a "**Claim Notice**") of any matter which such Indemnified Party has determined has given or would reasonably be expected to give rise to a right of indemnification under this Agreement stating in reasonable detail the nature of the claim, and containing a reference to the provisions of this Agreement in respect of which such right of indemnification is claimed or arises; provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations under this Section 9.2 except to the extent the Indemnifying Party is materially prejudiced by such failure. With respect to any recovery or indemnification sought by an Indemnified Party from the Indemnifying Party that does not involve a Third Party Claim, if the Indemnifying Party does not notify the Indemnified Party within thirty (30) days from its receipt of the Claim Notice that the Indemnifying Party disputes such claim (the "**Dispute Notice**"), the Indemnifying Party shall be deemed to have accepted and agreed with such claim. If the Indemnifying Party has disputed a claim for indemnification (including any Third Party Claim), the Indemnifying Party and the Indemnified Party shall proceed in good faith to negotiate a resolution to such dispute. If the Indemnifying Party and the Indemnified Party cannot resolve such dispute in thirty (30) days after delivery of the Dispute Notice, such dispute shall be resolved by pursuant to Section 10.3.

(ii) The obligations and liabilities of an Indemnifying Party under this Section 9.2 with respect to Losses arising from claims of any third party which are subject to the indemnification provided for in this Section 9.2 ("**Third Party Claims**") shall be governed by and contingent upon the following additional terms and conditions: if an Indemnified Party shall receive notice of any Third Party Claim, the Indemnified Party shall give the Indemnifying Party notice of such Third Party Claim within thirty (30) days of the receipt by the Indemnified Party of such notice and a copy of the papers served with respect to such claim (if any); provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations under this Section 9.2 except to the extent the Indemnifying Party is materially prejudiced by such failure. If the Indemnifying Party acknowledges in writing its obligation to indemnify the Indemnified Party hereunder against any Losses that may result from such Third Party Claim, then the Indemnifying Party shall be entitled, but not obligated, to assume and control the defense of such Third Party Claim at its expense and through counsel of its choice reasonably acceptable to the Indemnified Party if it gives notice of its intention to do so to the Indemnified Party within twenty (20) Business Days of the receipt of the notice furnished by the Indemnified Party pursuant to the first sentence of this Section 9.2(e)(ii) provided, however, that in the event the Indemnifying Party assumes and controls the defense of such Third Party Claim, the Indemnified Party may, at its sole cost and expense, participate in the defense of such Third Party Claim; provided, further, that if counsel to the Indemnified Party advises such Indemnified Party in writing that the Third Party Claim involves a conflict of interest (other than one of a monetary nature) that would make it inappropriate for the same counsel to represent both the Indemnifying Party and the Indemnified Party, then the Indemnified Party shall be entitled to retain its own counsel at the cost and expense of the Indemnifying Party (except that the Indemnifying Party shall not be obligated to pay the fees and expenses of more than one separate counsel for all Indemnified Parties, taken together). In the event the Indemnifying Party exercises the right to undertake any such defense against any such Third Party Claim as provided above, it will keep the Indemnified Party reasonably informed of progress of the defense of such Third Party Claim, and the Indemnified Party shall cooperate with the Indemnifying Party in such defense and make available to the Indemnifying Party all witnesses, pertinent records, materials and information in the Indemnified Party's possession or under the Indemnified Party's control relating thereto as is reasonably required by the Indemnifying Party. Similarly, in the event the Indemnified Party is, directly or indirectly, conducting the defense against any such Third Party Claim, it will keep the Indemnifying Party reasonably informed of progress of the defense of such Third Party Claim, and the Indemnifying Party shall cooperate with the Indemnified Party in such defense and make available to the Indemnified Party all such witnesses, records, materials and information in the Indemnifying Party's possession or under the Indemnifying Party's control relating thereto as is reasonably required by the Indemnified Party; provided, however, the Indemnified Party shall not, without the consent of the Indemnifying Party (not to be unreasonably withheld, delayed or conditioned), settle or compromise any such Third Party Claim or consent to the entry of any judgment in respect of such Third Party Claim. The rights of any Indemnifying Party shall be subrogated to any right of action (including indemnification, cross-claims and counterclaims) that the Indemnified Party may have against any other Person with respect to any matter giving rise to a claim for indemnification hereunder. The Indemnifying Party shall not, without the written consent of the Indemnified Party (not to be unreasonably withheld, delayed or conditioned), (i) settle or compromise any Third Party Claim or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnified Party of a written release from all liability in respect of such Third Party Claim or (ii) settle or compromise any Third Party Claim in any manner that may adversely affect the Indemnified Party other than as a result of money damages or other money payments (which shall be borne by the Indemnifying Party).

Section 9.3 Limitations on Claims

(a) Maximum Liability. Notwithstanding anything in this Agreement to the contrary, but subject to the limitations set forth in Section 9.1, the rights of any Purchaser Indemnatee or Seller Indemnatee under Section 9.2 shall be subject to the following limitations:

(i) A Purchaser Indemnatee shall not be entitled to receive payment pursuant to Section 9.2(a)(i) or Section 9.2(b)(i) (x) in respect of any individual claim for Losses if such individual claim does not exceed RMB4 million (an "**Excluded Claim**") and (y) unless and until the aggregate amount of all Losses incurred by all Purchaser Indemnitees and which are determined to be indemnifiable based upon, arising out of or resulting from the breach of any of the representations or warranties of the Company or Sellers exceeds the Liability Basket Threshold, in which event a Purchaser Indemnatee shall be entitled to the entire amount of such Losses; provided, however, that other than substantially similar or related Excluded Claims arising out of the same general circumstances, no Excluded Claim shall be taken into account for purposes of determining whether the Liability Basket Threshold has been met or exceeded; provided, further, that the Excluded Claim and the Liability Basket Threshold limitations shall not apply to Losses related to a breach of any of the representations and warranties of (x) Sellers set forth in Section 3.1 (Organization and Qualification), Section 3.2 (Ownership of Acquired Shares), Section 3.3 (Authorization) and Section 3.7 (Brokers and Finders) and (y) the Company set forth in Section 4.1(a) (Organization and Qualification), Section 4.2 (Authorization), Section 4.3 (Capitalization), Section 4.11 (Employee Benefit Plans), Section 4.19 (Brokers and Finders) and Section 4.22 (Circular 75 Registration) (collectively, the "**Company Excluded Reps**"). A Seller Indemnatee shall not be entitled to receive payment pursuant to Section 9.2(c)(i) (x) in respect of any individual claim for Losses if such individual claim is an Excluded Claim and (y) unless and until the aggregate amount of Losses incurred by all Seller Indemnitees and which are determined to be indemnifiable based upon, arising out of or resulting from the breach of any of the representations or warranties of Purchaser exceeds the Liability Basket Threshold, in which event a Seller Indemnatee shall be entitled to the entire amount of such Losses; provided, however, that other than substantially similar or related Excluded Claims arising out of the same general circumstances, no Excluded Claim shall be taken into account for purposes of determining whether the Liability Basket Threshold has been met or exceeded; provided, further, that the Excluded Claim and the Liability Basket Threshold limitations shall not apply to Losses related to a breach of any of the representations and warranties of Purchaser set forth in Section 5.1 (Organization and Qualification), Section 5.2 (Authorization) and Section 5.7 (Brokers and Finders) of this Agreement (collectively, the "**Purchaser Excluded Reps**"; and, together with the Company Excluded Reps, the "**Excluded Reps**").

(ii) (A) The maximum aggregate amount of Losses for which Sellers shall be liable pursuant to Section 9.2(a)(i) or Section 9.2(b)(i) (other than with respect to the Company Excluded Reps), and for which Purchaser shall be liable pursuant to Section 9.2(c)(i) (other than with respect to the Purchaser Excluded Reps), shall in each case be an amount equal to fifteen percent (15%) of the Final Purchase Price (the "**Cap**") and (B) the maximum aggregate amount of Losses for which Sellers shall be liable pursuant to (w) Section 9.2(a)(i) or Section 9.2(b)(i) solely with respect to the Company Excluded Reps and (x) Section 9.2(a)(ii) or Section 9.2(b)(ii), and for which Purchaser shall be liable pursuant to (y) Section 9.2(c)(i) solely with respect to the Purchaser Excluded Reps and (z) Section 9.2(c)(ii), shall in each case be an amount equal to the Final Purchase Price (the "**Purchase Price Cap**"). In no event shall a Seller be liable pursuant to this Article IX for more than such Seller's Proportional Share of any Losses. For the avoidance of doubt, the rights of any Purchaser Indemnitee for Losses pursuant to Section 9.2(a)(iii) and Section 9.4 shall not be limited by the provisions in Section 9.3(a)(i) or this Section 9.3(a)(ii) and shall be fully reimbursable and any amounts paid in connection with any claims for such Losses shall not be used in determining whether the Liability Basket Threshold, Cap or Purchase Price Cap has been met.

(b) Additional Limitations.

(i) The amount of any Losses incurred by any Indemnified Party shall be reduced by the net amount such Indemnified Party or any of its Affiliates recovers (after deducting all attorneys' fees, expenses and other costs of recovery) from any insurer or other party liable for such Losses (other than any Party). Such Indemnified Party shall use reasonable best efforts to effect any such recovery.

(ii) The amount of any Losses incurred by a Party shall be reduced by the amount of any Tax benefit to such Party arising from the recognition of amounts that, absent this Section 9.2(b)(ii), would constitute Losses.

(iii) Any liability under this Agreement shall be determined without duplication of recovery by reason of the state of facts giving rise to such liability constituting a breach of more than one warranty, covenant or agreement.

(iv) No Party shall be entitled to recover the same Losses or obtain payment, reimbursement or restitution for the same expenses more than once in respect of any inaccuracy or breach of any provision of this Agreement. No liability shall attach to any Party under this Agreement to the extent the subject thereof has otherwise been made good or is compensated for.

(v) No matter shall be the subject of a claim to the extent that adequate allowance, provision or reserve in respect of the Losses arising out of or relating to such matter shall have been expressly made in the (1) Financial Statements, or (2) the First Quarter Management Accounts to the extent confirmed by the review as provided in Section 6.11.

(c) Limitation of Remedies.

(i) Except for the warranties set forth in this Agreement or any other agreements contemplated by this Agreement or in any certificate or other writing delivered pursuant hereto and thereto, none of Sellers nor its Affiliates nor any of their respective directors, officers, employees, subsidiaries, controlling persons, agents or representatives, makes or has made, and each Seller and its Affiliates and all of their respective directors, officers, employees, subsidiaries, controlling persons, agents or representatives hereby negate and disclaim, any other warranty, written or oral, statutory, express or implied, concerning the Acquired Shares, the business, assets or liabilities of any of the Company, any Company Subsidiary or the transactions contemplated hereby. Without limiting the generality of the foregoing, warranties and covenants contained herein made by or on behalf of a Party are made solely and exclusively by or on behalf of a Party and not by or on behalf of such Party's representatives (including employees) or any other Person. The provisions of this Section 9.3(c)(i) are intended to be for the benefit of, and be enforceable by, the respective Affiliates of Sellers, and directors, officers, employees, subsidiaries, controlling persons, agents and representatives of Sellers and their Affiliates.

(ii) Except to the extent provided in Section 10.14 (Specific Performance), from and after Closing, the rights expressly provided for in this Article IX shall be the exclusive remedies of the Parties and their respective officers, directors, employees, Affiliates, agents, representatives, successors and assigns for any breach or inaccuracy of any warranty or breach of or noncompliance with any covenant or agreement contained in this Agreement and the Parties shall not be entitled to a rescission of this Agreement or to any further indemnification or other rights or claims of any nature whatsoever (including under statute, regulation, common law, in equity or for negligence) in respect thereof, all of which the Parties hereto hereby waive to the fullest extent permitted by law; provided, however, that neither this Section 9.3 nor Section 9.1 shall limit the rights of any Purchaser Indemnitee for Losses in the event and to the extent of any fraud by any Seller in connection with this Agreement. For purposes of this subsection, the term "**fraud**" when used with respect to any particular Party shall mean any common law fraud or any fraudulent or intentional breach of, or active concealment with respect to, any representations or warranties made by such Party in this Agreement (but expressly not with respect to any representation or warranty of any other Party unless said Party had actual knowledge of or active participation in such other Party's fraud, fraudulent or intentional breach, or active concealment).

Section 9.4 Tax Indemnity. Each Seller shall severally and not jointly, in accordance with such Seller's Proportional Share, indemnify and hold harmless the Purchaser Indemnitees from any and all Losses incurred by the Purchaser Indemnitees during the thirty (30) months period following the Closing Date in respect of:

(a) any and all liability for Taxes with respect to any taxable period of the Company or any of the Company Subsidiaries (or any predecessors) for all taxable periods ending on or before the Closing Date and with respect to any taxable period that begins on or before and ends after the Closing Date, for the portion thereof ending on the Closing Date;

(b) any and all liability for Taxes of such Seller or any other Person (other than the Company or any of the Company Subsidiaries) which is or has ever been affiliated with the Company or any of the Company Subsidiaries or with whom the Company or any of the Company Subsidiaries otherwise joins or has ever joined (or is or has ever been required to join) in filing any consolidated, combined, unitary or aggregate Tax Return, prior to the Closing Date;

(c) any breach of (i) any representation or warranty contained in Section 4.6 (Taxes), and (ii) any covenant or agreement set forth in Section 6.5(k) (Conduct Prior to Closing) and Section 6.17 (Tax Matters);

(d) any and all liability for Taxes resulting from any transactions set forth on Schedule 6.5(l) of the Disclosure Schedules; and

(e) any payments required to be made after the Closing Date under any Tax sharing, Tax indemnity, Tax allocation or similar Contracts (whether or not written) to which the Company or any of the Company Subsidiaries was obligated, or was a party, on or prior to the Closing Date.

A Purchaser Indemnitee shall not be entitled to receive payment pursuant to this Section 9.4 unless and until the aggregate amount of all Losses incurred by all Purchaser Indemnitees exceeds RMB15 million, in which event the Purchaser Indemnitees shall only be entitled to the amount in excess of RMB15 million; provided, however, that the foregoing limitation shall not apply to: (i) penalty and/or interest on Losses associated with Taxes, or (ii) Losses incurred under Section 9.4(b). Notwithstanding anything in this Agreement to the contrary, with respect to Taxes, this Section 9.4 shall be the sole and exclusive remedies of the Parties and Section 9.2(a) shall not apply to any claims for Taxes made pursuant to this Section 9.4.

Section 9.5 Escrow. The Escrow Amount shall be deposited prior to Closing with the Escrow Account Agent on behalf of each Seller and shall be used to pay or reimburse the Purchaser Indemnitees for Losses in accordance with this Agreement. From and after the Closing (but subject to the provisions of the Escrow Agreement), the Purchaser Indemnitees shall be entitled, in accordance with the terms of the Escrow Agreement, to receive proceeds from the Escrow Account in respect of any Loss suffered or incurred by any Purchaser Indemnitee for which such Purchaser Indemnitee is entitled to indemnification under Section 9.2 and Section 9.4. Effective on the Expiration Date, and as soon thereafter as practicable, subject to Purchaser's right of set-off set forth in Section 10.12, Purchaser and the Seller Representatives shall direct the Escrow Account Agent to pay to Sellers pursuant to the terms of the Escrow Agreement: the amount by which (x) the remaining amount in the Escrow Account exceeds (y) the aggregate amount of any claims made by the Purchaser Indemnitees pursuant to Section 9.2 and Section 9.4 that are pending and have not been resolved.

Section 9.6 Manner of Payment; Escrow Proceeds. Any indemnification of a Purchaser Indemnitee pursuant to Section 9.2 or Section 9.4 shall first be disbursed from the Escrow Account in accordance with the Escrow Agreement up to an amount equal to such Seller's Proportional Share of the Escrow Amount (taking into account any prior disbursements from the Escrow Amount) and afterwards (to the extent that a Purchaser Indemnitee is entitled to indemnification hereunder, but a Seller's Proportional Share of the Escrow Amount is not sufficient to cover any such Losses), shall be effected by wire transfer of immediately available funds from the applicable Seller to Purchaser within fifteen (15) Business Days after the determination thereof; provided, however, the prior sentence shall not apply to any Losses arising out of any fraud as defined in Section 9.3(c)(ii), and, at Purchaser's sole discretion, Purchaser may seek indemnification from the Escrow Amount or directly against Sellers or the shareholders, general partners or other Affiliates of Sellers in connection with a Loss related to fraud as defined in Section 9.3(c)(ii). In the event of any indemnification of a Purchaser Indemnitee pursuant to Section 9.2 or Section 9.4 as a result of a breach of a representation or warranty solely made by or breach of a covenant or agreement solely the obligation of a particular Seller, then any disbursements from the Escrow Account in respect of such indemnification shall come solely from such Seller's Proportional Share of the Escrow Amount and then, to the extent that such Seller's Proportional Share of the Escrow Amount is exhausted, by wire transfer of immediately available funds from the applicable Seller within fifteen (15) Business Days after the determination thereof. All payments paid by the Escrow Account Agent to Sellers, pursuant to this Article IX shall be distributed to Sellers, in accordance with their Proportional Share; provided, however, that in the event there are any prior indemnification payments made from the Escrow Account on behalf of any individual Sellers then the applicable Seller Representative shall adjust each Seller's right to such disbursements from the Escrow Account accordingly. It is expressly agreed that the Escrow Account Agent is solely responsible for making payments out of the Escrow Account in accordance with the Escrow Agreement and that upon a distribution from the Escrow Account by the Escrow Account Agent, neither Purchaser, the Company nor the Seller Representatives (provided that the Seller Representatives uses their commercially reasonable efforts to distribute all amounts received by it hereunder to Sellers in accordance with the terms and conditions of this Agreement and the Escrow Agreement) shall have any further obligation, and shall be released from any liability, with respect to any payments (including any claim regarding any allocation of any payments) by the Escrow Account Agent to any Seller. Following the Closing, in no event shall the Company or its Affiliates have any liability whatsoever to Sellers for breaches of the representations, warranties, agreements or covenants of the Company and Sellers hereunder, and none of Sellers shall in any event seek contribution from the Company or any of the Company Subsidiaries in respect of any indemnity payments required to be made pursuant to this Agreement.

Section 9.7 Purchase Price Adjustment. The Parties agree that any indemnification payment made pursuant to this Agreement shall be treated as an adjustment to the Final Purchase Price for Tax purposes, unless otherwise required by applicable Law.

ARTICLE X **MISCELLANEOUS**

Section 10.1 Assignment; Binding Effect. This Agreement and the rights hereunder are not assignable unless such assignment is consented to in writing by all the Parties; provided, however, that Purchaser may assign its rights and obligations under this Agreement, including without limitation rights and obligations of Purchaser to acquire the Acquired Shares, to its wholly-owned subsidiary without the other Parties' prior written consent; provided, that no such assignment shall otherwise vary or diminish any of Purchaser's obligations under this Agreement and that Purchaser shall be jointly and severally liable with such wholly-owned subsidiary for the performance of its obligations hereunder. Subject to the preceding clause, this Agreement and all the provisions hereof shall be binding upon and shall inure to the benefit of the Parties and their respective successors and permitted assigns. The Company and each of Sellers hereby irrevocably consents to the collateral assignment by Purchaser of all of its rights, title and interests herein to any lenders or other finance parties providing debt financing to it or any of its subsidiaries.

Section 10.2 Choice of Law. This Agreement and all Disputes shall be governed by and construed in accordance with the Laws of the State of New York without regard to principles of conflict of law.

Section 10.3 Dispute Resolution

(a) Any dispute, controversy or claim by or among the Parties arising out of or in connection with this Agreement or the breach, termination or validity thereof or the transactions contemplated hereby (a "**Dispute**") shall be finally resolved in accordance with the procedures set forth herein. In the event that a Party notifies another of a Dispute in writing and resolution of such Dispute cannot be reached through consultation within 60 days of receipt of notice of such Dispute, then such Dispute shall be submitted to the Hong Kong International Arbitration Centre ("**HKIAC**") and shall be finally resolved by arbitration by three arbitrators pursuant to the HKIAC Administered Arbitration Rules then in effect (the "**Rules**") except as amended by this Agreement. The seat of arbitration is Hong Kong, and any arbitration proceedings (including but not limited to the arbitral award) shall be in the English language.

(b) Sellers and Purchaser shall each be entitled to nominate one arbitrator in accordance with the Rules. The third arbitrator, who shall act as the chairman of the tribunal, shall be nominated by the two arbitrators nominated by the parties respectively within twenty (20) days of the confirmation by the HKIAC of the nomination of the second arbitrator. Any arbitrator not timely nominated shall be appointed by the HKIAC in accordance with the Rules.

(c) The arbitral award shall be final and binding upon the Parties and may be entered and enforced in and enforced by any court having jurisdiction.

(d) Any arbitration costs (including the fees and expenses of the HKIAC, the arbitrators and reasonable attorneys' fees and expenses) shall be paid as directed and as fixed by the arbitral tribunal. If it becomes necessary for a Party to enforce an arbitral award by legal action of any kind, the defaulting Party shall pay all reasonable costs and expenses and legal fees, including any additional litigation or arbitration costs that are incurred by the Party seeking enforcement of the award.

Section 10.4 Notices. All notices and other communications provided for herein shall be dated and in writing and shall be deemed to have been duly given when delivered, if delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid and when received if delivered otherwise, to the Party to whom it is directed:

If to Purchaser, to:

Home Inns Hotels & Management Inc.
No. 124 Caobao Road
Xuhui District, Shanghai 200235
Attention: May Wu
Facsimile: +86 (21) 6483-5661

with copies, which shall not constitute notice, to:

Simpson Thacher & Bartlett LLP
3919 China World Tower
1 Jianguomenwai Avenue
Beijing 100004, People's Republic of China
Attention: Douglas C. Markel
Facsimile: +86 (10) 5965-2999

If to the Company, to:

Mr. Shen Feiyu
c/o Merrylin International Investment Limited
13th Floor, 909 Tianyaoqiao Road
Shanghai 200030, China
Facsimile: +86 (21) 5119-6868 ext 1301

If to the Seller Representatives, to:

Mr. Shen Feiyu
c/o Merrylin International Investment Limited
13th Floor, 909 Tianyaoqiao Road
Shanghai 200030, China
Facsimile: +86 (21) 5119-6868 ext 1301

GSS III Monroe Holdings Limited
23 Church Street
#16-01 Capital Square
Singapore
Attention: Calvin Chou
Facsimile: +65 6834-6195

with copies, which shall not constitute notice, to:

GSS III Monroe Holdings Limited
P O Box 309GT
Ugland House, South Church Street
George Town Grand Cayman
Cayman Islands
Attention: Calvin Chou

and

Skadden Arps Slate Meagher & Flom LLP
Plaza 66, Tower 1, 36th Floor
1266 Nanjing West Road
Shanghai 200040, China

Attention: Gregory G.H. Miao
Facsimile: +86 (21) 6193-8299

Section 10.5 Headings. The headings contained in this Agreement are inserted for convenience only and shall not be considered in interpreting or construing any of the provisions contained in this Agreement.

Section 10.6 Entire Agreement. This Agreement (including the Exhibits) constitutes the entire agreement between the Parties with respect to the subject matter hereof and supersedes all prior agreements and understandings between the Parties with respect to such subject matter; provided, however, this Agreement shall not supersede the terms and provisions of the Confidentiality Agreement, which shall survive and remain in effect until expiration or termination thereof in accordance with its terms and this Agreement.

Section 10.7 Interpretation

(a) When a reference is made in this Agreement to an Article, Section or Exhibit, such reference shall be to an Article, Section or Exhibit of or to this Agreement unless otherwise indicated.

(b) Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

(c) Unless the context requires otherwise, the terms "hereof," "herein," "hereby," "hereto" and derivative or similar words in this Agreement refer to this entire Agreement.

(d) Unless the context requires otherwise, words in this Agreement using the singular or plural number also include the plural or singular number, respectively, and the use of any gender herein shall be deemed to include the other genders.

(e) References in this Agreement to "U.S. Dollars," or "US\$" are to U.S. dollars, the legal currency of the United States of America; and references in this Agreement to "RMB" are to Renminbi, the legal currency of the PRC.

(f) This Agreement was prepared jointly by the Parties and no rule that it be construed against the drafter will have any application in its construction or interpretation.

Section 10.8 Waiver and Amendment. This Agreement may be amended, modified or supplemented only by a written mutual agreement executed and delivered by all the Parties. Except as otherwise provided in this Agreement, any failure of any Party to comply with any obligation, covenant, agreement or condition herein may be waived by the Party entitled to the benefits thereof only by a written instrument signed by the Party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

Section 10.9 Third-Party Beneficiaries. Save for rights set forth in Section 6.16(e), Section 8.3(c), Section 10.11 and Article IX, this Agreement is for the sole benefit of the Parties and their successors and permitted assigns and nothing herein express or implied shall give or be construed to give to any Person, other than the Parties and such successors and permitted assigns, any legal or equitable rights hereunder; provided that the Commitment Parties shall be third party beneficiaries under, and entitled to enforce the provisions of Section 8.3(c), Section 10.2, this Section 10.9 and Section 10.11. The Parties acknowledge and agree that the Debt Commitment Letter is for the sole benefit of the parties thereto and nothing herein or elsewhere, express or implied, shall give or be construed to give to any Person (other than the Persons that are parties to the Debt Commitment Letter) any legal or equitable rights arising thereunder or in connection therewith.

Section 10.10 Immunity. To the extent that Purchaser may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to Purchaser or its assets or revenues, Purchaser agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

Section 10.11 Limitation on Losses. No Party or other Person shall, under any circumstance, have any liability to any other Party or Person for any special, indirect, consequential or punitive damages claimed by such other Party or Person under the terms of or due to any breach or non-performance of this Agreement, including lost profits, loss of revenue or income, cost of capital, or loss of business reputation or opportunity.

Section 10.12 Right of Set-Off. Each Party hereto, for itself and its successors and permitted assigns, hereby unconditionally and irrevocably waives any rights of set-off, netting, offset, recoupment, or similar rights that such Party or any of its successors and permitted assigns has or may have with respect to the payment of the Estimated Purchase Price or any Adjustment Amount (in the case of Purchaser) or any other payments to be made by such Party pursuant to this Agreement or the Escrow Agreement or any other document or instrument delivered by such Party in connection herewith; provided, however, that Purchaser may set off any payment due from any Seller under this Agreement or the Escrow Agreement against any payments owed to such Seller pursuant to this Agreement or the Escrow Agreement.

Section 10.13 No Right to Rescind or Terminate. Except as expressly provided for in this Agreement, Purchaser shall not be entitled to rescind or terminate this Agreement, whether before or after Closing. Nothing in this Section 10.13 shall operate to limit or exclude any liability for fraud.

Section 10.14 Specific Performance. The Parties agree that if Sellers or the Company should fail to perform under any of the provisions of this Agreement in accordance with their specific terms or otherwise breach any of the provisions of this Agreement, irreparable damage would occur, no adequate remedy at law would exist and damages would be difficult to determine, and that Purchaser shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or in equity. Seller and the Company hereby waive the defense that there is an adequate remedy at law. In no event shall Sellers, the Seller Representative or the Company be entitled to seek specific performance with respect to any of Purchaser's obligations arising under this Agreement.

Section 10.15 Severability. If any provision of this Agreement or the application of any such provision to any Person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 10.16 Counterparts; Facsimile Signatures. This Agreement may be executed in any number of counterparts, each of which when executed, shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument binding upon all of the Parties notwithstanding the fact that all of the Parties are not signatory to the original or the same counterpart. For purposes of this Agreement, facsimile signatures shall be deemed originals.

Section 10.17 Seller Representatives

(a) Each Seller hereby irrevocably appoints his respective Original Seller Representative as such Seller's representative, attorney-in-fact and agent, with full power of substitution to act in the name, place and stead of such Seller with respect to the transactions contemplated by this Agreement and the Escrow Agreement, including the transfer of the Acquired Shares set forth on Exhibit B attached hereto next to such Seller's name to Purchaser, in accordance with the terms and provisions of this Agreement and to act on behalf of such Seller in any amendment of or litigation or arbitration involving this Agreement and to do or refrain from doing all such further acts and things, including in connection with any indemnification matters pursuant to Article IX, and to execute all such documents, as such Seller Representative shall deem necessary or appropriate in conjunction with any of the transactions contemplated by this Agreement, including the power:

(i) to take all action necessary or desirable in connection with the waiver of any condition to the obligations of Sellers to consummate the transactions contemplated by this Agreement;

(ii) to negotiate, execute and deliver all ancillary agreements, certificates, statements, notices, approvals, extensions, waivers, undertakings, amendments and other documents required or permitted to be given in connection with the consummation of the transactions contemplated by this Agreement (it being understood that such Seller shall execute and deliver any such documents which such Seller Representative agrees to execute);

(iii) to terminate this Agreement if Sellers are entitled to do so in accordance with the terms and provisions of this Agreement;

(iv) to give and receive all notices and communications to be given or received by such Seller under this Agreement and to receive service of process on behalf of such Seller in connection with any claims under this Agreement, including service of process in connection with arbitration;

(v) to take all actions under this Agreement which may be taken by such Seller and to do or refrain from doing any further act or deed on behalf of such Seller which such Seller Representative deems necessary or appropriate in its sole discretion relating to the subject matter of this Agreement as fully and completely as such Seller could do if personally present; and

(vi) to act for such Seller with respect to all indemnification matters referred to in this Agreement, including the right to compromise on behalf of such Seller any indemnification claim by or against such Seller.

(b) Provided that a Seller Representative uses commercially reasonable efforts to distribute all amounts received by it hereunder to the relevant Sellers in accordance with the terms and conditions of this Agreement, such Seller Representative will not be liable for any act taken or omitted by it as permitted under this Agreement, except if such act is taken or omitted in bad faith or by willful breach or gross negligence. Such Seller Representative will also be fully protected in relying upon any written notice, demand, certificate or document that it in good faith believes to be genuine (including facsimiles thereof). In no event shall Purchaser or the Company or any of their Affiliates, have any liability to any Seller for any action taken or omission to act by such Seller's respective Seller Representative.

(c) Each Seller agrees, severally but not jointly with other Sellers, to indemnify (on a pro rata basis based upon such Seller's Proportional Share divided by the cumulative Proportional Shares of all other Sellers who are represented by the same Seller Representative) his respective Seller Representative for, and to hold such Seller Representative harmless against, any loss, liability or expense incurred without willful breach, gross negligence or bad faith on the part of such Seller Representative, arising out of or in connection with such Seller Representative's carrying out its duties under this Agreement, including costs and expenses of successfully defending such Seller Representative against any claim of liability with respect thereto. A Seller Representative may consult with counsel of its own choice and will have full and complete authorization and protection for any action taken and suffered by it in good faith and in accordance with the opinion of such counsel. No Seller Representative shall be entitled to any fees, commissions or other compensation for acting as the Seller Representative.

(d) If the Original Seller Representative resigns in writing as a Seller Representative or otherwise becomes unable to serve as a Seller Representative, a majority of Sellers who are represented by such Original Seller Representative may designate as a successor Seller Representative any other Person with prior written notice to Purchaser (the "**Successor Seller Representative**"). If for any reason no Successor Seller Representative has been appointed within thirty (30) days of such resignation or inability to serve by the Original Seller Representative, then either the relevant Seller(s) or Purchaser shall have the right to petition a court of competent jurisdiction for appointment of a Successor Seller Representative. Upon written acceptance by such Successor Seller Representative to serve as Seller Representative, such Successor Seller Representative shall thereupon succeed to and become vested with all of the powers and duties and obligations of the Original Seller Representative without further act. Notwithstanding any replacement of the Original Seller Representative hereunder, the provisions of this Section 10.17 shall continue in effect for the benefit of the Original Seller Representative with respect to all actions taken or omitted to be taken by it while acting as Seller Representative.

(e) Purchaser shall have the right to rely upon all actions taken or omitted to be taken by a Seller Representative pursuant to this Agreement, all of which actions and omissions shall be legally binding upon Seller(s) represented by such Seller Representative. No Party hereunder shall have any cause of action against Purchaser to the extent Purchaser has relied upon decisions and actions of a Seller Representative.

(f) The grant of authority to a Seller Representative provided for in this Section 10.17, (i) is coupled with an interest and shall be irrevocable and survive the death, incompetency, bankruptcy or liquidation of any Seller(s) represented by such Seller Representative, and (ii) shall survive the Closing.

(g) All of the indemnities, immunities and powers granted to a Seller Representative under this Agreement shall survive the Closing and/or termination of this Agreement.

Section 10.18 Waiver and Termination of Certain Existing Rights and Agreements. Except as set forth in Section 6.19(b) (to the extent such exception would not prevent or impede the Transaction contemplated herein), each Seller waives any right he or it may have under the Existing M&A, the Settlement Agreement dated July 22, 2008 by and among the Company, GSSIII, Merrylin and certain other parties thereto and the Shareholders Agreement dated as of July 22, 2008 (the "**Existing Shareholders Agreement**") with respect to the transactions contemplated by this Agreement. Each Seller agrees that simultaneous with the Closing the Existing Shareholders Agreement shall terminate and be of no further force and effect.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

FAST RICH INTERNATIONAL LIMITED (BVI)

By: /s/ Tan Mingwei
Name: Tan Mingwei
Title: Director

Signature Page to Share Purchase Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

FRESH IDEA GROUP LIMITED (BVI)

By: /s/ Tan Mingwei

Name: Tan Mingwei

Title: Director

Signature Page to Share Purchase Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

GROWTH FOREVER INVESTMENTS LIMITED (BVI)

By: /s/ Tan Mingwei
Name: Tan Mingwei
Title: Director

Signature Page to Share Purchase Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

GSS III MONROE HOLDINGS LIMITED

By: /s/ Jonathan Harper

Name: Jonathan Harper

Title: Director

Signature Page to Share Purchase Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

MERRYLIN INTERNATIONAL INVESTMENT LIMITED

By: /s/ Shen Feiyu

Name: Shen Feiyu

Title: Director

Signature Page to Share Purchase Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

POSITIVE FUTURE INVESTMENTS LIMITED (BVI)

By: /s/ Tan Mingwei
Name: Tan Mingwei
Title: Director

Signature Page to Share Purchase Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

MISTO GROUP LIMITED (BVI)

By: /s/ Koo Ti Hua

Name: Koo Ti Hua

Title: Director

Signature Page to Share Purchase Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

MOTEL 168 INTERNATIONAL HOLDINGS LIMITED

By: /s/ Jeff Preston

Name: Jeff Preston

Title: Director

Signature Page to Share Purchase Agreement

HOME INNS & HOTELS MANAGEMENT

By: /s/ David Sun

Name: David Sun

Title: Director

Signature Page to Share Purchase Agreement

CREDIT AGREEMENT

among

HOME INNS & HOTELS MANAGEMENT INC.
AS BORROWER

CERTAIN SUBSIDIARIES OF THE BORROWER
AS GUARANTORS

BNP PARIBAS HONG KONG BRANCH
CHINATRUST COMMERCIAL BANK, LTD.
CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK
CREDIT SUISSE AG, SINGAPORE BRANCH
JPMORGAN CHASE BANK, N.A., ACTING THROUGH ITS HONG KONG BRANCH
NATIXIS, HONG KONG BRANCH
SHINHAN ASIA LIMITED
AS MANDATED LEAD ARRANGERS

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED
AS LEAD ARRANGER

THE LENDERS PARTY HERETO

and

BNP PARIBAS HONG KONG BRANCH
AS FACILITY AGENT AND SECURITY AGENT

US\$240,000,000 SENIOR SECURED CREDIT FACILITY

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I Form of Disbursement Certificate

CREDIT AGREEMENT

This CREDIT AGREEMENT, dated as of September 26, 2011, is entered into by and among (1) HOME INNS & HOTELS MANAGEMENT INC., a Cayman Islands company (the "**Borrower**"); (2) each of the SUBSIDIARIES OF THE BORROWER listed on Appendix B, as Guarantors; (3) each of the BANKS listed on Appendix A, as Lenders; (4) BNP PARIBAS HONG KONG BRANCH ("**BNP**"), CHINATRUST COMMERCIAL BANK, LTD. ("**Chinatrust**"), CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK ("**CACIB**"), CREDIT SUISSE AG, SINGAPORE BRANCH ("**CS**"), JPMORGAN CHASE BANK, N.A., ACTING THROUGH ITS HONG KONG BRANCH ("**J.P. Morgan**"), NATIXIS, HONG KONG BRANCH ("**NATIXIS**"), and SHINHAN ASIA LIMITED ("**Shinhan**") as mandated lead arrangers (collectively the "**Mandated Lead Arrangers**"); (5) INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED ("**ICBC**"), as lead arranger (the "**Lead Arranger**"); and (6) BNP PARIBAS HONG KONG BRANCH, as the facility agent of the Finance Parties (the "**Facility Agent**") and security agent of the Secured Parties (the "**Security Agent**").

RECITALS

WHEREAS:

- A. Each of the Borrower and the Target is engaged in the business of hotel operations and management in the PRC.
- B. On May 27, 2011, the Borrower, the Sellers and the Target entered into a Share Purchase Agreement pursuant to which, *inter alia*, the Borrower agreed to acquire 100% of the Target Shares from the Sellers.
- C. The Lenders have agreed to extend a term loan credit facility to the Borrower, in an aggregate principal amount not to exceed US\$240,000,000, the proceeds of which will be used by the Borrower to partly fund the Acquisition of the Target Shares on the Closing Date, and to pay for Transaction Costs incurred in connection therewith.
- D. The Borrower and each of the other Guarantors have agreed (i) to jointly and severally guaranty the obligations of the other Guarantors hereunder; and (ii) subject to the Agreed Security Principles, to secure their respective Obligations by granting to the Security Agent, for the benefit of Secured Parties, a First Priority Lien in substantially all of their respective assets, including a pledge of all of the Equity Interests of each of their directly owned Subsidiaries.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, each of the parties hereto agrees as follows:

SECTION 1. DEFINITIONS AND INTERPRETATION

1.1. Definitions.

The following terms used herein, including in the preamble, recitals, appendices, exhibits and schedules hereto, shall have the following meanings:

"**Acceptable Bank**" means (a) a bank or financial institution that has a rating for its long-term unsecured and non credit-enhanced debt obligations of A or higher by S&P or Fitch or A2 or higher by Moody's; (b) an Agent; (c) with respect to RMB denominated deposits or investments maintained by an Onshore Group Member, the Industrial and Commercial Bank of China, China Construction Bank, the Bank of China, or the Agricultural Bank of China; or (d) any other bank approved by the Majority Lenders.

"**Account Bank**" means BNP Paribas Hong Kong Branch.

"**Acquisition**" means the acquisition by the Borrower of the Target Shares pursuant to the Acquisition Documents.

"**Acquisition Documents**" means (a) the Share Purchase Agreement; (b) the Escrow Agreement, the Trademark Transfer Agreements and the Registration Rights Agreement (each as defined in the Share Purchase Agreement); and (c) any other agreement, instrument, certificate, report and other document executed and delivered in connection with the Acquisition and designated an "Acquisition Document" by the Borrower and the Facility Agent.

"**ADSs**" means the American depository shares representing the ordinary shares of the Borrower.

"**Affected Lender**" as defined in Section 2.16.

"**Affected Loan**" as defined in Section 2.16.

"**Affiliate**" means, as applied to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, that Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power (a) to vote 30% or more of the Securities having ordinary voting power for the election of directors of such Person; or (b) to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise.

"**Agent**" means the Facility Agent or the Security Agent.

"**Agent Affiliates**" as defined in Section 10.1(b).

"**Agent's Fee Letter**" as defined in Section 2.7(c).

"**Aggregate Amounts Due**" as defined in Section 2.13.

"**Aggregate Payments**" as defined in Section 7.2.

"**Agreed Security Principles**" means the principles set forth in Appendix D.

"**Agreement**" means this Credit Agreement, as it may be amended, supplemented or otherwise modified from time to time, and shall include each Counterpart Agreement executed in connection herewith.

"**Amortization Date**" as defined in Section 2.8.

"**Annual Financial Statements**" means the audited financial statements for a Fiscal Year delivered pursuant to Section 5.1(a).

"**Anti-Terrorism Laws**" means the Executive Order, the Bank Secrecy Act (31 U.S.C. §§ 5311 et seq.), the Money Laundering Control Act of 1986 (18 U.S.C. §§ 1956 et seq.), the USA Patriot Act, the International Emergency Economic Powers Act (50 U.S.C. §§ 1701 et seq.), the Trading with the Enemy Act (50 U.S.C. App. §§ 1 et seq.), any other law or regulation administered by OFAC, and any similar law enacted after the Signing Date.

"**Approved Electronic Communications**" means any notice, demand, request, communication, information, document or other material that any Credit Party provides to the Facility Agent pursuant to any Credit Document or the transactions contemplated therein that is distributed to the Agents or to the Lenders by means of electronic communications pursuant to Section 10.1(b).

"**Assignment and Assumption**" means an Assignment and Assumption substantially in the form of Exhibit E, with such amendments or modifications as may be approved by the Facility Agent.

"**Assignment Effective Date**" as defined in Section 10.6(b).

"**Auditors**" means any one of PricewaterhouseCoopers (including PricewaterhouseCoopers Zhong Tian CPAs Limited Company), Ernst & Young, KPMG or Deloitte & Touche or any other firm approved in advance by the Majority Lenders (such approval not to be unreasonably withheld or delayed).

"**Authorization**" means an authorization, consent, approval, resolution, license, exemption, filing, notarization, registration, permit or similar action that is required of any Person, including each Governmental Authorization and the maintenance of good standing in each jurisdiction in which it is relevant.

"**Authorized Officer**" means, as applied to any Person, any individual holding the position of director, chief executive officer or chief financial officer, in each case who has been duly authorized to legally bind such Person.

"**Available Cash**" means the total amount of cash plus Cash Equivalents of the Offshore Group Members but excludes amounts on deposit in the Interest Reserve Account, the Mandatory Prepayment Account and the Sinking Fund Account.

"Bankruptcy Code" means Title 11 of the United States Code entitled "Bankruptcy," as now and hereafter in effect, or any successor statute.

"Bankruptcy Event" means, with respect to any Person, (a) any of the events or circumstances described in Section 8.1(f), (g) or (h) occurs; or (b) in the reasonable determination of the Majority Lenders made in good faith, such Person is unable to meet its maturing obligations as they fall due in the ordinary course of business; provided that a Bankruptcy Event shall not result solely by virtue of any ownership interest, or the acquisition of any ownership interest, in such Person by a Governmental Authority (including an instrumentality thereof); provided further that such ownership interest does not result in or provide such Person with immunity from the jurisdiction of courts or from the enforcement of judgments or writs of attachment on its assets or permit such Person (or such Governmental Authority or instrumentality) to reject, repudiate, disavow or disaffirm any contracts or agreements made by such Person.

"Base Case Model" means the base case business plan in the form of a financial model, dated July 4, 2011, covering the period from the Closing Date until the end of the calendar year in which the Final Maturity Date occurs, that has been agreed between the Borrower and the Initial Mandated Lead Arrangers, being the excel file titled: Homerun_syndication model_04 Jul 2011.xlsx.

"Beneficiary" means each Agent, Lender and Hedge Counterparty.

"BNP" as defined in the first paragraph hereto.

"Board of Governors" means the Board of Governors of the United States Federal Reserve System, or any successor thereto.

"Borrower" as defined in the first paragraph of this Agreement.

"Borrower Equity Proceeds" means cash proceeds received by the Borrower from any Equity Interests issued by the Borrower after the Closing Date.

"Break Costs" as defined in Section 2.17(c).

"Budget" means (a) in relation to the period beginning on January 1, 2011 and ending on December 31, 2011, the Base Case Model; and (b) in relation to any other period, any budget delivered by the Borrower to the Facility Agent in respect of that other period pursuant to Section 5.4.

"Business Day" means (a) any day excluding Saturday, Sunday and any day that is a legal holiday under the laws of the PRC, Hong Kong or Singapore, or is a day on which banking institutions located in such jurisdiction are authorized or required by applicable law to close; provided that in respect of Hong Kong, if a typhoon signal flag eight (8) or above is hoisted between 9:00 a.m. and 2:00 p.m. on any day, such day shall not be deemed to be a **"Business Day"**; (b) with respect to any Relevant Interbank Market, the term **"Business Day"** shall mean any day (other than a Saturday or Sunday) on which banks are open for general business in such Relevant Interbank Market; and (c) in relation to any date for payment, purchase or remittance of US\$, the term **"Business Day"** shall also exclude any day that is a day on which commercial banks in New York City are authorized or required by applicable law to remain closed.

"CACIB" as defined in the first paragraph hereto.

"**Capital Lease**" means, as applied to any Person, any lease of any property (whether real, personal or mixed) by that Person as lessee that, in conformity with GAAP, is or is required to be accounted for as a capital lease or finance lease on the balance sheet of that Person.

"**Cash Consideration**" has the meaning given to it in the Share Purchase Agreement.

"**Cash Equivalents**" means, as at any date of determination, (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank; (b) any investment in marketable debt obligations issued or guaranteed by the government of the USA, the United Kingdom, any member state of the European Economic Area or any Participating Member State or by an instrumentality or agency of any of them (but in each case excluding Portugal, Ireland, Greece or Spain) having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security; (c) commercial paper not convertible or exchangeable to any other security (i) for which a recognised trading market exists; (ii) issued by an issuer incorporated in the USA, the United Kingdom, any member state of the European Economic Area or any Participating Member State; (iii) that matures within one year after the relevant date of calculation; and (iv) the issuer of which (A) has a credit rating of either A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's; or (B) if no rating is available in respect of the commercial paper, has in respect of its long-term unsecured and non-credit enhanced debt obligations a rating of A- or higher by S&P or A3 or higher by Moody's; (d) any investment in money market funds that (i) have a credit rating of either A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's; (ii) invest substantially all their assets in securities of the types described in paragraphs (a) and (b); and (iii) can be turned into cash on not more than 30 days' notice; or (e) any other debt security approved by the Majority Lenders, in each case, to which any Group Member is beneficially entitled at that time (whether alone or with other Group Members) and that is not issued or guaranteed by any Group Member or subject to any Lien (other than Transaction Security).

"**Certain Funds Period**" means the period commencing on the Signing Date and ending on the earlier of (a) the Closing Date; and (b) November 25, 2011.

"**Certification Date**" as defined in Section 1.3(b)(x).

"Change in Law" means the occurrence after the Commitment Date (or, with respect to any Lender not party hereto on the Signing Date, the date on which such Lender becomes a party to this Agreement) of (a) the adoption of any applicable law; (b) any change in any applicable law or in the interpretation or application thereof by any Governmental Authority; or (c) compliance by any Lender (or by any lending office of such Lender or by such Lender's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after Commitment Date; provided that notwithstanding anything herein to the contrary, (i) applicable laws that are attributable to the implementation or application of or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee on Banking Supervision in June 2004 ("**Basel III**") shall not be a "Change in Law" to the extent published, legally binding and in force on the Commitment Date; and (ii) any changes to Basel II that are enacted under the regime commonly known as "Basel III", Basel III itself, and the Dodd-Frank Wall Street Reform and Consumer Protection Act, and in each case all requests, rules, guidelines or directives thereunder or issued in connection therewith, shall be deemed to be a "Change in Law", regardless of the date enacted, adopted or issued. For purposes of the foregoing definition, the "Commitment Date" shall be March 21, 2011.

"Change of Control" means, at any time, the occurrence of any of the following:

- (a) any Person or group controls or owns, directly or indirectly, legally or beneficially, either (i) 30.0% or more (on a fully diluted basis) of the voting Equity Interests of the Borrower (where any Group Member has issued new shares or otherwise cooperated with such Person or group in obtaining such control or ownership); or (ii) 50.1% or more (on a fully diluted basis) of the voting Equity Interests of the Borrower (where no Group Member has so issued or cooperated);
- (b) any Person or group (other than current management) has obtained the ability to appoint (whether or not exercised) senior officers of the Group or a majority of the members of the board of directors (or similar governing body) of the Borrower or any of its Subsidiaries;
- (c) the ADSs of the Borrower are delisted from NASDAQ, or ADSs representing less than 15% of all issued and outstanding shares of the Borrower are registered and available for trading on NASDAQ; or
- (d) a Disposal of all or substantially all of the assets of the Group.

For purposes of the foregoing definition, (x) "group" shall have the meaning given to it in Rules 13d-3 and 13d-5 of the Exchange Act; and (y) "current management" shall mean the individuals that serve as senior officers of the Borrower on the Signing Date.

"Chinatruster" as defined in the first paragraph hereto.

"Closing Date" means the date on which the Term Loans are made and the Acquisition is consummated by the Borrower.

"Collateral" means, collectively, all of the assets, including real, personal and intangible assets (including Equity Interests) in which Liens are granted or purported to be granted pursuant to the Collateral Documents as security for the Obligations.

"Collateral Documents" means the agreements and documents set forth on Appendix F and all other instruments, documents and agreements delivered by any Credit Party pursuant to this Agreement or any of the other Credit Documents in order to create Transaction Security in the Collateral.

"Commitment" means any Term Loan Commitment.

"Commitment Fee" as defined in Section 2.7.

"Companies Ordinance" means the Companies Ordinance (Chapter 32), Laws of Hong Kong, as amended from time to time, and any successor statute.

"Company Material Adverse Effect" means any event or occurrence that, when taken individually or in the aggregate, has or would reasonably be expected to have, a material adverse effect on (i) the business, assets, properties, results of operations or financial condition of the Company and the Company Subsidiaries, taken as a whole or (ii) the ability of Sellers or the Company to consummate the transactions contemplated by the Transaction Agreements; provided, however, that in no event shall any of the following, alone or in combination, occurring after Signing Date, be deemed to constitute a Company Material Adverse Effect pursuant to clause (i) hereto, nor shall any event or occurrence occurring after Signing Date to the extent relating to or resulting from any of the following be taken into account in determining whether a Company Material Adverse Effect pursuant to clause (i) hereto has occurred or would result: (1) changes in general economic conditions in global or PRC markets (including financial, banking, credit, currency and capital markets); (2) fluctuations in currency exchange rates; (3) changes generally affecting the industry in which the Company and the Company Subsidiaries operate; (4) changes in applicable Law or in IFRS; (5) any actions taken or not taken in accordance with the terms of this Agreement or at the request of Purchaser; (6) the commencement or material worsening of a war or armed hostilities or other national or international calamity, or the occurrence of any military or terrorist attack; (7) acts of God or natural disasters and (8) the announcement, in accordance with the terms of this Agreement, of the Transaction Agreements and the transactions contemplated hereby and thereby, including by reason of the identity of Purchaser, except in the case of clauses (1), (2), (3), (4), (6) and (7), any such change, event, occurrence or effect shall be taken into account if it has or would reasonably be expected to have a materially disproportionate effect on the Company and the Company Subsidiaries, taken as a whole, relative to other similarly situated participants in the industry in which they operate. Notwithstanding the first sentence of Section 1.1 of this Agreement, for the purposes of the foregoing definition, capitalized terms used therein shall have the meanings given to them in the Share Purchase Agreement.

"Competition Clearance" has the meaning given to it in the Share Purchase Agreement.

"Compliance Certificate" means a Compliance Certificate substantially in the form of Exhibit C.

"Compliance Report" as defined in Section 5.2(c).

"Consolidated Capital Expenditures" means, for any period, the aggregate of all expenditures of the Borrower and its Subsidiaries during such period determined on a consolidated basis that (a) in accordance with GAAP, are or should be included in "purchase of property and equipment" or similar items reflected in the consolidated statement of cash flows of the Borrower and its Subsidiaries; and (b) are used by any Group Members to fund Joint Ventures. For the avoidance of doubt, the foregoing shall not include the purchase or acquisition of any assets that constitute an ongoing business.

"Consolidated Capitalization" means, as at any date of determination, an amount determined for the Borrower and its Subsidiaries on a consolidated basis equal to the amount of all items that in accordance with GAAP would be included in the stockholders' or shareholders' equity portion of the consolidated balance sheet of the Borrower and its Subsidiaries, including capital stock of any class (net of treasury stock), capital surplus and retained earnings; plus the amount of Consolidated Total Debt; minus the equity value of non-consolidated minority interests.

"Consolidated Debt Service" means, for any period, an amount determined for the Borrower and its Subsidiaries on a consolidated basis equal to (a) the projected amount of Consolidated Interest Expenses for such period; plus (b) the projected amount of all scheduled principal payments or scheduled principal repayments of Indebtedness that are due during such period.

"Consolidated EBITDA" means, for any period, an amount determined for the Borrower and its Subsidiaries on a consolidated basis equal to (a) Consolidated Net Income; plus, to the extent reducing Consolidated Net Income for such period, the sum, without duplication, of amounts for (i) Consolidated Interest Expense; (ii) provisions for Taxes based on income; (iii) total depreciation expense; (iv) total amortization expense; (v) other non-cash charges reducing Consolidated Net Income (excluding any such non-cash charge to the extent that it represents an accrual or reserve for potential cash charge in any future period or amortization of a prepaid cash charge that was paid in a prior period); and (vi) net extraordinary, unusual or non-recurring losses or charges; minus (b) to the extent increasing Consolidated Net Income for such period, the sum, without duplication, of amounts for (i) non-cash gains (excluding any such non-cash gain to the extent it represents the reversal of an accrual or reserve for potential cash gain in any prior period); (ii) interest income received, including interest paid-in-kind, during such period; (iii) any gain arising on the purchase by the Borrower or any other Group Member at less than par of any securities issued by the Borrower or such Group Member; and (iv) net extraordinary, unusual or non-recurring gains.

"Consolidated Interest Expense" means, for any period, an amount determined for the Borrower and its Subsidiaries on a consolidated basis equal to total interest expense (including that portion attributable to capitalized interest) with respect to all outstanding Indebtedness, including all commissions, discounts and other fees and charges owed with respect to letters of credit and net costs under Interest Rate Agreements, but excluding any amount not payable in cash.

"Consolidated Net Income" means, for any period, an amount determined for the Borrower and its Subsidiaries on a consolidated basis equal to (a) the net income (or loss) of the Borrower and its Subsidiaries for such period taken as a single accounting period determined in conformity with GAAP; minus (b) where the financial results of a Partly Owned Group Member are included in the foregoing net income calculations, the ratable amount of income (or loss) of such Partly Owned Group Member that is attributable to the percentage ownership interests of such Partly Owned Group Member that are held by non-Group Members; and plus (c) where the financial results of a Partly Owned Group Member are not included in the foregoing net income calculations, the amount of any Dividends actually received by the Borrower or any of its Subsidiaries and paid by such Partly Owned Group Member during such period. For purposes of the foregoing definition, a **"Partly Owned Group Member"** means any Person that is not, directly or indirectly, a wholly owned Subsidiary of the Borrower.

"Consolidated Total Debt" means, as at any date of determination, the aggregate amount of all Indebtedness of the Borrower and its Subsidiaries determined on a consolidated basis in accordance with GAAP.

"Contractual Obligation" means, as applied to any Person, any provision of a Lien granted by that Person or of any indenture, mortgage, deed of trust, contract, undertaking, agreement or other instrument to which that Person is a party or by which it or any of its assets is bound or to which it or any of its assets is subject.

"Contributing Guarantors" as defined in Section 7.2.

"Counterpart Agreement" means a Counterpart Agreement substantially in the form of Exhibit D delivered by a Credit Party pursuant to this Agreement, including Section 5.23.

"Counterparty" as defined in Section 10.6(i)(1).

"CP Satisfaction Date" as defined in Section 3.1.

"CP Satisfaction Date Calculations" as defined in Section 3.1(o).

"CP Satisfaction Date Certificate" means a CP Satisfaction Date Certificate executed by an Authorized Officer of the Borrower in the form set forth as Exhibit G.

"Credit Documents" means (a) this Agreement, the Intercreditor Agreement, the Notes (if any), the Collateral Documents, each Hedging Agreement, the Fee Letter and the Agent's Fee Letter; and (b) each other document, instrument or agreement executed and delivered by a Credit Party for the benefit of any Finance Party that such Credit Party and any Finance Party agree is a "Credit Document".

"Credit Party" means the Borrower and each other Guarantor from time to time party to the Credit Documents.

"CS" as defined in the first paragraph hereto.

"Currency Agreement" means any foreign exchange contract, currency swap agreement, futures contract, option contract, synthetic cap or other similar agreement or arrangement, each of which is for the purpose of hedging the Group's foreign currency risk and not for speculative purposes.

"Debt Service Coverage Ratio" means the ratio, as of any Quarterly Date, of (a) the lesser of (i) the aggregate amount of the consolidated cash balance of the Group; and (ii) the aggregate amount of dividends that are legally permitted to be declared and paid in cash by the Onshore Group Members to the Offshore Group Members under the applicable laws of the PRC: to (b) the Consolidated Debt Service amount of the Borrower and its Subsidiaries during the twelve (12) month period succeeding such Quarterly Date.

"Default" means a condition, event or circumstance that, with the expiry of a grace period, the giving of notice, the lapse of time, the making of any determination or any combination of any of the foregoing, would constitute an Event of Default.

"Default Period" means, with respect to any Defaulting Lender, the period commencing on the date of the applicable Funding Default and ending on the earliest of the following dates: (a) the date on which all Commitments are cancelled or terminated or the Obligations are declared or become immediately due and payable; (b) the date on which (i) the amount that such Defaulting Lender shall have failed to fund has been reduced to zero (whether by the funding by such Defaulting Lender of any Defaulted Loans of such Defaulting Lender or by the non-pro rata application of any voluntary or mandatory prepayments of the Term Loans in accordance with the terms of Section 2.9 or Section 2.10 or by a combination thereof); and (ii) such Defaulting Lender shall have delivered to the Borrower and the Facility Agent a written reaffirmation of its intention to honor its obligations hereunder with respect to its Commitments; and (c) the date on which the Borrower and the Majority Lenders waive all Funding Defaults of such Defaulting Lender in writing.

"Defaulted Loan" as defined in Section 2.21.

"Defaulting Lender" as defined in Section 2.21.

"Designated Person" means a Person:

- (a) listed in the annex to, or otherwise subject to the provisions of, the Executive Order;
- (b) named as a "Specially Designated National and Blocked Person" on the most current list published by OFAC at its official website or any replacement website or other replacement official publication of such list, or on a similar list published by any other Sanctioning Governmental Authorities; or
- (c) with which any Finance Party is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law.

"Disbursement Certificate" means a Disbursement Certificate executed by an Authorized Officer of the Borrower in the form set forth as Exhibit I.

"Disposal" and **"Dispose"** each means a sale, lease, licence, transfer, loan or other disposal by a Person of any asset (whether by a voluntary or involuntary single transaction or any series of transactions), sale and leaseback, assignment, conveyance, exclusive license or any other disposition or exchange of any asset.

"Disqualified Equity Interests" means any Equity Interest that, by its terms (or by the terms of any Security or other Equity Interests into which it is convertible or for which it is exchangeable), or upon the happening of any event or condition (a) matures or is mandatorily redeemable (other than solely for Equity Interests that are not otherwise Disqualified Equity Interests), pursuant to a sinking fund obligation or otherwise; (b) is redeemable at the option of the holder thereof (other than solely for Equity Interests that are not otherwise Disqualified Equity Interests), in whole or in part; (c) provides for the scheduled payment of Dividends in cash; or (d) is or becomes convertible into or exchangeable for Indebtedness or any other Equity Interests that would constitute Disqualified Equity Interests, in each case, prior to the date that is ninety-one (91) days after the Final Maturity Date.

"Dividends" shall mean, for any Person, a remittance of proceeds made by such Person to its shareholders or holders of its Equity Rights as a result of any dividend or other distribution made by such Person in respect of its Equity Rights, or any capital reduction, share buyback or similar event effected by such Person, in each case that results in proceeds being remitted or distributed by such Person to its shareholders or holders of its Equity Rights, including any return of (or reduction of) any capital or any other distribution, payment or delivery of property or cash in respect of its Equity Rights to the holders thereof, or the redemption, retirement, purchase or acquisition, directly or indirectly, for consideration, of any shares of any class of such person's stock or stock equivalents or the stock or stock equivalents of any direct or indirect Holding Company of such Person, or the purchase or acquisition by any Subsidiary of such person of any stock or stock equivalents such person.

"Dollars" and the signs **"\$"** and **"US\$"** mean the lawful money of the United States of America.

"Eligible Assignee" means (a) any Lender, any Affiliate of any Lender and any Related Fund (any two or more Related Funds being treated as a single Eligible Assignee for all purposes hereof); and (b) any commercial bank, insurance company, investment or mutual fund or other entity that is an "accredited investor" (as defined in Regulation D under the Securities Act) and that extends credit or buys loans in the ordinary course of its business; provided that no Ineligible Assignee shall be an Eligible Assignee. For purposes of the foregoing, **"Ineligible Assignee"** means (i) any Group Member or Affiliate thereof; (ii) a natural person; or (iii) a company, investment vehicle or trust for, or owned and operated for the primary benefit of, a natural person or his or her relatives; provided that any such company, investment vehicle or trust shall not constitute an Ineligible Assignee if it (x) has not been established for the primary purpose of acquiring any Term Loans or Commitments; (y) is managed by a professional advisor, which is not such natural person or a relative thereof, having significant experience in the business of making or purchasing commercial loans; and (z) has assets greater than US\$25,000,000 (or its equivalent) and a significant part of its activities consist of making or purchasing commercial loans and similar extensions of credit in the ordinary course of its business; provided further that while an Event of Default is continuing, any Person (other than a Person that has been a Lender for more than six (6) months) shall be an Ineligible Assignee if after giving effect any proposed assignment to such Person, such Person would hold more than 25% of the then outstanding Term Loans.

"Enforcement Event" as defined in Appendix D.

"Environmental Claim" means any investigation, notice, notice of violation, claim, action, suit, proceeding, demand, abatement order or other order or directive (conditional or otherwise), by any Governmental Authority or any other Person in respect of any Environmental Law.

"Environmental Law" means any and all applicable current or future applicable laws, Governmental Authorizations, or any other requirements of Governmental Authorities that relate to (a) the pollution or protection of the environment; (b) the conditions of the workplace; or (c) the generation, handling, storage, use, release or spillage of any substance that, alone or in combination with any other, is capable of causing harm to the environment, including any waste.

"Environmental Permits" means any Governmental Authorization and the filing of any notification, report or assessment required under any Environmental Law for the operation of the business of any Group Member conducted on or from the assets owned, leased or otherwise used by any Group Member.

"Equity Interests" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in any Person (other than a corporation), including partnership interests, membership interests or other equity rights or interests, and any and all warrants, rights or options to purchase or other arrangements or rights to acquire any of the foregoing.

"Event of Default" means each of the conditions or events set forth in Sections 8.1(a) to (s), and taking into account the provisions of Section 8.2(b).

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any successor statute.

"Excluded Issuance" means the issuance by the Borrower of any of its ordinary shares after the Signing Date, the purpose of which is to use the proceeds thereof to fund a Permitted Acquisition or a Permitted Joint Venture if and to the extent that (a) the Borrower has notified the Facility Agent in writing at the time of any such issuance that the proceeds to be received by the Borrower are intended or committed to be used by the Group for a Permitted Acquisition or a Permitted Joint Venture (which shall be identified in reasonable detail in such notice) during the three (3) month period following the date of such issuance; and (b) the Borrower in fact uses such proceeds during the twelve (12) month period following the date of such equity issuance.

"Excluded Taxes" means the following Taxes imposed on a Lender or required to be withheld or deducted from a payment to a Lender: (a) Taxes imposed on or measured by net income, franchise Taxes, and branch profits Taxes, in each case, imposed by the jurisdiction in which such Lender is organized or in which its lending office is located, or in which such Lender or its lending office is deemed to be doing business; and (b) any withholding Taxes attributable to such Lender's failure to comply with Section 2.19(d).

"Executive Order" means the US Executive Order No. 13224 on Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit, or Support Terrorism, which came into effect on 24 September 2001, as amended.

"Existing 2007 Bond" means the Borrower's synthetic RMB 1,110,000,000 zero coupon Convertible Senior Bonds due December 10, 2012.

"Existing 2007 Bond Redemption Amount" means the amount equal to (a) the amount of outstanding principal of the Existing 2007 Bond; multiplied by (b) 102.53%.

"Existing 2010 Bond" means the Borrower's US\$184,000,000 2% Convertible Senior Notes due December 15, 2015.

"Facility Agent" as defined in the first paragraph of this Agreement.

"Fair Share" as defined in Section 7.2.

"Fair Share Contribution Amount" as defined in Section 7.2.

"FCPA" means the United States Foreign Corrupt Practices Act of 1977 (15 U.S.C. 0078dd-1 et seq.), as amended.

"Fee Letter" means the Fee Letter, dated March 21, 2011, as amended by the amendment to Fee Letter dated May 24, 2011, by and among the Borrower and the Initial Mandated Lead Arrangers.

"Final Maturity Date" means, subject to Section 2.12(e), the earlier of (a) September 15, 2015; and (b) the date that all Term Loans shall become due and payable in full hereunder, whether by acceleration or otherwise.

"Finance Parties" means the Mandated Lead Arrangers, the Lead Arranger, the Facility Agent, the Security Agent and the Lenders; provided that where the term "Finance Party" is used in, and construed for the purposes of, this Agreement or the Intercreditor Agreement, the Hedge Counterparties shall also be Finance Parties for the purposes of (a) the definition of "Secured Parties"; (b) Section 7; and (c) the Intercreditor Agreement.

"Financial Statements" means Annual Financial Statements and Quarterly Financial Statements.

"**First Priority**" means, with respect to any Transaction Security, that the Lien that is granted to the Security Agent is the only Lien to which the underlying Collateral is subject, other than any Permitted Security; provided that where Equity Interests are Collateral, First Priority shall mean that such Equity Interests are subject to no Lien other than Transaction Security.

"**Fiscal Quarter**" means each three (3) month period ending on a Quarterly Date.

"**Fiscal Year**" means the fiscal year of the Borrower and its Subsidiaries ending on December 31 of each calendar year.

"**Fitch**" means Fitch Ratings and any successor thereto.

"**Funding Confirmation**" as defined in Section 2.1(b)(ii).

"**Funding Default**" as defined in Section 2.21.

"**Funding Guarantors**" as defined in Section 7.2.

"**Funding Notice**" means a notice substantially in the form of Exhibit A-1.

"**GAAP**" means, subject to the limitations on the application thereof set forth in Section 1.2, United States generally accepted accounting principles in effect as of the date of determination thereof.

"**Governmental Authority**" means any national, federal, state, provincial, municipal or other government, governmental department, commission, board, bureau, court, agency or instrumentality or political subdivision thereof or any entity, officer or examiner exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to any government or any court.

"**Governmental Authorization**" means any permit, license, authorization, plan, directive, consent order or consent decree of or from any Governmental Authority.

"**Group**" means, collectively, the Borrower and its Subsidiaries from time to time (including, with effect from the Closing Date, the Target and its Subsidiaries), and "**Group Member**" shall mean the Borrower or any such Subsidiary.

"**Group Structure Chart**" means the group structure chart referenced in Schedule 4.1.

"**Guaranteed Obligations**" as defined in Section 7.1.

"**Guarantor**" means the Borrower and each other Offshore Group Member.

"**Guaranty**" means the guaranty of each Guarantor set forth in Section 7.

"**Hedge Counterparty**" means each Lender (or any Affiliate thereof) that is party to a Hedging Agreement from time to time (including any Person that is a Lender (or any Affiliate thereof) at the time such Person enters into a Hedging Agreement but subsequently ceases to be a Lender (or an Affiliate thereof)) and is or becomes a party to the Intercreditor Agreement as a "Hedge Counterparty".

"Hedging Agreement" means an Interest Rate Agreement or a Currency Agreement entered into by the Borrower with any Hedge Counterparty.

"Holding Company" means, in relation to a Person, any other Person in respect of which it is a Subsidiary.

"ICBC" as defined in the first paragraph hereto.

"IFRS" means International Financial Reporting Standards and interpretations thereof as established by the International Accounting Standards Board, as in effect at the time any applicable financial statements were prepared.

"Increased-Cost Lenders" as defined in Section 2.22.

"Indebtedness", as applied to any Person, means, without duplication,

- (a) all indebtedness of such Person for borrowed money;
- (b) that portion of obligations with respect to Capital Leases that is properly classified as a liability on a balance sheet in conformity with GAAP;
- (c) notes payable and drafts accepted (or similar written instrument) representing extensions of credit whether or not representing obligations for borrowed money;
- (d) any obligation owed for all or any part of the deferred purchase price of assets or services, including any earn-out obligations, if (i) such purchase price is (1) due more than six (6) months from the date of incurrence of the obligation in respect thereof (but excluding trade payables); or (2) one of the primary reasons behind entering into the relevant agreement is to raise finance; or (ii) that is not incurred in the ordinary course of business;
- (e) all indebtedness of another Person that would constitute "Indebtedness" under any other paragraph of this definition that is secured by a Lien on any asset owned or held by that Person (a "**pledged asset**") regardless of whether the indebtedness secured thereby shall have been assumed by that Person (provided that if recourse for such indebtedness is limited to such pledged asset, then only the lesser of the amount of such indebtedness and the fair market value of the pledged asset shall be considered as Indebtedness under this paragraph);
- (f) the face amount of any letter of credit issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings;
- (g) Disqualified Equity Interests;

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- (h) the direct or indirect guaranty, endorsement (otherwise than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of accounts receivable of such Person or another Person;
 - (i) any obligation of such Person the primary purpose or intent of which is to provide assurance to an obligee that the obligation of the obligor thereof (to the extent such obligation would constitute "Indebtedness" under any other paragraph of this definition) will be paid or discharged, or that such obligee will be indemnified or held harmless (in whole or in part) against loss in respect thereof, including through any agreement (contingent or otherwise) (i) to purchase, repurchase or otherwise acquire such obligor's obligation or any security therefor, or to provide funds for the payment or discharge of such obligor's obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise); or (ii) to maintain the solvency or any balance sheet item, level of income or financial condition of such obligor; and
 - (j) all obligations of such Person in respect of any exchange traded or over the counter derivative transaction (and in calculating the value of such transaction only the marked-to-market value (or if any actual amount is due by such person as a result of the termination or close-out of such transaction, that amount) shall be taken into account).

"Indemnified Liabilities" means, collectively, any and all liabilities, obligations, losses, damages (including natural resource damages), penalties, claims (including Environmental Claims), actions, judgments, suits, out-of-pocket costs, expenses and disbursements of any kind or nature whatsoever (including the reasonable fees and disbursements of one New York counsel for the Indemnitees and, if necessary, of a single firm of local counsel in each other Relevant Jurisdiction (which may include one counsel acting in multiple jurisdictions) for all Indemnitees (and, in the case of an actual or perceived conflict of interest (as reasonably determined by the Indemnitee affected by such conflict) where such Indemnitee informs the Borrower of such conflict, of another firm of counsel for such affected Indemnitee) in connection with any investigative, administrative or judicial proceeding or hearing commenced or threatened by any Person, whether or not any such Indemnitee shall be designated as a party or a potential party thereto, and any fees or expenses incurred by Indemnitees in enforcing this indemnity), whether direct, indirect or consequential and whether based on any applicable laws (including securities and commercial laws, statutes, rules or regulations and Environmental Laws), on common law or equitable cause or on contract or otherwise, that may be imposed on, incurred by, or asserted against any such Indemnitee, in any manner relating to or arising out of (a) this Agreement or the other Credit Documents or the transactions contemplated hereby or thereby (including the Lenders' agreement to make the Term Loans or the use or intended use of the proceeds thereof, or any enforcement of rights under any of the Credit Documents (including any sale of, collection from, or other realization upon any of the Collateral or the enforcement of the Guaranty)); (b) the Fee Letter or the Commitment Letter (as defined in the Fee Letter) (and any related fee letter) delivered by any Mandated Lead Arranger, Lead Arranger, Agent or any Lender to the Borrower with respect to the transactions contemplated by this Agreement; or (c) any Environmental Claim relating to or arising from, directly or indirectly, any past or present activity, operation, land ownership, or practice of the Borrower or any other Group Member.

"**Indemnified WHT**" as defined in Section 2.19(b).

"**Indemnitee**" as defined in Section 10.3.

"**Information Memorandum**" means the confidential information memorandum dated July 4, 2011 prepared by the Borrower, which includes information about the Acquisition, the Term Loans, the Group and how the proceeds of the Term Loans will be used by the Borrower.

"**Information Package**" means the Reports and the Information Memorandum.

"**Initial Mandated Lead Arrangers**" means CS and J.P. Morgan.

"**Installment**" as defined in Section 2.8.

"**Intellectual Property**" means (a) any patents, trade marks, service marks, designs, business names, copyrights, database rights, design rights, domain names, moral rights, inventions, confidential information, knowhow and other intellectual property rights and interests (which may now or in the future subsist), whether registered or unregistered; and (b) the benefit of all applications and rights to use such assets of each Group Member (that may now or in the future exist).

"**Intercreditor Agreement**" means the Intercreditor Agreement dated on or about the CP Satisfaction Date among, *inter alios*, the Borrower, each of the other Guarantors, the Agents and the Hedge Counterparties.

"**Interest Payment Date**" means the last day of each Interest Period.

"**Interest Period**" means, in connection with the Term Loans and subject to Section 2.5(b), an interest period of 1, 2 or 3 Months (or such other period as agreed by the Borrower and the Facility Agent, or selected by the Borrower prior to the Syndication Date pursuant to Section 2.5(b)), as selected by the Borrower in the applicable Funding Notice or Interest Rate Notice, (a) initially, commencing on the Closing Date; and (b) thereafter, commencing on the day on which the immediately preceding Interest Period expires; provided that no Interest Period with respect to any portion of any Term Loan shall extend beyond the Final Maturity Date (or any applicable Amortization Date, if such portion of any Term Loan is due and payable on such Amortization Date).

"**Interest Rate Agreement**" means any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedging agreement or other similar agreement or arrangement, each of which is for the purpose of effectively converting a floating rate of interest into a fixed rate of interest, and is entered into by the Borrower for the purpose of hedging the Borrower's interest rate risk, and not for speculative purposes.

"Interest Rate Notice" means an Interest Rate Notice substantially in the form of Exhibit A-2.

"Interest Reserve Account" means the interest-bearing Dollar account (as the same may be re-designated, substituted or replaced with the prior written consent of the Facility Agent from time to time):

- (a) held by the Borrower maintained with the Account Bank;
- (b) that is subject to Transaction Security pursuant to a Collateral Document in form and substance reasonably satisfactory to the Security Agent; and
- (c) from which no withdrawals may be made by the Borrower except as expressly contemplated by this Agreement (and should the Borrower wish to make such a withdrawal it shall confirm to the Facility Agent the basis on which such withdrawal is so expressly contemplated either prior to making such withdrawal or in the relevant payment instruction).

"ISDA" as defined in Section 10.17.

"Joint Venture" means a joint venture, partnership or other similar arrangement, whether in corporate, partnership or other legal form; provided that in no event shall any corporate Subsidiary of any Person be considered to be a Joint Venture to which such Person is a party.

"J.P. Morgan" as defined in the first paragraph of this Agreement.

"Lead Arranger" as defined in the first paragraph of this Agreement.

"Legal Reservations" means the reservations below that are expressly set forth in the legal opinions delivered under Section 3.1(h) and Part D of Appendix F as qualifications as to matters of law of general application, including:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to bankruptcy, insolvency, reorganization and other laws generally affecting the rights of creditors;
- (b) statutes of limitations, the possibility that an undertaking to assume liability for or indemnify a person against gross negligence or willful misconduct, or non-payment of taxes, may be void and defenses of set-off or counterclaim;
- (c) similar principles, rights and defenses under the laws of any Relevant Jurisdiction; and
- (d) all such reservations with respect to the PRC Collateral Documents and contained in the legal opinions in respect of PRC law;

and for the avoidance of doubt, "Legal Reservations" shall not include any assumptions, reservations or qualifications as to matters of fact or matters of law of specific application.

"**Lender**" means each financial institution listed on Appendix A as a Lender, and any other Person that becomes a party hereto pursuant to an Assignment and Assumption.

"**Letter of Direction**" as defined in Section 3.1(l).

"**Leverage Ratio**" means, as of any Quarterly Date, the ratio of (a) the amount of Consolidated Total Debt on such Quarterly Date; to (b) the amount of Consolidated EBITDA for the LTM Period ending on such Quarterly Date.

"**LIBOR**" means, in relation to each Term Loan, (a) the applicable Screen Rate; or (b) (if no Screen Rate is available for applicable Interest Period) the Reference Bank Rate, in each case as of 11:00 a.m. (London time) on the Quotation Day for a period comparable to the Interest Period of such Term Loan, and if any such rate is below zero, LIBOR shall be deemed to be zero.

"**Lien**" means, with respect to any asset, (a) any lien, mortgage, pledge, assignment, security interest, charge or encumbrance of any kind on or of such asset, and any option, trust or other preferential arrangement having the practical effect of any of the foregoing; (b) the interest of a vendor or a lessor under any conditional sale or other title retention agreement, and any lease or license in the nature thereof and any option, trust or other preferential arrangement having the practical effect of any of the foregoing; and (c) in the case of Securities, any purchase option, call or similar right of a third party with respect to such Securities.

"**Liquidity Premium**" means fifteen basis points (0.15%) per annum. The foregoing shall not limit the right of the Facility Agent or any Lender under Section 2.6, Section 8 or otherwise.

"**London Business Day**" means a day (other than a Saturday or Sunday) on which deposits may be dealt with in the London interbank market and the banks are open for general business in London.

"**LTM Period**" means, on any Quarterly Date, the last twelve (12) month period ending on such Quarterly Date.

"**Major Default**" means (a) any Event of Default set forth in Sections 8.1(a), 8.1(d), and 8.1(h) through 8.1(s) solely relating to the Group (excluding the Target Group members); (b) any Event of Default set forth in Section 8.1(d) relating to any Major Representation; (c) any Event of Default set forth in Sections 8.1(e), 8.1(f) and 8.1(g) relating to any Offshore Group Members; or (d) any Event of Default set forth in Sections 8.1(e), 8.1(f) and 8.1(g) and relating to those Onshore Group Members (excluding the Target Group members) that are also Material Group Members.

"**Major Representation**" means (a) each Specified Representation; and (b) any representation or warranty set forth in the Share Purchase Agreement relating to the Target Group or the Sellers (but only to the extent that the Borrower has the right to withhold consummation of the Acquisition under the Share Purchase Agreement as a result of a breach of such representation or warranty).

"Majority Lenders" means one or more Lenders having or holding Term Loan Exposure and representing more than 66.667% of the aggregate Term Loan Exposure of all Lenders; provided that a Lender may have more than one vote in relation to its share in the Term Loan Exposure and may split its vote in whatever percentages it may choose and may vote any percentage of its Term Loan Exposure in different ways.

"Mandated Lead Arrangers" as defined in the first paragraph of this Agreement.

"Mandatory Prepayment Account" means the interest-bearing Dollar account designated as such (as the same may be re-designated, substituted or replaced with the prior written consent of the Facility Agent from time to time):

- (a) held by the Borrower maintained with the Account Bank;
- (b) that is subject to Transaction Security pursuant to a Collateral Document in form and substance reasonably satisfactory to the Security Agent; and
- (c) from which no withdrawals may be made by the Borrower except as expressly contemplated by this Agreement (and should the Borrower wish to make such a withdrawal it shall confirm to the Facility Agent the basis on which such withdrawal is so expressly contemplated either prior to making such withdrawal or in the relevant payment instruction).

"Margin" means 3.75% per annum. The foregoing shall not limit the right of the Facility Agent or any Lender under Section 2.6, Section 8 or otherwise.

"Margin Stock" as defined in Regulation U of the Board of Governors as in effect from time to time.

"Market Disruption Event" as defined in Section 2.15(c)(i).

"Material Adverse Effect" means a material adverse effect (a) on the condition (financial or otherwise), results of operation, business, assets or properties of the Group, taken as a whole; (b) on the ability of the Guarantors to perform any of their respective payment obligations under any Credit Documents; or (c) the legality, validity or enforceability of any Credit Documents, including the Transaction Security provided thereunder.

"Material Contract" means any contract or other arrangement to which the Borrower or any of its Subsidiaries is a party (other than the Credit Documents) for which breach, nonperformance, cancellation or failure to renew has or could reasonably be expected to have a Material Adverse Effect.

"Material Group Members" means (a) initially, each Group Member listed as such on Appendix C; and (b) thereafter, (i) each Guarantor; and (ii) those Group Members that on and as of each December 31, (A) collectively, have earnings before interest, tax, depreciation and amortization (calculated on the same basis as Total EBITDA) representing 90% or more of the Total EBITDA of the Group; or (B) collectively, have assets (calculated on the same basis as Total Assets) representing 90% or more of the Total Assets of the Group, in each case calculated on an aggregate unconsolidated basis and in a manner consistent with that used in the Closing Date Calculations.

"Minimum IRA Balance Amount" means, on any date of determination, for the Borrower and the other Offshore Group Members on a consolidated basis, the aggregate amount of interest that is projected to be or become payable during the six (6) month period following such date on all outstanding Indebtedness (including the Term Loans and the Existing 2010 Bond, but excluding all commissions, discounts and other fees and charges owed with respect to letters of credit), calculated net of all payments projected to be made or received by the Borrower under the Interest Rate Agreements during such period.

"Month" means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month, except that:

- (a) subject to paragraph (c) below, if the numerically corresponding day is not a Business Day, that period shall end on the next Business Day in that calendar month in which that period is to end if there is one, or if there is not, on the immediately preceding Business Day;
- (b) if there is no numerically corresponding day in the calendar month in which that period is to end, that period shall end on the last Business Day in that calendar month; and
- (c) if an Interest Period begins on the last Business Day of a calendar month, that Interest Period shall end on the last Business Day in the calendar month in which that Interest Period is to end.

The above rules will apply only to the last Month of any period.

"Monthly Balances" as defined in Appendix D.

"Moody's" means Moody's Investor Services, Inc.

"NATIXIS" as defined in the first paragraph hereto.

"Net Insurance/Condemnation Proceeds" means an amount equal to (a) any cash payments or proceeds received by a Group Member (i) under any casualty insurance policy in respect of a covered loss thereunder; or (ii) as a result of the taking of any assets of such Group Member by any Person pursuant to the power of eminent domain, condemnation or otherwise, or pursuant to a sale of any such assets to a purchaser with such power under threat of such a taking; minus (b) (i) any attorney's fees, accountant's fees, and other customary costs and expenses actually incurred by a Group Member in connection with the adjustment or settlement of any claims of such Group Member in respect thereof; and (ii) any bona fide direct costs incurred in connection with any sale of such assets as referred to in clause (a)(ii) of this definition, including taxes paid or reasonably determined to be payable as a result thereof.

"**New Lender**" as defined in Section 10.6(b).

"**Non-consenting Lender**" as defined in Section 2.22(c).

"**Nonpublic Information**" means information that has not been disseminated in a manner making it available to investors generally, within the meaning of Regulation FD.

"**Note**" means a note issued by the Borrower to any Lender to evidence its indebtedness in respect of the Term Loans.

"**Notice**" means a Funding Notice or an Interest Rate Notice.

"**Obligations**" means all obligations of every nature of each Credit Party, including obligations from time to time owed to the Finance Parties (including former Finance Parties), or the Hedge Counterparties, under any Credit Document or Hedging Agreement, whether for principal, interest (including interest that, but for the filing of a petition in connection with a Bankruptcy Event with respect to such Credit Party, would have accrued on any Obligation, whether or not a claim is allowed against such Credit Party for such interest in the related bankruptcy proceeding), or payments for early termination of Hedging Agreements, fees, expenses, indemnification or otherwise.

"**Obligors' Agent**" as defined in Section 10.24.

"**OFAC**" means the Office of Foreign Assets Control of the United States Department of the Treasury.

"**Offshore**" means a Person organized or formed under the laws of any jurisdiction (other than the PRC).

"**Onshore**" means a Person organized or formed under the laws of the PRC.

"**Onshore Accounts Receivable Pledge**" as defined in Section 5.27(d).

"**Onshore Cash Sweep Certificate**" means an Onshore Cash Sweep Certificate substantially in the form of Exhibit H.

"**Onshore Debt Documents**" means (a) the RMB 100,000,000 授信协议, dated May 31, 2011, by and between China Merchants Bank Company Limited, Shanghai Liyuan Branch, and Hemei Hotel Management (Shanghai) Limited; (b) the RMB 200,000,000 授信协议, dated November 4, 2010, by and between China Merchants Bank Company Limited, Shanghai Wenxi Branch, and 上海如家酒店管理有限公司; (c) the RMB 200,000,000 流动资金最高额借款合同, dated June 21, 2010, by and between Bank of Communications Company Limited, Shanghai Xuhui Branch and Hui Ju Hotel Equipment Leasing (Shanghai) Co., Ltd.; and (d) the RMB 300,000,000 信贷审批书, dated August 28, 2009, made by the Industrial and Commercial Bank of China, Shanghai Branch to Shanghai Huiyi Hotel Equipment Co., Ltd.

"Onshore Distributions" as defined in Section 2.10(g).

"Organizational Documents" means, in relation to a Person, the memorandum and articles of association, articles of incorporation, bylaws, partnership agreements and all similar constitutional or foundational documentation (in each case, as applicable) of that Person.

"Original Financial Statements" means, as of the Closing Date, (a) the audited consolidated financial statements of the Borrower and its Subsidiaries, for each of the Fiscal Years 2008, 2009 and 2010; (b) the audited consolidated financial statements of the Target and Target Subsidiaries for each of the Fiscal Years 2007, 2008, 2009 and 2010; (c) the reviewed consolidated financial statements of the Borrower and its Subsidiaries for each interim accounting period ended subsequent to December 31, 2010 as to which such financial statements are available prior to the Closing Date; and (d) the reviewed consolidated financial statements of Target and its Subsidiaries for each interim accounting period ended subsequent to December 31, 2010 as to which such financial statements are available prior to the Closing Date. For purposes of the foregoing, "financial statements" shall mean balance sheets and the related consolidated statements of income, stockholders' equity and cash flows for the relevant accounting period covered.

"Participant" as defined in Section 10.6(g).

"Participant Register" as defined in Section 10.6(g).

"Participating Member State" means any member state of the European Communities that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Community relating to Economic and Monetary Union.

"Permitted Acquisition" means:

- (a) the Acquisition;
- (b) an acquisition by a Group Member of an asset (i) in the ordinary course of business; or (ii) from another Group Member under circumstances constituting a Permitted Disposal by such other Group Member;
- (c) an acquisition of Equity Interests pursuant to a Permitted Share Issue (other than pursuant to a Permitted Share Issue described in paragraphs (c), (d) and (e) of such definition);
- (d) an acquisition of Securities that are Cash Equivalents so long as those Cash Equivalents become subject to the Transaction Security (subject to the Agreed Security Principles) as soon as is reasonably practicable to the extent held by any Offshore Group Member;

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- (e) the incorporation or formation of a company that on incorporation or formation becomes a Group Member;
 - (f) any acquisition (a "**Business Acquisition**") by any Group Member, whether by purchase, merger or otherwise, of all or substantially all or a portion of the assets of, all or a portion of the Equity Interests of, or an ongoing business (including an ongoing line or unit or a division) of, any Person; provided that:
 - (i) immediately prior to, and after giving effect to the Business Acquisition, no Default or Event of Default shall have occurred and be continuing or would result therefrom;
 - (ii) all transactions in connection with the Business Acquisition shall be consummated, in all material respects, in accordance with all applicable laws and in conformity with all applicable Governmental Authorizations;
 - (iii) no then existing Group Member is or becomes liable (including contingently liable) for any obligations of such Person; and
 - (iv) the Group funds all of the consideration paid or payable in connection with a Business Acquisition (including any repayment of existing Indebtedness acquired as part of such Business Acquisition) from Borrower Equity Proceeds received pursuant to an Excluded Issuance.

"Permitted Disposal" means any Disposal (which except in the case of paragraph (b) below is on arm's length terms):

- (a) of assets of any Group Member in the ordinary course of business;
- (b) of any asset by a Group Member (the "**Disposing Company**") to another Group Member (the "**Acquiring Company**"), but if (and in the case of any Disposal effected from one Group Member to another where both are incorporated in the same jurisdiction, subject to the Agreed Security Principles):
 - (i) the Disposing Company is a Credit Party, the Acquiring Company must also be a Credit Party;
 - (ii) the Disposing Company had given Transaction Security over the asset, the Acquiring Company must give equivalent Transaction Security over that asset; and
 - (iii) the Disposing Company is a Guarantor, the Acquiring Company must be a Guarantor guaranteeing at all times an amount no less than that guaranteed by the Disposing Company;
- (c) of assets of an Onshore Group Member (other than Equity Interests, businesses and Intellectual Property) in exchange for other assets comparable or superior as to type, value and quality (as reasonably determined in good faith by the relevant Onshore Group Member);

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- (d) by an Onshore Group Member of obsolete or redundant vehicles, plant and equipment for cash;
 - (e) of Cash Equivalents for cash or in exchange for other Cash Equivalents;
 - (f) constituted by a license of Intellectual Property rights permitted by Section 5.19;
 - (g) to a Joint Venture, to the extent permitted by Section 6.5;
 - (h) arising as a result of the granting of any Permitted Security;
 - (i) without prejudice to the rights of the Finance Parties under Section 8.1(m), of assets by any seizure, expropriation or nationalization by, or by the order of, any Governmental Authority; or
 - (j) of assets (other than Equity Interests) by any Onshore Group Member for cash and for fair market value where (1) no Event of Default is continuing at the time of such Disposal; (2) the proceeds from such Disposal shall be used to re-invest in the business of the Offshore Group Members within one (1) year from the date of receipt thereof; and (3) the net consideration receivable (when aggregated with the net consideration receivable for any other Disposal not allowed under the preceding paragraphs) does not exceed RMB 65,000,000 (or its equivalent) in total during any Fiscal Year of the Borrower;

provided that except to the extent permitted by clause (b) above, no Disposal of any Equity Interest in any Group Member shall be a Permitted Disposal.

"Permitted Distribution" means:

- (a) the payment of a Dividend by any Group Member to any other Group Member; and
- (b) the payment of a cash dividend by the Borrower to its shareholders; provided that
 - (i) immediately prior to, and after payment of, the dividend, no Event of Default shall have occurred and be continuing or would result therefrom;
 - (ii) as of the date the proposed dividend is to be paid, the outstanding principal amount of the Term Loans is less than US \$125,000,000;
 - (iii) on the Quarterly Date most recently occurring prior to the date the proposed dividend is to be paid, the Leverage Ratio was less than 1.00; and
 - (iv) the total amount of dividends declared and paid by the Borrower in any Fiscal Year shall not exceed an amount equal to 50% of the amount of Onshore Distributions received by the Offshore Group Members during the prior Fiscal Year.

"Permitted Encumbrances" means:

- (a) Liens imposed by law for Taxes, assessments or other governmental charges (i) not yet overdue for a period of more than thirty (30) days; (ii) not yet payable; (iii) not yet subject to penalties for non-payment; or (iv) that are being contested in good faith by appropriate actions diligently conducted for which appropriate reserves have been established in accordance with GAAP;
- (b) Liens imposed by law, such carriers', warehousemen's, materialmen's, repairmen's and mechanics' Liens and statutory Liens of landlords, in each case for sums not yet overdue for a period of more than thirty (30) days or being contested in good faith by appropriate actions if adequate reserves with respect thereto are maintained on the books of such Person in accordance with GAAP; and
- (c) Liens imposed by law securing judgments for the payment of money not constituting an Event of Default under Section 8.1(p); provided that the fair market value of assets encumbered by such Liens shall not exceed US\$10,000,000 (or its equivalent) in the aggregate at any time.

"Permitted Guarantee" means:

- (a) the endorsement of negotiable instruments by Onshore Group Members in the ordinary course of business;
- (b) any performance or similar bond guaranteeing performance by an Onshore Group Member under any contract entered into in the ordinary course of business;
- (c) any guarantee of a Joint Venture to the extent permitted by Section 6.5;
- (d) any guarantee provided under Section 7;
- (e) any guarantee given in respect of the netting or set-off arrangements permitted pursuant to paragraph (b) of the definition of Permitted Security; and
- (f) any indemnity given by a newly acquired or newly formed Onshore Group Member in the ordinary course of the documentation of an acquisition or Disposal transaction that is a Permitted Acquisition, which indemnity is in a customary form and subject to customary limitations.

"Permitted Indebtedness" means Indebtedness:

- (a) arising under the Credit Documents;
- (b) arising under a Permitted Loan or a Permitted Guarantee or as permitted by Section 5.22;
- (c) of any Person acquired by a Group Member in connection with a Permitted Acquisition after the Closing Date that is incurred under arrangements in existence at the date of acquisition, but not incurred or increased or having its maturity date extended in contemplation of, or since, that Permitted Acquisition, and for which no other Group Member is or becomes liable (contingent or otherwise);

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- (d) arising under the Existing 2007 Bond or the Existing 2010 Bond (to the extent existing on the Signing Date); and
 - (e) of Onshore Group Members not otherwise permitted by the preceding paragraphs and used for working capital purposes, that is unsecured and where the outstanding principal amount does not exceed RMB 300,000,000 (or its equivalent) in aggregate for the Onshore Group Members at any time; provided that no more than ninety (90) consecutive days shall pass without the aggregate drawn amount under any such working capital facilities being reduced to RMB 30,000,000 (or its equivalent) or less for a period of at least three (3) consecutive Business Days.

"Permitted Joint Venture" means any investment in any Joint Venture where the Joint Venture is engaged in a business substantially the same as or similar to or a reasonable extension of that carried on by the Group on the Closing Date; and

- (a) if the Joint Venture investment is made by an Onshore Group Member, then in any Fiscal Year, the aggregate amount of (i) all amounts subscribed for shares in, lent to, or invested in all such Joint Ventures by any Onshore Group Member; plus (ii) the contingent liabilities of any Onshore Group Member under any guarantee given in respect of the liabilities of any such Joint Venture; and (iii) the market value of any assets transferred by any Onshore Group Member to any such Joint Venture, does not exceed in the aggregate 15% of the maximum amount of Consolidated Capital Expenditures permitted by Section 6.1(d) in that Fiscal Year; or
- (b) if the Joint Venture investment is made by an Offshore Group Member, then all amounts subscribed for shares in, lent to, or invested in all such Joint Ventures by any Offshore Group Member is funded solely from Borrower Equity Proceeds received in connection with an Excluded Issuance.

"Permitted Loan" means:

- (a) any trade credit extended by any Onshore Group Member to its customers on normal commercial terms and in the ordinary course of business;
- (b) Indebtedness that is referred to in the definition of, or otherwise constitutes, Permitted Indebtedness;
- (c) a loan made to a Joint Venture by an Onshore Group Member to the extent permitted under Section 6.5;
- (d) a loan made by an Offshore Group Member to another Offshore Group Member;
- (e) a loan made by a Onshore Group Member to another Onshore Group Member (including by way of entrustment loans);

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- (f) a loan made by an Offshore Group Member to an Onshore Group Member (i) existing on the Signing Date and listed on Part C of Appendix F and (ii) if such loan is subordinated to the Term Loans on terms consistent with those in the Intercreditor Agreement or otherwise reasonably acceptable to the Facility Agent, and is subject to Transaction Security pursuant to a Collateral Document in form and substance reasonably satisfactory to the Security Agent; and
 - (g) a loan made by a Group Member to an employee or director of any Group Member if the amount of that loan when aggregated with the amount of all loans to employees and directors by Group Members does not exceed US\$500,000 (or its equivalent) at any time.

"Permitted Security" means:

- (a) any Lien arising by operation of law and in the ordinary course of business of an Onshore Group Member and not as a result of any default or omission by any Group Member;
- (b) any netting or set-off arrangement entered into by any Group Member in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances of Group Members but only so long as (i) such arrangement does not permit credit balances of the Credit Parties to be netted or set off against debit balances of Group Members that are not Credit Parties; and (ii) such arrangement does not give rise to other Liens over the assets of Offshore Group Members in support of liabilities of Onshore Group Members;
- (c) any payment or close out netting or set-off arrangement pursuant to any Treasury Transaction or foreign exchange transaction entered into by a Group Member that constitutes Permitted Indebtedness, excluding any Lien or Quasi-Security under a credit support arrangement;
- (d) any Lien or Quasi-Security over or affecting any asset acquired by a Group Member after the Closing Date if:
 - (i) such Lien or Quasi-Security was not created in contemplation of the acquisition of that asset by such Group Member;
 - (ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that asset by such Group Member; and
 - (iii) either (A) such asset was acquired, directly or indirectly, with Borrower Equity Proceeds; or (B) such Lien or Quasi-Security is removed or discharged within three (3) months of the date on which the relevant asset was acquired by the such Group Member, and at no time does such Lien extend to or cover any other asset of any other Group Member;

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- (e) any Lien or Quasi-Security over or affecting any asset of any company that becomes a Group Member after the Closing Date, where the Lien or Quasi-Security is created prior to the date on which that company becomes a Group Member if:
 - (i) such Lien or Quasi-Security was not created in contemplation of the acquisition of that company;
 - (ii) the principal amount secured has not increased in contemplation of or since the acquisition of that company;
 - (iii) such Lien or Quasi-Security does not extend to or cover any other assets of any Group Member; and
 - (iv) either (A) such company was acquired, directly or indirectly, with Borrower Equity Proceeds; or (B) such Lien or Quasi-Security is removed or discharged within three (3) months of the date on which the relevant company became a Group Member, and at no time does such Lien extend to or cover any other asset of any other Group Member;
 - (f) any Lien or Quasi-Security arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to an Onshore Group Member in the ordinary course of business and on the supplier's standard or usual terms and not arising as a result of any default or omission by any Group Member;
 - (g) any Lien or Quasi-Security (existing as at the Signing Date) over assets of any member of the Target Group so long as the Lien or Quasi-Security is irrevocably removed or discharged by no later than the Closing Date;
 - (h) any Permitted Encumbrance;
 - (i) any Quasi-Security arising as a result of a Disposal that is a Permitted Disposal; or
 - (h) any Lien on an asset of an Onshore Group Member that (i) such Onshore Group Member leases pursuant a lease classified under GAAP or other accounting principals as an operating lease; and (ii) is solely the result of the classification of such operating lease under GAAP or other accounting principals.

"Permitted Share Issue" means an issue of:

- (a) Equity Interests by a Group Member to its immediate Holding Company for non-cash consideration where (if the existing Equity Interests of the Subsidiary are the subject of the Transaction Security) the newly-issued shares also become subject to the Transaction Security on the same terms;
- (b) Equity Interests issued by an Onshore Group Member to an Offshore Group Member to satisfy required PRC regulations regarding minimum investment amounts, to the extent (i) the amounts thereof are set forth on (and are made not earlier than the dates indicated in) Appendix G; or (ii) such amounts are funded with (1) Borrower Equity Proceeds that are not otherwise required to be used to prepay the Term Loan; or (2) Retained Onshore Proceeds (as defined in Section 2.11(b)(ii)(5)) at any time when an Event of Default is not continuing;

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- (c) Equity Interests issued by the Borrower in connection with the conversion of the Existing 2007 Bond or the Existing 2010 Bond;
 - (d) Equity Interests issued by the Borrower that constitute Share Consideration (as defined in the Share Purchase Agreement); and
 - (e) Equity Interests issued by the Borrower that result in Borrower Equity Proceeds.

"Permitted Transaction" means:

- (a) any Disposal required, Indebtedness incurred, guarantee, indemnity or Lien or Quasi-Security given, or other transaction arising under or expressly contemplated by, the Credit Documents;
- (b) the solvent liquidation or reorganization of any Onshore Group Member so long as any payments or assets distributed as a result of such liquidation or reorganization are distributed to another Group Member;
- (c) transactions by an Onshore Group Member (other than (i) any Disposal; and (ii) the granting or creation of any Lien or the incurring or permitting to subsist of any Indebtedness) conducted in the ordinary course of business on arm's length terms; or
- (d) transactions by an Offshore Group Member (other than (i) any Disposal; and (ii) the granting or creation of any Lien or the incurring or permitting to subsist of any Indebtedness) conducted in the ordinary course of business of a holding company.

"Person" means and includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, limited liability partnerships, joint stock companies, Joint Ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and Governmental Authorities.

"Platform" as defined in Section 5.6.

"PRC" means the People's Republic of China and for purposes of this Agreement, does not include Hong Kong, Macau or Taiwan.

"PRC Collateral Document" means each Collateral Document governed by the laws of the PRC.

"PRC Property Law" means the Property Law of the People's Republic of China promulgated by the National People's Congress of the PRC on March 16, 2007 and effective on October 1, 2007.

"Price Sensitive Information" as defined in Section 9.5.

"Principal Office" means the Facility Agent's "Principal Office" as set forth on Appendix E, or such other office or office of a third party or sub-agent, as appropriate, as such the Facility Agent may from time to time designate in writing to the Borrower and each Lender.

"Pro Rata Share" means the percentage obtained by dividing (a) an amount equal to the sum of the Term Loan Exposure of a Lender; by (b) an amount equal to the sum of the aggregate Term Loan Exposure of all Lenders.

"Purchaser Material Adverse Effect" means any event or occurrence that, when taken individually or in the aggregate, has or would reasonably be expected to have, a material adverse effect on (i) the business, assets, properties, results of operations or financial condition of Purchaser and the Purchaser Subsidiaries, taken as a whole or (ii) the ability of Purchaser to consummate the transactions contemplated by the Transaction Agreements; provided, however, that in no event shall any of the following, alone or in combination, occurring after Signing Date, be deemed to constitute a Purchaser Material Adverse Effect pursuant to clause (i) hereto, nor shall any event or occurrence, occurring after Signing Date, to the extent relating to or resulting from any of the following be taken into account in determining whether a Purchaser Material Adverse Effect pursuant to clause (i) hereto has occurred or would result: (1) changes in general economic conditions in global or PRC markets (including financial, banking, credit, currency and capital markets); (2) fluctuations in currency exchange rates; (3) changes generally affecting the industry in which Purchaser and the Purchaser Subsidiaries operate; (4) changes in applicable law or in GAAP; (5) any actions taken, or failures to take action in accordance with the terms of this Agreement (other than with respect to Section 5.3) or at the request of Sellers; (6) the commencement or material worsening of a war or armed hostilities or other national or international calamity, or the occurrence of any military or terrorist attack; (7) acts of God or natural disasters; and (8) the announcement, in accordance with the terms of this Agreement, of the Transaction Agreements and the transactions contemplated hereby and thereby, including by reason of the identity of Purchaser, except in the case of clauses (1), (2), (3), (4), (6) and (7), any such change, event, occurrence or effect shall be taken into account if it has or would reasonably be expected to have a materially disproportionate effect on Purchaser and the Purchaser Subsidiaries, taken as a whole, relative to other similarly situated participants in the industry in which they operate. Notwithstanding the first sentence of Section 1.1 of this Agreement, for the purposes of the foregoing definition, (a) capitalized terms used therein shall have the meanings given to them in the Share Purchase Agreement; and (b) any Section referred to therein shall mean a Section in the Share Purchase Agreement.

"Quarterly Date" means each March 31, June 30, September 30 and December 31.

"Quarterly Financial Statements" means the financial statements for a Fiscal Quarter delivered pursuant to Section 5.1(b).

"Quasi-Security" means (a) any sale, transfer or other disposition of any asset on terms whereby they are or may be leased to or re-acquired by the seller thereof; (b) any sale, transfer or other disposition of any receivables on recourse terms; (c) any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or (d) any other preferential arrangement having a similar effect, in each case in circumstances where the arrangement or transaction is entered into primarily as a method of raising Indebtedness or of financing the acquisition of an asset.

"Quotation Day" means, with respect to any Interest Period, the date that is two (2) London Business Days prior to the first day of such Interest Period.

"Recipient" as defined in Section 2.19(b)(ii).

"Reference Bank Rate" means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request by the Reference Banks, as the rate at which the relevant Reference Bank could borrow funds in the Relevant Interbank Market in US\$ and for the relevant period, were it to do so by asking for and then accepting interbank offers for US\$ deposits in a reasonable market size for that period.

"Reference Banks" means the principal London office of each of Credit Suisse AG, JPMorgan Chase Bank, N.A. and BNP Paribas, and such other banks as may be appointed by the Facility Agent in consultation with the Borrower.

"Register" as defined in Section 2.4(b).

"Registrar" as defined in Section 2.4(b).

"Regulation D" means Regulation D of the Board of Governors, as in effect from time to time.

"Regulation FD" means Regulation FD as promulgated by the US Securities and Exchange Commission under the Securities Act and Exchange Act as in effect from time to time.

"Related Fund" means, with respect to any Lender that is an investment fund, any other investment fund that invests in commercial loans and that is managed or advised by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"Related Party" means, with respect to any Finance Party, the head office, any branch offices, representative offices, Subsidiaries, related corporations or Affiliates of such Finance Party.

"Relevant Interbank Market" means the London interbank market; provided that in respect of any Lender that does not regularly participate in the London interbank market, that Lender may designate that its Relevant Interbank Market may be either (a) the jurisdiction of its principal office; or (b) the jurisdiction where it books the Term Loan held by it.

"Relevant Jurisdiction" means, in relation to a Credit Party, (a) its jurisdiction of incorporation; (b) any jurisdiction where any asset subject to or intended to be subject to the Transaction Security to be created by it is situated; (c) any jurisdiction where it conducts its business; and (d) the jurisdiction whose laws govern the perfection of any Transaction Security granted by it.

"Relevant Month" as defined in Appendix D.

"Repeating Representations" means each of the representations set forth in Section 4.1 to Section 4.6, Section 4.10, Section 4.11(f), Section 4.12, Section 4.14 and Section 4.19 to Section 4.21.

"Replacement Lender" as defined in Section 2.22.

"Reports" means (a) the final financial and tax report dated February 15, 2011 prepared by PricewaterhouseCoopers Consultants; and (b) the final legal due diligence report dated February 15, 2011 prepared by Shanghai Pudong Law Office, in each case addressed to the Borrower regarding the Target Group and as updated or otherwise revised prior to the Closing Date.

"Required Annual Onshore Distribution Amount" as defined in Section 5.24.

"Restricted Payment" means (a) any Dividend or other distribution, direct or indirect, on account of any Equity Interests of the Borrower now or hereafter outstanding; (b) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any Equity Interests of the Borrower now or hereafter outstanding; and (c) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire Equity Interests of the Borrower now or hereafter outstanding.

"RMB" means the lawful money of the PRC.

"S&P" means Standard & Poor's Ratings Group, a division of The McGraw Hill Corporation.

"Sanctioned Entity" means (a) a country or a government of a country, an agency of the government of a country, an organization directly or indirectly controlled by a country or its government, or a Person resident in or determined to be resident in a country, that is subject to a country sanctions program administered and enforced by OFAC; (b) Cuba, Sudan, Iran, Myanmar (Burma), Syria or North Korea or a government of any such country, an agency of the government of any such country, an organization directly or indirectly controlled by any such country or its government, or a Person resident in or determined to be resident in any such country; or (c) any other countries or any governments, agencies, organizations or other Persons resident in such countries that are subject to economic or trade sanctions as notified in writing by the Facility Agent (acting on behalf of any Lender) to the Borrower from time to time.

"Sanctioning Governmental Authorities" means the United Nations, the European Union, the State Secretariat for Economic Affairs of Switzerland, OFAC, Her Majesty's Treasury of the United Kingdom, the Hong Kong Monetary Authority, the Monetary Authority of Singapore or any other body notified in writing by the Facility Agent (acting on behalf of any Lender) to the Borrower from time to time.

"Screen Rate" means the British Bankers' Association Interest Settlement Rate for US\$ and for the relevant period displayed on the appropriate page of the Reuters screen LIBOR01 at 11:00 a.m. (London time). If the agreed page is replaced or service ceases to be available, the Facility Agent may specify another page or service displaying the appropriate rate after consultation with the Borrower and the Lenders.

"SEC" means the United States Securities and Exchange Commission.

"Secured Parties" means the Finance Parties and the Hedge Counterparties.

"Securities" means any stock, shares, partnership interests, voting trust certificates, certificates of interest or participation in any profit-sharing agreement or arrangement, options, warrants, bonds, debentures, notes, or other evidences of indebtedness, secured or unsecured, convertible, subordinated or otherwise, or in general any instruments commonly known as "securities" or any certificates of interest, shares or participations in temporary or interim certificates for the purchase or acquisition of, or any right to subscribe to, purchase or acquire, any of the foregoing.

"Securities Act" means the Securities Act of 1933, as amended from time to time, and any successor statute.

"Security Agent" as defined in the first paragraph of this Agreement.

"Sellers" as defined in the Share Purchase Agreement.

"SFO" as defined in Section 9.5.

"Share Purchase Agreement" means the Share Purchase Agreement, dated as of May 27, 2011, by and among the Sellers, the Target, and the Borrower.

"Share Redemption Amounts" has the meaning given to it in the Share Purchase Agreement.

"Shinhan" as defined in the first paragraph hereto.

"Signing Date" means the date of this Agreement.

"Sinking Fund Account" means the interest-bearing Dollar account designated as such (as the same may be re-designated, substituted or replaced with the prior written consent of the Facility Agent from time to time):

- (a) held by the Borrower maintained with the Account Bank;
- (b) that is subject to Transaction Security in form and substance reasonably satisfactory to the Security Agent; and
- (c) from which no withdrawals may be made by the Borrower except as expressly contemplated by this Agreement (and should the Borrower wish to make such a withdrawal it shall confirm to the Facility Agent the basis on which such withdrawal is so expressly contemplated either prior to making such withdrawal or in the relevant payment instruction).

"Solvency Certificate" means a Solvency Certificate executed by the chief financial officer of the Borrower in the form set forth as Exhibit F.

"Solvent" means, with respect to the Borrower and its Subsidiaries, that, on a consolidated basis, as of the date of determination, both (a) (i) the sum of the Group's debt (including contingent liabilities) does not exceed the present fair saleable value of the Group's present assets; (ii) the Group's capital is not unreasonably small in relation to its business as contemplated on such date; and (iii) the Group has not incurred and does not intend to incur, or believe that it will incur, debts beyond its ability to pay such debts as they become due (whether at maturity or otherwise); and (b) the Group is "solvent" within the meaning given that term and similar terms under the Bankruptcy Code and all applicable laws relating to fraudulent transfers, financial assistance and conveyances. For purposes of this definition, the amount of any contingent liability at any time shall be computed as the amount that, in light of all of the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability (irrespective of whether such contingent liabilities meet the criteria for accrual under Statement of Financial Accounting Standard No.5).

"Specified Lender" as defined in Section 2.15(c)(ii).

"Specified Representation" means each representation and warranty set forth in Sections 4.1 through 4.9, 4.11, 4.12, 4.17, 4.18, 4.19 and 4.29 to the extent relating to any Group Members (excluding the Target Group members).

"Sponsor Affiliate" means any Person that directly or indirectly beneficially owns 10% or more of the Equity Interests of the Borrower.

"Subsidiary" means, with respect to any Person, any corporation, partnership, limited liability company, association, joint venture or other business entity of which more than 50% of the total voting power of shares of stock or other ownership interests entitled (without regard to the occurrence of any contingency) to vote in the election of such Person (whether directors, managers, trustees or other Persons performing similar functions) having the power to direct or cause the direction of the management and policies thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof; provided in determining the percentage of ownership interests of any Person controlled by another Person, no ownership interest in the nature of a "qualifying share" of the former Person shall be deemed to be outstanding.

"Syndication Date" means the day that is (a) ninety (90) days after the Closing Date or such earlier date notified by the Initial Mandated Lead Arrangers (acting together) to the Borrower and the Facility Agent in writing as being the date on which the primary syndication of the Term Loans has been completed; or (b) such later date as may be agreed between the Borrower and the Initial Mandated Lead Arrangers and notified to the Facility Agent by the Initial Mandated Lead Arrangers (acting together).

"**Target**" means Motel 168 International Holdings Limited, a company incorporated under the laws of the Cayman Islands.

"**Target Group**" means the Target and the Target Subsidiaries.

"**Target Shares**" means 100% of the issued and outstanding Equity Interests of the Target.

"**Target Subsidiaries**" means any Person of which a majority of the outstanding share capital, voting securities or other equity interests are owned, directly or indirectly, by the Target. For purposes of this Agreement, the Target Subsidiaries shall include any joint venture in which the Target holds, directly or indirectly, at least a fifty percent (50%) interest, including Suzhou Tai De Hotel Management Co. Ltd. (苏州泰得酒店管理有限公司).

"**Tax**" means any present or future tax, levy, impost, duty, assessment, charge, fee, deduction or withholding of any nature and whatever called, by whomsoever, on whomsoever and wherever imposed, levied, collected, withheld or assessed.

"**Term Loan**" means a loan made by a Lender to the Borrower pursuant to Section 2.1(a), and "**Term Loans**" means the aggregate amount of the loans so made or then outstanding, as applicable.

"**Term Loan Commitment**" means the commitment of a Lender to make or otherwise fund a Term Loan and "**Term Loan Commitments**" means such commitments of all Lenders in the aggregate. The amount of each Lender's Term Loan Commitment, if any, is set forth on Appendix A or in the applicable Assignment and Assumption, subject to any adjustment or reduction pursuant to the terms and conditions hereof.

"**Term Loan Exposure**" means, with respect to any Lender, as of any date of determination, the outstanding principal amount of the Term Loans of such Lender; provided that at any time prior to the making of the Term Loans, the Term Loan Exposure of any Lender shall be equal to such Lender's Term Loan Commitment.

"**Terminated Lender**" as defined in Section 2.22.

"**Total Assets**" means, as at any date of determination, the aggregate amount, without duplication, of all assets of the Borrower and its Subsidiaries determined on an unconsolidated basis in accordance with GAAP.

"Total EBITDA" means, for each LTM Period ending on December 31, on an unconsolidated basis in accordance with GAAP, the aggregate amount determined for the Borrower and each of its Subsidiaries, without duplication, of (a) all net income, plus, to the extent reducing such net income for such period, the sum, without duplication, of amounts for (i) total interest expense; (ii) provisions for Taxes based on income; (iii) total depreciation expense; (iv) total amortization expense; (v) other non-cash charges reducing such net income (excluding any such non-cash charge to the extent that it represents an accrual or reserve for potential cash charge in any future period or amortization of a prepaid cash charge that was paid in a prior period); and (vi) net extraordinary, unusual or non-recurring losses or charges; minus (b) to the extent increasing such net income for such period, the sum, without duplication, of amounts for (i) non-cash gains (excluding any such non-cash gain to the extent it represents the reversal of an accrual or reserve for potential cash gain in any prior period); (ii) interest income received, including interest paid-in-kind, during such period; (iii) any gain arising on the purchase by the Borrower or any other Group Member at less than par of any securities issued by the Borrower or such Group Member; and (iv) net extraordinary, unusual or non-recurring gains.

"Transaction Costs" means the fees, costs and expenses payable by the Borrower or any of its Subsidiaries on or about the Closing Date in connection with the Acquisition, including the financing provided hereunder.

"Transaction Documents" means the Credit Documents and the Acquisition Documents.

"Transaction Security" means the Liens created or expressed to be created on any asset of a Credit Party in favor of the Security Agent for the benefit of the Secured Parties pursuant to the Credit Documents.

"Transfer" as defined in Section 10.6(b).

"Treasury Transactions" means any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate, price or credit risk.

"Unperfected Accounts" as defined in Appendix D.

"US", "USA" and "United States" means the United States of America, including its territories and possessions.

"USA Patriot Act" means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56 of the United States, as amended.

"WFOE Share Pledge" as defined in Section 5.27(d).

1.2. Accounting Terms.

Except as otherwise expressly provided herein, all accounting terms not otherwise defined herein shall have the meanings assigned to them, or shall otherwise be interpreted or calculated, in conformity with GAAP, and without duplication. Financial Statements and other information required to be delivered by the Borrower to Lenders pursuant to Section 5.1 shall be prepared in accordance with GAAP as in effect at the time of such preparation; provided that it is acknowledged that financial statements of the Target prepared prior to the Closing Date were prepared in accordance with IFRS and that there shall be no obligation to restate such financial statements or provide a detailed reconciliation with GAAP; and provided further that for the avoidance of doubt, the audited Financial Statements of the Borrower and its Subsidiaries (including the Target Group) for period ending December 31, 2011 shall be prepared in accordance with GAAP. Subject to the foregoing, calculations in connection with the definitions, covenants and other provisions hereof shall utilize accounting principles and policies in conformity with those used to prepare the Borrower's Original Financial Statements. Notwithstanding the foregoing, if there occurs any change in GAAP or in the application thereof after the Signing Date, and either the Borrower notifies the Facility Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of such change on the operation of any definition, covenant or other provision hereof or the Facility Agent notifies the Borrower that the Majority Lenders request an amendment to any provision hereof for such purpose, then (a) the Borrower and the Facility Agent shall negotiate in good faith amendments to the relevant provisions hereof with the intent of having the respective positions of the Lenders and the Borrower after such change in GAAP (or the application of GAAP) conform as nearly as possible to their respective positions as of the Signing Date (and such amendments, once agreed, shall be binding on all parties hereto); and (b) regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance with clause (a) above. In addition and notwithstanding any other provision contained herein, all terms of an accounting or financial nature used herein shall be construed, and all computations of amounts and ratios referred to herein shall be made, without giving effect to any election under Financial Accounting Standards Board Accounting Standards Codification 825 (or any other Financial Accounting Standard having a similar result or effect) to value any Indebtedness or other liabilities of the Borrower or any Subsidiary at "fair value", as defined therein. A reference to "cash" means money, currency or a credit balance on deposit in any bank account.

1.3. Interpretation.

- (a) Any of the terms used or defined herein may, unless the context otherwise requires, be used in the singular or the plural, depending on the reference. References herein to any Section, Appendix, Schedule or Exhibit shall be to a Section, an Appendix, a Schedule or an Exhibit, as the case may be, hereof unless otherwise specifically provided, and the words "this Section" refer to the numeric Section of this Agreement in which such words occur. The use herein of the word "include" or "including", when following any general statement, term or matter, shall not be construed to limit such statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters, whether or not non-limiting language (such as "without limitation" or "but not limited to" or words of similar import) is used with reference thereto, but rather shall be deemed to refer to all other items or matters that fall within the broadest possible scope of such general statement, term or matter. The terms lease and license shall include sub-lease and sub-license, as applicable. The word "or" shall not be deemed to be exclusive. The words "shall" and "will" shall be deemed to have the same meaning. A reference to a Person's knowledge means to the best of its, his or her knowledge and belief (having made due enquiry).

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- (b) Unless a contrary indication appears, a reference in this Agreement to:
- (i) the "Facility Agent", the "Security Agent", a "Mandated Lead Arranger", the "Lead Arranger", any "Finance Party", any "Hedge Counterparty", any "Lender", any "Guarantor", an "Group Member", any "Party" or any "Secured Party" or any other Person shall be construed so as to include its successors in title, permitted assigns and permitted transferees and, in the case of any Agent, any person appointed by such Agent as its sub-agent;
 - (ii) a document in "agreed form" is a document that is previously agreed in writing by or on behalf of the Borrower and the Facility Agent;
 - (iii) any reference to "assets" includes all present and future properties and assets of any type or kind, including revenues and rights of every description (tangible and intangible), and including undertakings and ongoing businesses;
 - (iv) a "Credit Document" or a "Transaction Document" or any other agreement or instrument is a reference to that Credit Document or Transaction Document or other agreement or instrument as amended (however fundamentally), supplemented, extended, restated or replaced from time to time in accordance with the terms thereof (whether or not such amendment, supplement, extension, restatement or replacement contemplated as at the Signing Date), and including cases where the amendments concerned involve an increase, extension or other change (however material) to any facility or the grant of any additional facility (however material);
 - (v) a reference to a "guarantee" means (other than in Section 7) any guarantee, letter of credit, bond, indemnity or similar assurance against loss, or any obligation, direct or indirect, actual or contingent, to purchase or assume any indebtedness of any Person or to make an investment in or loan to any Person or to purchase assets of any Person where, in each case, such obligation is assumed in order to maintain or assist the ability of such Person to meet its indebtedness;
 - (vi) "indebtedness" includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
 - (vii) a provision of law is a reference to that provision as amended or re-enacted;
 - (viii) a time of day (including close of business) is a reference to Hong Kong time;
 - (ix) Section, Clause and Schedule headings and the Table of Contents are for ease of reference only;

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- (x) a Default (excluding an Event of Default) shall be deemed "continuing" if it has not been remedied or waived in writing, and an "Event of Default" shall be deemed continuing until either (A) it has been waived in writing; or (B) solely with respect to any Event of Default (if fully remediable) that an Authorized Officer of the Borrower has certified to the Facility Agent as having been fully remedied by the Credit Parties (including a description of the remedial actions taken by the Credit Parties in reasonable detail), (1) a period of sixty (60) days has passed from the date (such date, the "**Certification Date**") on which the Facility Agent received such certificate (or if any additional information that could reasonably be expected to be material to a Lender's decision concerning such Event of Default or any remedial actions taken by the Borrower is requested by the Facility Agent during such sixty (60) day period, then such period shall instead end on the later of (x) the date that is sixty (60) days after the Certification Date; and (y) the date that is ten (10) Business Days after the date on which the Facility Agent has received all such requested information from the Borrower) during which period the Facility Agent has not received notices from Lenders having or holding Term Loan Exposure representing at least 33.334% of the aggregate Term Loan Exposure of all Lenders indicating that they disagree that such Event of Default has been fully remedied; and (2) a period of six (6) months has passed from the Certification Date during which period the Majority Lenders have not taken any of the actions set forth in the last paragraph of Section 8.1; and
- (xi) any reference to "applicable law" means any statute, law, regulation, ordinance, rule, judgment, order, decree, permit, concession, grant, franchise, license, agreement, directive (with binding effect), approval, filing, registration, requirement of, or other restriction imposed by, or any similar form of decision of or determination by, or any interpretation or determination of any of the foregoing by, any Governmental Authority, in each case whether now or hereafter in effect, and a "regulation" includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any Governmental Authority.

SECTION 2. LOANS

2.1. Term Loans.

- (a) Loan Commitments. Subject to the terms and conditions hereof, each Lender severally agrees to make, on the Closing Date, a Term Loan to the Borrower in an amount up to such Lender's Term Loan Commitment. The Borrower may make only one borrowing of the Term Loan Commitments on the Closing Date, which shall be a Business Day that falls on or prior to the last day of the Certain Funds Period. Any Term Loan amount that is borrowed and subsequently repaid or prepaid may not be reborrowed. Subject to Sections 2.9(a) and 2.10, all amounts owed hereunder with respect to the Term Loans shall be paid in full no later than the Final Maturity Date. Each Lender's undrawn Term Loan Commitment shall terminate immediately and without further action at the close of business on the last day of the Certain Funds Period.

(b) Borrowing Mechanics for Term Loans.

- (i) The Borrower shall deliver to the Facility Agent a fully executed Funding Notice by 11:00 a.m. (Hong Kong time) at least three (3) Business Days prior to the proposed Closing Date. Such Funding Notice shall be irrevocable. Promptly upon receipt by the Facility Agent of such Funding Notice, the Facility Agent shall notify each Lender of the proposed borrowing.
- (ii) On the date designated by the Borrower to be the Closing Date in the Funding Notice, each Lender shall (A) make its Term Loan available to the Facility Agent by wire transfer of immediately available funds in Dollars to the Facility Agent at the Principal Office and to an account in New York City designated by the Facility Agent; and (B) provide the Facility Agent with a copy of an MT 202 confirming such wire transfer (each, a "**Funding Confirmation**") not later than 10:00 a.m. (Hong Kong time) on the Closing Date.
- (iii) Upon (1) satisfaction or waiver of the conditions precedent specified in Section 3.1 on the CP Satisfaction Date, and (2) the receipt by the Facility Agent of a duly executed Disbursement Certificate by 8:00 a.m. (Hong Kong time) on the Closing Date, the Facility Agent shall (A) make the proceeds of the Term Loans available to the Borrower on the Closing Date by causing an amount of immediately available funds in Dollars equal to the aggregate amount of funds wired to the Facility Agent pursuant to the MT 202 Funding Confirmations received by the Facility Agent pursuant to clause (ii) above to be remitted to the Persons set forth in the Letter of Direction delivered to the Facility Agent by the Borrower pursuant to Section 3.1(1); and (B) after the remittance of such funds to such Persons, promptly, and in any event no later than 2:30 p.m. (Hong Kong time) on the Closing Date, provide the Borrower a copy of an MT 103 confirming such wire transfers to such Persons set forth in the Letter of Direction.

(c) Certain Funds.

- (i) Subject to the satisfaction of the terms and conditions of Section 3.1, during the Certain Funds Period, the Lenders will only be required to comply with Section 2.1(a) in relation to a proposed borrowing if, on the date of the Funding Notice, on the CP Satisfaction Date and on the Closing Date:
 - (1) no Major Default is continuing or would result from the proposed borrowing; and
 - (2) all the Major Representations are true and correct in all respects.

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- (ii) During the Certain Funds Period (except in circumstances where, pursuant to paragraph (i) above, a Lender is not required to comply with Section 2.1(a)), none of the Finance Parties shall be entitled to:
- (1) cancel any of its Term Loan Commitments to the extent to do so would prevent or limit the making of a Term Loan except as permitted under Section 2.16;
 - (2) rescind, terminate or cancel this Agreement or exercise any similar right or remedy or make or enforce any claim under the Credit Documents it may have to the extent to do so would prevent or limit the making of a Term Loan;
 - (3) refuse to participate in the making of a Term Loan; or
 - (4) exercise any right of set-off or counterclaim in respect of a borrowing request to the extent to do so would prevent or limit the making of a Term Loan;

provided that immediately following expiration of the Certain Funds Period, all such rights, remedies and entitlements shall be fully available to the Finance Parties notwithstanding that they may not have been used or been available for use during the Certain Funds Period.

2.2. Pro Rata Shares; Availability of Funds.

- (a) Pro Rata Shares. All Term Loans shall be made by the Lenders simultaneously and proportionately to their respective Pro Rata Shares, it being understood that no Lender shall be responsible for any default by any other Lender in such other Lender's obligation to make a Term Loan requested hereunder nor shall any Term Loan Commitment of any Lender be increased or decreased as a result of a default by any other Lender in such other Lender's obligation to make a Term Loan requested hereunder. All payment and prepayments of the Term Loans shall be made and applied among the Lenders proportionately to their respective Pro Rata Shares.
- (b) Availability of Funds. Unless the Facility Agent shall have been notified by any Lender prior to the Closing Date that such Lender does not intend to make available to the Facility Agent the amount of such Lender's Term Loan requested on the Closing Date, the Facility Agent may assume that such Lender has made such amount available to the Facility Agent on the Closing Date and the Facility Agent may, in its sole discretion, but shall not be obligated to, make available to the Borrower a corresponding amount on the Closing Date. If such corresponding amount is not in fact made available to the Facility Agent by such Lender, the Facility Agent shall be entitled to recover such corresponding amount on demand from such Lender together with interest thereon, for each day from the Closing Date until the date such amount is paid to the Facility Agent, at the customary rate set by the Facility Agent to reflect its cost of funds. If such Lender does not pay such corresponding amount forthwith upon the Facility Agent's demand therefor, the Facility Agent shall promptly notify the Borrower, and the Borrower shall immediately pay such corresponding amount to the Facility Agent together with interest thereon, for each day from the Closing Date until the date such amount is paid to the Facility Agent, at the higher of (i) the rate payable hereunder for the Term Loans; and (ii) the customary rate set by the Facility Agent to reflect its cost of funds. Nothing in this Section shall be deemed to relieve any Lender from its obligation to fulfill its Term Loan Commitments hereunder or to prejudice any rights that the Borrower may have against any Lender as a result of any default by such Lender hereunder.

2.3. Use of Proceeds.

The proceeds of the Term Loans made on the Closing Date shall be applied by the Borrower to (a) fund a portion of the Cash Consideration; and (b) pay Transaction Costs. No portion of the proceeds of any Term Loan shall be used in any manner that causes or might cause such Term Loan or the application of such proceeds to violate Regulation T, Regulation U or Regulation X of the Board of Governors or any other regulation thereof or to violate any provision of the Exchange Act.

2.4. Evidence of Debt; Register; Lenders' Books and Records; Notes.

- (a) Lenders' Evidence of Debt. Each Lender shall maintain on its internal records an account or accounts evidencing the Obligations of the Borrower to such Lender, including the amounts of the Term Loans made by it and each repayment and prepayment in respect thereof. Any such recordation shall be conclusive and binding on the Borrower, absent manifest error; provided that the failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's Obligations in respect of any Term Loans; and provided further that in the event of any inconsistency between the Register and any Lender's records, the recordations in the Register shall govern.
- (b) Register. The Borrower hereby designates the Facility Agent (the "**Registrar**") to serve as the Borrower's agent solely for purposes of maintaining at the Principal Office a register for the recordation of the names and addresses of the Lenders and the Term Loans of each Lender from time to time (the "**Register**"). The Register shall be available for inspection by the Borrower or any Lender (with respect to any entry relating to such Lender's Term Loans) at any reasonable time and from time to time upon reasonable prior notice. The Registrar shall record, or shall cause to be recorded, in the Register the Term Loans in accordance with the provisions of Section 10.6, and each repayment or prepayment in respect of the principal amount of the Term Loans, and any such recordation shall be conclusive and binding on the Borrower and each Lender, absent manifest error; provided that failure to make any such recordation, or any error in such recordation, shall not affect any of the Borrower's or any other Guarantor's Obligations in respect of any Term Loan. The Borrower hereby agrees that the Registrar (in such capacity) and its officers, directors, employees, agents, sub-agents and Affiliates shall constitute "Indemnitees."

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- (c) Notes. If so requested by any Lender by written notice to the Borrower (with a copy to the Facility Agent) at any time after the Signing Date, the Borrower shall execute and deliver to such Lender (or, if applicable and if so specified in such notice, to any New Lender pursuant to Section 10.6) a Note to evidence such Lender's Term Loan. The Borrower shall execute and deliver to the applicable Lender any such Note within five (5) Business Days of the date on which any such request is received by the Borrower.

2.5. Interest on Loans.

- (a) Except as otherwise set forth herein, the Term Loans shall bear interest on the unpaid principal amount thereof from the date made through repayment (whether by acceleration or otherwise) thereof at a rate equal to LIBOR plus the Margin plus the Liquidity Premium.
- (b) The Interest Period with respect to the Term Loans shall be selected by the Borrower and notified to the Facility Agent and Lenders pursuant to the applicable Funding Notice or Interest Rate Notice, as the case may be; provided that until the Syndication Date, the Borrower agrees that the Term Loans shall have an Interest Period of one (1) Month (or such shorter period elected by the Borrower after consultation with the Initial Mandated Lead Arrangers). The Funding Notice and each Interest Rate Notice shall be executed by an Authorized Officer of the Borrower and delivered to the Facility Agent and shall be irrevocable. Interest Rate Notices must be delivered at least five (5) Business Days prior to the first day of any Interest Period in which an election set forth therein is made.
- (c) There shall be no more than four (4) Interest Periods outstanding at any time. In the event the Borrower fails to specify an Interest Period for the Term Loans in the Funding Notice or to deliver an Interest Rate Notice, the Borrower shall be deemed to have selected an Interest Period of three (3) Months. The Facility Agent shall promptly give notice thereof (in writing or by telephone confirmed in writing) to the Borrower and each Lender of a rate of interest under this Agreement.
- (d) Interest payable pursuant to Section 2.5(a) shall be computed on the basis of a 360-day year for the actual number of days elapsed in the period during which it accrues. In computing interest on the Term Loans, the date of the making of the Term Loans or the first day of an Interest Period applicable to the Term Loans shall be included, and the date of payment of the Term Loans or the expiration date of an Interest Period applicable to the Term Loans shall be excluded.

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- (e) Interest on the Term Loans shall accrue on a daily basis and shall be payable in arrears (i) on each Interest Payment Date with respect to interest accrued on and to each such payment date; (ii) upon any prepayment of that Term Loan, whether voluntary or mandatory, to the extent accrued on the amount being prepaid; and (iii) at the Final Maturity Date.
- (f) On each day on which principal or interest on the Term Loans or the Existing 2010 Bond is due and payable, such amounts shall be paid by the Borrower in the following manner and order:
- (i) *first*, principal on the Term Loans or the Existing 2010 Bonds shall be paid by the Borrower from the Available Cash of the Offshore Group Members;
 - (ii) *second*, if the aggregate amount of Available Cash of the Offshore Group Members is more than US\$5,000,000, interest on the Term Loans or the Existing 2010 Bonds shall be paid by the Borrower from the Available Cash of the Offshore Group Members until such time as the aggregate amount of such cash is equal to US\$5,000,000;
 - (iii) *third*, if the aggregate amount of Available Cash of the Offshore Group Members is equal to or less than US\$5,000,000, the Borrower shall have the right to elect to (A) apply funds on deposit in the Interest Reserve Account to the payment of interest then due in respect of the Term Loans; or (B) wire funds on deposit in the Interest Reserve Account to the Trustee (as defined in the Existing 2010 Bond documents) to be applied to the payment of interest then due in respect of the Existing 2010 Bonds; and
 - (iv) *thereafter*, interest on the Term Loans or the Existing 2010 Bonds shall be paid by the Borrower from the Available Cash of the Offshore Group Members.

Any such election by the Borrower under clause (iii) above shall be made in writing to the Facility Agent by an Authorized Officer of the Borrower by 11:00 a.m. (Hong Kong time) at least three (3) Business Days prior to the applicable Interest Payment Date or date on which interest is due in respect of the Existing 2010 Bonds, and shall be accompanied by the Borrower's confirmation of the amount of Available Cash of the Offshore Group Members, in sufficient detail to demonstrate the amount that should be withdrawn from the Interest Reserve Account in compliance with the terms of this Agreement. The existence and use of an Interest Reserve Account (and the provisions of this Section) are not a permitted alternative to timely payment of interest, and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of the Facility Agent or any Lender.

- (g) (i) Subject to clause (ii) below, if two or more Interest Periods end on the same date, the relevant Term Loans shall, unless the Borrower specifies to the contrary in the Interest Rate Notice for the next Interest Period, be consolidated into, and treated as, a single Term Loan on the last day of the ending Interest Period.

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- (ii) Subject to clause (c) of this Section, if the Borrower requests in an Interest Rate Notice that a Term Loan be divided into two or more Term Loans with different Interest Periods, such Term Loan will, on the last day of its Interest Period, be so divided with the principal amounts specified in such Interest Rate Notice, having an aggregate principal amount equal to the principal amount of such Term Loan immediately before its division.

2.6. Default Interest.

Upon the occurrence and during the continuance of an Event of Default under Section 8.1(a), all amounts under this Agreement that remain unpaid after their respective due dates shall thereafter bear interest (including post-petition interest in any proceeding under applicable laws relating to a Bankruptcy Event) payable on demand at a rate that is 200 basis points (2% per annum) in excess of the interest rate otherwise payable hereunder with respect to the Term Loans for successive Interest Periods each with a duration selected by the Facility Agent. Payment or acceptance of the increased rates of interest provided for in this Section is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of the Facility Agent or any Lender.

2.7. Fees.

- (a) The Borrower agrees to pay to the Lenders a commitment fee (the "**Commitment Fee**"), which fee shall accrue at a rate of 1.40% per annum on the undrawn portion of the Term Loan Commitments, commencing thirty (30) days after the Signing Date. The Commitment Fee shall be payable in arrears on the earlier of (i) the Closing Date and (ii) November 25, 2011. The Commitment Fee shall be paid to the Facility Agent and upon receipt thereof, the Facility Agent shall promptly distribute to each Lender its Pro Rata Share.
- (b) The Borrower agrees to pay to the Initial Mandated Lead Arrangers such fees in the amounts and at the times as set forth in the Fee Letter.
- (c) The Borrower agrees to pay to the Agents such other fees in the amounts and at the times as set forth in any fee letter executed by them (the "**Agent's Fee Letter**").

2.8. Scheduled Payments/Commitment Reductions.

The principal amounts of the Term Loans shall be repaid in consecutive installments (each, an "**Installment**") on each of the dates (each, an "**Amortization Date**") and in the aggregate amounts set forth in the table below:

<u>Amortization Date</u>	<u>Installment</u>	
July 31, 2012	US\$	55,000,000
July 31, 2013	US\$	60,000,000
July 31, 2014	US\$	65,000,000
September 15, 2015	US\$	60,000,000
Total	US\$	240,000,000

Notwithstanding the foregoing, (x) such Installments shall be reduced in connection with any voluntary or mandatory prepayments of the Term Loans in accordance with Sections 2.9, 2.10 and 2.11, as applicable; (y) such Installments shall be reduced pro rata if the Borrower fails to borrow the full amounts of the Term Loan Commitments on the Closing Date; and (z) all principal amounts of the Term Loans, together with all other amounts owed hereunder with respect thereto, shall, in any event, be paid in full no later than the Final Maturity Date.

2.9. Voluntary Prepayments.

- (a) At any time and from time to time, upon not less than three (3) Business Days prior written notice, the Borrower may prepay the Term Loans on any Business Day in whole or in part, but if in part in an aggregate minimum amount of US\$1,000,000 and integral multiples of US\$500,000.
- (b) The Borrower shall deliver such notice of prepayment to the Facility Agent by 10:00 a.m. (Hong Kong time) on the date required. Upon the giving of any such notice, the principal amount of the Term Loans specified therein shall become due and payable on the prepayment date so specified. Such notice shall be irrevocable, and any such voluntary prepayment shall be applied as specified in Section 2.11(a).

2.10. Mandatory Prepayments and Certain Uses.

- (a) Insurance/Condemnation Proceeds - Offshore. No later than the fifth Business Day following the date of receipt by any Offshore Group Member, or the Security Agent as loss payee, of any Net Insurance/Condemnation Proceeds, the Borrower shall prepay the Term Loans as set forth in Section 2.11 in an aggregate amount equal to such Net Insurance/Condemnation Proceeds.
- (b) Insurance/Condemnation Proceeds - Onshore. No later than the fifth Business Day following the date of receipt by any Onshore Group Member of any Net Insurance/Condemnation Proceeds, such funds shall be placed in a segregated bank account of the relevant Onshore Group Member, and such funds may be used by the Onshore Group Members (i) for the purposes of investing in assets of the general type used in the business of the Onshore Group Members, which investment may include the repair, restoration or replacement of the applicable assets thereof, but only to the extent that the use of such proceeds is committed within three (3) months, and actually applied within one (1) year of the date of receipt thereof, and (ii) for any other purposes with the prior written consent of the Majority Lenders.

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- (c) Issuance of Equity Securities. No later than the fifth Business Day following the date of receipt by the Borrower of any Borrower Equity Proceeds (other than if received pursuant to an Excluded Issuance), the Borrower shall prepay the Term Loans as set forth in Section 2.11 in an aggregate amount equal to 50% of such Borrower Equity Proceeds, net of attorneys' fees, investment banking fees, accountants' fees, underwriting discounts and commissions and other customary costs and expenses actually incurred in connection therewith.
- (d) Issuance of Debt. No later than the fifth Business Day following the date of receipt by the Borrower or any other Group Member of the cash proceeds from the incurrence of any Indebtedness (other than Permitted Indebtedness) by the Borrower or any Group Member, the Borrower shall prepay the Term Loans as set forth in Section 2.11 in an aggregate amount equal to 100% of such cash proceeds, net of attorneys' fees, investment banking fees, accountants' fees, underwriting discounts and commissions and other customary costs and expenses actually incurred in connection therewith. For the avoidance of doubt, notwithstanding the foregoing, the Borrower shall be required to obtain the consent of the Majority Lenders prior to any Group Member incurring any Indebtedness that is not Permitted Indebtedness.
- (e) Certain Recoveries. No later than the fifth Business Day following the date of receipt by the Borrower or any other Group Member of any cash proceeds from the settlement of any claims against, or collection of any judgments rendered in respect of or from, the Sellers under the Share Purchase Agreement or the providers of any Report (in each case excluding amounts received by the Borrower reflecting an adjustment for working capital, third party claims or replacement or reinstatement of relevant assets that are committed within ninety (90) days and actually made within one (1) year from the date of receipt of the proceeds thereof), the Borrower shall prepay the Term Loans as set forth in Section 2.11 in an aggregate amount equal to 100% of such proceeds (including any such proceeds received by way of deferred payment of principal pursuant to a note or installment receivable or purchase price adjustment) net of investment banking fees and other customary fees and expenses actually incurred in connection therewith and net of taxes paid or reasonably expected to be payable as a result thereof.
- (f) Early Termination of Hedging Agreements. No later than the fifth Business Day following the date of receipt by the Borrower or any other Group Member of any cash proceeds from the early termination of any Currency Agreements or Interest Rate Agreements, the Borrower shall prepay the Term Loans as set forth in Section 2.11 in an aggregate amount equal to 100% of such cash proceeds; provided that no such prepayment shall be required to the extent such cash proceeds are used by the Borrower to enter into a replacement Currency Agreement or Interest Rate Agreement, as the case may be, within thirty (30) days of the date such proceeds are received.

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- (g) Offshore Cash Sweep. No later than the fifth Business Day following the date of receipt by the Borrower or any other Offshore Group Member of any Dividends (other than Dividends declared pursuant to Section 5.28) from any Onshore Group Member (the "**Onshore Distributions**"), the Borrower shall use such cash proceeds to, *inter alia*, prepay the Term Loans to the extent set forth in Section 2.11(b) (ii).
 - (h) Change of Control. The Borrower shall promptly notify the Facility Agent as soon as it becomes aware of any actual or pending Change of Control. Upon the occurrence of a Change of Control, all Term Loan Commitments shall terminate, and all outstanding Term Loans, together with accrued interest and all other amounts accrued under the Credit Documents shall be immediately due and payable.
 - (i) Prepayment Certificate. With respect to any prepayment of the Term Loans pursuant to Sections 2.10(a) through 2.10(f), at least three (3) Business Days prior to such prepayment, the Borrower shall deliver to the Facility Agent (by 10:00 a.m. (Hong Kong time) on the date required) a certificate of an Authorized Officer demonstrating the calculation of the amount required to be prepaid, including the applicable net proceeds, excluded proceeds, cash holdings, etc. At least five (5) Business Days prior to each prepayment of the Term Loans made pursuant to Section 2.10(g), the Borrower shall deliver an Onshore Cash Sweep Certificate to the Facility Agent (by 10:00 a.m. (Hong Kong time)). In the event that the Borrower shall subsequently determine that the actual amount received or applied exceeded the amount set forth in any of the foregoing certificates, or that any additional amount was or should have been used to prepay the Term Loans, the Borrower shall promptly make an additional prepayment of the Term Loans in an amount equal to such amount, and the Borrower shall concurrently therewith deliver to the Facility Agent an updated certificate of an Authorized Officer demonstrating the derivation of such amount.
 - (j) Minimum Prepayment Amounts. Notwithstanding the foregoing, the Borrower shall only be required to effect a prepayment of the Term Loans if and to the extent the proceeds required to so prepay the Term Loans under each of Sections 2.10(a), (c), (d), (e) and (f) total in the aggregate US\$1,000,000 or more at any time after the Signing Date.

2.11. Application of Prepayments/Reductions.

- (a) Application of Voluntary Prepayments. Any prepayment of the Term Loans made pursuant to Section 2.9(a) shall be applied as specified by the Borrower in the applicable notice of prepayment; provided that in the event the Borrower fails to specify how any such prepayment shall be applied, such prepayment shall be applied to reduce the scheduled remaining Installments of the Term Loans in forward order of maturity.
- (b) Application of Mandatory Prepayments.
 - (i) Any prepayment of the Term Loans required to be made pursuant to Section 2.10(a) and Sections 2.10(c) through 2.10(f) shall be applied to reduce on a pro rata basis the remaining scheduled Installments of the Term Loans; provided that notwithstanding paragraph (a) above, any such prepayments that are required to be made prior to the Closing Date shall instead reduce the amount of the Commitments by an equal amount, and the proceeds thereof may be retained by the Borrower.

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- (ii) Any prepayment of the Term Loans made pursuant to Section 2.10(g) shall be applied within five (5) Business Days following the receipt of the proceeds of Onshore Distributions as follows:
- (1) *first*, to the extent an Event of Default is continuing under Section 8.1(a) due to any amount of principal or interest on the Term Loans then being due and payable hereunder but not yet paid, an amount equal thereto shall be remitted to the Mandatory Prepayment Account and used to pay such amounts;
 - (2) *second*, to the extent the aggregate amount of Available Cash then held by the Offshore Group Members is less than US\$5,000,000, the Borrower (or the relevant Offshore Group Member) shall be permitted to retain such proceeds (and use such proceeds as it elects, subject to compliance with the terms of this Agreement) to the extent required to ensure that on the date of such application, the aggregate amount of Available Cash then held by the Offshore Group Members plus the amount of funds so retained is equal to US\$5,000,000 (after taking into account the application of funds under this Section (b)(ii));
 - (3) *third*, the remainder of such proceeds shall be remitted to the Interest Reserve Account to the extent required to ensure that on such date, the balance thereof equals the Minimum IRA Balance Amount; and
 - (4) *fourth*, to the extent (A) the amount of Available Cash of the Offshore Group Members minus US\$5,000,000 is less than (B) the US\$ equivalent of the then Existing 2007 Bond Redemption Amount minus the amount on deposit in the Sinking Fund Account, the Borrower may remit the remainder of such proceeds to the Sinking Fund Account until the amount on deposit in the Sinking Fund Account equals the US\$ equivalent of the then Existing 2007 Bond Redemption Amount; and
 - (5) *fifth*, 100% of the remainder of such proceeds shall be used to prepay the Term Loans, and applied in forward order of maturity to the remaining scheduled Installments thereof; provided that if on the date of receipt by the Borrower (or the relevant Offshore Group Member) of such Onshore Distributions the outstanding principal amount of the Term Loans is less than US\$125,000,000, then instead the remainder of such proceeds in an amount equal to 50% of the original amount of the Onshore Distributions (or the remaining balance of the proceeds, if such amount is less) shall be used to prepay the Term Loans and applied in the foregoing manner, and any remainder following such application ("Retained Onshore Proceeds") may be retained by the Borrower (or the relevant Offshore Group Member) and used as it elects, subject to compliance with the terms of this Agreement.

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- (iii) The Borrower agrees that the proceeds from Onshore Distributions shall not be used, directly or indirectly, to fund the purchase, redemption or repayment of the Existing 2007 Bond or the Existing 2010 Bond (other than by way of funding the Sinking Fund Account in accordance with the terms of this Section); provided that the Borrower may use Retained Onshore Proceeds for such purposes if it would otherwise be permitted to use such proceeds to declare and pay a dividend to its shareholders pursuant to a Permitted Distribution.
- (c) Minimization of Break Funding Costs.
- (i) Subject to paragraph (ii) below, the Borrower may elect that any prepayment of the Term Loans required under Section 2.10 be applied in prepayment of the Term Loans on the last day of the Interest Period relating thereto. If the Borrower makes that election, then the relevant proceeds shall be remitted to the Mandatory Prepayment Account (to the extent not already on deposit therein), and a proportion of the Term Loans equal to the amount of the relevant prepayment will be due and payable on the last day of the relevant Interest Period.
- (ii) If the Borrower has made an election under paragraph (i) above but an Event of Default has occurred and is continuing, that election shall no longer apply and a proportion of the Term Loans in respect of which the election was made equal to the amount of the relevant prepayment shall be immediately due and payable (unless the Majority Lenders otherwise agree in writing), and the Borrower shall (or the Facility Agent may, pursuant to Section 2.12(f)) apply the relevant proceeds on deposit in the Mandatory Prepayment Account to make such payment.

2.12. General Provisions Regarding Payments.

- (a) All payments by the Borrower of principal, interest, fees and other Obligations shall be made in Dollars in immediately available funds, without defense, set-off or counterclaim, free of any restriction or condition, and delivered to the Facility Agent (or the Initial Mandated Lead Arrangers, if applicable) not later than 11:00 a.m. (New York time) (or such other customary time specified by the Facility Agent to the Borrower from time to time by prior written notice) on the due date at the Principal Office.

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- (b) The Facility Agent shall deem any payment by or on behalf of the Borrower hereunder that is not made in immediately available funds prior to 11:00 a.m. (New York time) (or such other customary time specified by the Facility Agent to the Borrower from time to time by prior written notice) to be a non-conforming payment. Any such payment shall not be deemed to have been received by the Facility Agent until the later of (i) the time such funds become immediately available funds; and (ii) the applicable next Business Day. The Facility Agent shall give prompt notice to the Borrower and each applicable Lender if any payment is non-conforming. Any non-conforming payment may constitute or become a Default or Event of Default in accordance with the terms of Section 8.1(a). Interest shall continue to accrue on any principal as to which a non-conforming payment is made until such funds become immediately available funds (but in no event less than the period from the date of such payment to the next succeeding applicable Business Day) at the rate determined pursuant to Section 2.6 from the date such amount was due and payable until the date such amount is paid in full.
 - (c) All payments in respect of the principal amount of any Term Loan shall be accompanied by payment of accrued interest on the principal amount being repaid or prepaid, and all such payments (and, in any event, any payments in respect of any Term Loan on a date when interest is due and payable with respect to such Term Loan) shall be applied to the payment of interest then due and payable before application to principal, or as otherwise set forth in the Intercreditor Agreement.
 - (d) The Facility Agent (or its agent or sub-agent appointed by it) shall promptly distribute to each Lender to such account as such Lender shall indicate in writing, such Lender's applicable Pro Rata Share of all payments and prepayments of principal and interest due hereunder, together with all other amounts due thereto, including all fees payable with respect thereto, to the extent received by the Facility Agent.
 - (e) Whenever any payment to be made hereunder with respect to any Term Loan shall be stated to be due on a day that is not a Business Day, such payment shall instead be made on the next succeeding Business Day, unless such next succeeding Business Day falls in the next calendar month, in which case such payment shall instead be made on the first preceding Business Day.
 - (f) The Borrower hereby authorizes the Facility Agent to charge the Interest Reserve Account and the Mandatory Prepayment Account in order to cause timely payment to be made to the Facility Agent of all principal, interest, fees and expenses due hereunder or any other fund transfers specified herein (subject to sufficient funds being available in the Interest Reserve Account and the Mandatory Prepayment Account for that purpose).
 - (g) If an Event of Default shall have occurred and the maturity of the Obligations shall have been accelerated pursuant to Section 8.1, then all payments or proceeds received by the Agents hereunder in respect of any of the Obligations, shall be applied in accordance with the application arrangements described in the Intercreditor Agreement.

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- (h) Where a sum is to be paid to the Facility Agent under the Credit Documents for another party under this Agreement, the Facility Agent is not obliged to pay such sum to such other party (or to enter into or perform any related exchange contract) until it has been able to establish to its satisfaction that it has actually received (or will receive, in the case of the disbursement of the Term Loans) such sum; and if the Facility Agent pays an amount to another party under this Agreement and it proves to be the case that the Facility Agent has not or does not actually receive such amount, then the party to whom such amount (or the proceeds of any related exchange contract) was paid by the Facility Agent shall on demand refund the same to the Facility Agent together with interest on such amount from the date payment of the date of receipt by the Facility Agent, calculated by the Facility Agent to reflect its cost of funds.

2.13. Ratable Sharing.

The Lenders hereby agree among themselves that if any of them shall, whether by voluntary payment (other than a voluntary prepayment of Term Loans made and applied in accordance with the terms hereof), through the exercise of any right of set-off or banker's lien, by counterclaim or cross action or by the enforcement of any right under the Credit Documents or otherwise, receive payment or reduction of a proportion of the aggregate amount of principal, interest, fees and other amounts then due or owing to such Lender hereunder or under the other Credit Documents (collectively, the "**Aggregate Amounts Due**" to such Lender), which amount is greater than the proportion received by any other Lender in respect of the Aggregate Amounts Due to such other Lender, then the Lender receiving such proportionately greater payment shall (a) notify the Facility Agent and each other Lender of the receipt of such payment; and (b) apply a portion of such payment to purchase participations (which it shall be deemed to have purchased from each seller of a participation simultaneously upon the receipt by such seller of its portion of such payment) in the Aggregate Amounts Due to the other Lenders so that all such recoveries of Aggregate Amounts Due shall be shared by all Lenders in proportion to the Aggregate Amounts Due to them; provided that if all or part of such proportionately greater payment received by such purchasing Lender is thereafter recovered from such Lender upon a Bankruptcy Event in respect of the Borrower or otherwise, those purchases shall be rescinded and the purchase prices paid for such participations shall be returned to such purchasing Lender ratably to the extent of such recovery, but without interest. Each Credit Party expressly consents to the foregoing arrangement and agrees that any holder of a participation so purchased may exercise any and all rights of banker's lien, set-off or counterclaim with respect to any and all monies owing by such Credit Party to that holder with respect thereto as fully as if that holder were owed the amount of the participation held by that holder.

2.14. Absence of Quotations.

Subject to Section 2.15, if LIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation to the Facility Agent by 12:00 noon (London time) one (1) London Business Day after the Quotation Day, then LIBOR shall be determined on the basis of the quotations of the remaining Reference Banks (provided that at least two (2) Reference Banks provide a quotation).

2.15. Market Disruption.

- (a) If a Market Disruption Event occurs in relation to a Term Loan for any Interest Period, then the rate of interest on each Lender's Term Loan for the Interest Period shall be the percentage rate per annum that is the sum of:
- (i) the Margin plus the Liquidity Premium; plus
 - (ii) (if the Lender is a Specified Lender) the rate notified to the Facility Agent by that Specified Lender as soon as practicable and in any event by close of business five (5) London Business Days prior to the end of that Interest Period, to be that which expresses as a percentage rate per annum the cost to that Specified Lender of funding its participation in that Term Loan from whatever source it may reasonably select; or
 - (iii) (if the Lender is not a Specified Lender, but in respect of a Market Disruption Event under paragraph (1) of such definition only) the rate that is the weighted average of the rates of the Specified Lenders in the same Term Loan for that Interest Period as determined pursuant to paragraph (ii) above (expressed as a percentage rate per annum).
- (b) If (i) the percentage rate per annum notified by a Lender pursuant to paragraph (a)(ii) above is less than LIBOR; or (ii) a Lender has not notified the Facility Agent of a percentage rate per annum pursuant to paragraph (a)(ii) above, then the cost to that Lender of funding its participation in that Term Loan for that Interest Period shall be deemed, for the purposes of paragraph (a) above, to be LIBOR.
- (c) In this Agreement:
- (i) "**Market Disruption Event**" means:
 - (1) at or about 12:00 noon (London time) on the Quotation Day for the relevant Interest Period, the Screen Rate is not available, and by 12:00 noon (London time) on the date falling one (1) London Business Day after the Quotation Day, none or only one of the Reference Banks has supplied a rate to the Facility Agent to determine LIBOR for the relevant Interest Period; or
 - (2) before the close of business in Hong Kong on or before the date falling six (6) Business Days after the Quotation Day for the relevant Interest Period, the Facility Agent receives notifications from Specified Lenders whose participations in the Term Loans equal or exceed 35% of the participations of all Specified Lenders in the Term Loans that the cost to each of them of obtaining matching deposits in the Relevant Interbank Market would be in excess of LIBOR; and

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- (ii) **"Specified Lender"** means a Lender that is a commercial bank or other financial institution that customarily obtains funds for lending in a Relevant Interbank Market.
- (d) For the avoidance of doubt, if a Lender is not a Specified Lender, then in respect of a Market Disruption Event under paragraph (2) of such definition, the Screen Rate shall be used to determine the interest rate on its Term Loan.

2.16. Illegality.

If on any date any Lender (an **"Affected Lender"**) shall have determined (which determination shall be made in good faith, but once made shall be conclusive and binding upon all parties hereto absent manifest error, but shall be made only after consultation with the Borrower and the Facility Agent) that due to a Change in Law, the making, maintaining or continuation of its Term Loan Commitment or Term Loan has or will become unlawful due to compliance with any applicable law, then (a) the obligation of the Affected Lender to maintain its Term Loan Commitment or make its Term Loan on the Closing Date shall be suspended until such notice shall be withdrawn by the Affected Lender; and (b) the Affected Lender's obligation to maintain any outstanding Term Loan (an **"Affected Loan"**) shall be terminated at the earlier to occur of the expiration of the Interest Period then in effect with respect to the Affected Loan and when required by applicable law, and the Borrower shall prepay the full amount of the Affected Loan (with interest accrued thereon) on the date of such termination. Except as provided in the preceding sentence, nothing in this Section shall affect the obligation of any Lender other than an Affected Lender to make or maintain Term Loans.

2.17. Break Funding.

- (a) The Borrower shall, within ten (10) days of demand by a Finance Party, pay to that Finance Party its Break Costs attributable to all or any part of a Term Loan being paid or prepaid by the Borrower on a day other than the last day of an Interest Period for that Term Loan.
- (b) A notice of a Lender setting forth the amounts necessary to compensate such Lender as specified in paragraph (a) of this Section shall be delivered (through the Facility Agent) to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such notice within ten (10) days after receipt thereof. Upon request by the Borrower, such Lender shall, as soon as reasonably practicable, provide a copy of the calculations setting forth how the amount set forth in such notice was determined, which shall be for informational purposes only and shall not be deemed to affect the rights of any Lender pursuant to the provisions of this Section.

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- (c) For purposes of the foregoing, "**Break Costs**" means the amount (if any) by which:
- (i) the interest (excluding the Margin and the Liquidity Premium) that a Lender should have received for the period from the date of receipt of all or any part of its participation in a Term Loan to the last day of the current Interest Period in respect of that Term Loan, had the principal amount received been paid on the last day of that Interest Period;
exceeds:
 - (ii) the amount that such Lender would be able to obtain by placing an amount equal to the principal amount received by it on deposit with a leading bank in the Relevant Interbank Market for a period starting on the Business Day following receipt or recovery and ending on the last day of the current Interest Period.
- (d) If the Borrower has delivered the Funding Notice to the Facility Agent and for any reason the borrowing of the Term Loans does not occur on the Closing Date, the Borrower shall, within three (3) Business Days of demand by a Finance Party, pay to that Finance Party (other than a Defaulting Lender) its break costs, being an amount equal to the amount (if any) by which (i) the interest (excluding the Margin and the Liquidity Premium) that a Lender should have received for the period from the Closing Date to the last day of the Interest Period set forth in the Funding Notice, had such Lender made its Term Loan to the Borrower on the Closing Date and the Borrower repaid such Term Loan on the last day of such Interest Period; exceeds (ii) the amount that such Lender would be able to obtain by placing an amount equal to the principal amount of such Term Loan on deposit with a leading bank in the Relevant Interbank Market for such Interest Period.

2.18. Increased Costs; Capital Adequacy.

- (a) If any Change in Law shall:
- (i) impose, modify or deem applicable any reserve, special deposit or similar requirement (including any compulsory loan requirement, insurance charge or other assessment) against assets of, deposits with or for the account of, or credit extended by, any Lender; or
 - (ii) impose on any Lender or the Relevant Interbank Market any other condition, cost or expense (but excluding any Excluded Taxes and any Indemnified WHT, which shall be addressed by the provisions of Section 2.19) affecting this Agreement or the Term Loans maintained by such Lender;
- and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Term Loan (or of maintaining its obligation to make any Term Loan) or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or otherwise), then, following delivery of the notice contemplated by paragraph (c) of this Section, the Borrower shall pay to such Lender such additional amount as will compensate such Lender for such additional costs incurred or reduction suffered.

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- (b) If any Lender determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement or the Term Loans made by such Lender to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law other than due to Excluded Taxes or Indemnified WHT, which shall be addressed by the provisions of Section 2.19 (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time, following delivery of a notice contemplated by paragraph (c) of this Section, the Borrower shall pay to such Lender such additional amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.
 - (c) A notice of a Lender setting forth the amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such notice within ten (10) days after receipt thereof. Upon request by the Borrower, such Lender shall, as soon as reasonably practicable, provide a copy of the calculations setting forth how the amount set forth in such notice was determined, which shall be for informational purposes only and shall not be deemed to affect the rights of any Lender pursuant to the provisions of this Section.
 - (d) Failure or delay on the part of any Lender to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender pursuant to this Section for any increased costs or reductions incurred more than 225 days prior to the date that such Lender notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor; provided further that if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 225-day period referred to above shall be extended to include the period of retroactive effect thereof.

2.19. Taxes; Withholding.

- (a) Payments to Be Free and Clear. All sums payable by or on behalf of any Credit Party hereunder and under the other Credit Documents shall (except to the extent required by law) be paid free and clear of, and without any deduction or withholding on account of, any Tax.

(b) Withholding of Taxes. If any Credit Party or any other Person is required by law to make any deduction or withholding on account of any Taxes, other than an Excluded Tax, from any sum paid or payable by any Credit Party to any Finance Party under any of the Credit Documents (such Taxes, collectively, "**Indemnified WHT**"), then:

- (i) the Borrower shall promptly notify the Facility Agent of any such requirement or any change in any such requirement upon becoming aware of it;
- (ii) the Borrower shall pay any such Indemnified WHT before the date on which penalties attach thereto, such payment to be made (if the liability to pay is imposed on any Credit Party) for its own account or (if that liability is imposed on the Facility Agent or such Lender, as the case may be) on behalf of and in the name of the relevant Finance Party (such Finance Parties, the "**Recipients**");
- (iii) such sum payable by such Credit Party in respect of which any such Indemnified WHT is required to be paid shall be increased to the extent necessary to ensure that, after payment of the Indemnified WHT, the relevant Finance Party receives on the due date a net sum equal to what it would have received had no such payment of the Indemnified WHT been required or made; and
- (iv) within thirty (30) days after paying any sum from which it is required by applicable law to make any deduction or withholding, and within thirty (30) days after the due date of payment of any Indemnified WHT that it is required by clause (ii) above to pay, the Borrower shall deliver to the Facility Agent evidence reasonably satisfactory to the affected Finance Parties of such deduction, withholding or payment or the original or a certified copy of a receipt evidencing the remittance thereof to the relevant taxing or other authority;

provided that no such additional amount shall be required to be paid to any Lender (other than a Lender that becomes a Lender pursuant to Section 2.22) under clause (iii) above to the extent that a Transfer of a Term Loan after the Signing Date results in an increase in the rate of such deduction, withholding or payment from that applicable to the assignor of such Term Loan as in effect on the date of such Transfer; provided that for the avoidance of doubt, any other amounts shall be payable to a Lender to the extent such Lender's assignor would have been entitled to receive such additional amounts.

(c) Indemnification by the Credit Parties. The Credit Parties shall jointly and severally indemnify each Recipient for any Indemnified WHT that are paid or payable by such Recipient in connection with any Credit Documents (including amounts paid or payable under this Section 2.19(c)) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified WHT (and any penalties or interest associated therewith) were correctly or legally imposed or asserted by the relevant Governmental Authority. The indemnity under this Section shall be paid within 10 days after such Recipient delivers to the Borrower a notice stating the amount of any Indemnified WHT (and any penalties, interest and reasonable expenses arising therefrom or with respect thereto) so paid or payable by such Recipient and describing the basis for the indemnification claim. Such notice shall be conclusive of the amount so paid or payable absent manifest error. Such Recipient shall deliver a copy of such notice to the Facility Agent.

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- (d) Status of Lenders. Any Lender that is entitled to an exemption from, or reduction of, any applicable Indemnified WHT with respect to any payments under any Credit Document shall deliver to the Borrower and the Facility Agent, at the time or times reasonably requested by the Borrower or the Facility Agent, such properly completed and executed documentation reasonably requested by the Borrower or the Facility Agent as will permit such payments to be made without, or at a reduced rate of, withholding. In addition, any Lender, if reasonably requested by the Borrower or the Facility Agent, shall deliver such other documentation prescribed by law or reasonably requested by the Borrower or the Facility Agent as will enable the Borrower or the Facility Agent to determine whether or not such Lender is subject to any backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation shall not be required if in such Lender's judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense (or, in the case of a Change in Law, any incremental material unreimbursed cost or expense) or would materially prejudice the legal or commercial position of such Lender. Upon the reasonable request of the Borrower or the Facility Agent, any Lender shall update any form or certification previously delivered pursuant to this Section if it is legally eligible to do so. If any form, notice or certification previously delivered pursuant to this Section expires or becomes obsolete or inaccurate in any respect with respect to a Lender, such Lender shall promptly notify the Borrower and the Facility Agent in writing of such expiration, obsolescence or inaccuracy and update the form, notice or certification if it is legally eligible to do so.
- (e) Treatment of Certain Refunds. If any Finance Party determines, in its sole discretion exercised in good faith, that it has received a refund of any Indemnified WHT as to which it has been indemnified pursuant to this Section (including additional amounts paid pursuant to this Section), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under this Section with respect to the Indemnified WHT giving rise to such refund), net of all out-of-pocket expenses (including any Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid to such indemnified party pursuant to the previous sentence (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this Section, in no event shall any indemnified party be required to pay any amount to any indemnifying party pursuant to this Section if such payment would place such indemnified party in a less favorable position (on a net after-Tax basis) than such indemnified party would have been if the indemnification payments or additional amounts giving rise to such refund had never been paid. This Section 2.19 shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes which it deems confidential) to the indemnifying party or any other Person.

2.20. Obligation to Mitigate.

Each Lender agrees that, as promptly as practicable after the officer of such Lender responsible for administering its Term Loans becomes aware of the occurrence of an event or the existence of a condition that would cause such Lender to become an Affected Lender or that would entitle such Lender to receive payments under Section 2.18 or 2.19, it will, to the extent not inconsistent with the internal policies of such Lender and any applicable legal or regulatory restrictions, use reasonable efforts to (a) make, issue, fund or maintain its Term Loans, including any Affected Loans, through another office of such Lender; or (b) take such other measures as such Lender may deem reasonable, if as a result thereof the circumstances that would cause such Lender to be an Affected Lender would cease to exist or the additional amounts that would otherwise be required to be paid to such Lender pursuant to Section 2.18 or 2.19 would be reduced and if, as determined by such Lender in its sole discretion, the making, issuing, funding or maintaining of such Term Loans through such other office or in accordance with such other measures, as the case may be, would not otherwise adversely affect such Term Loans or the interests of such Lender; provided, such Lender will not be obligated to utilize such other office pursuant to this Section unless the Borrower agrees to pay the incremental expenses (if any) incurred by such Lender as a result of utilizing such other office as described above. A notice as to the amount of any such expenses payable by the Borrower pursuant to this Section (setting forth in reasonable detail the basis for requesting such amount) submitted by such Lender to the Borrower (with a copy to the Facility Agent) shall be conclusive absent manifest error.

2.21. Defaulting Lenders.

Anything contained herein to the contrary notwithstanding, in the event that any Lender, other than at the direction or request of any regulatory agency or authority, defaults (a "**Defaulting Lender**") in its obligation to fund (a "**Funding Default**") any Term Loan (a "**Defaulted Loan**"), then during any Default Period with respect to such Defaulting Lender, such Defaulting Lender shall be deemed not to be a "Lender" for purposes of voting on any matters (including the granting of any consents or waivers) with respect to any of the Credit Documents. No Term Loan Commitment of any other Lender shall be increased or otherwise affected, and, except as otherwise expressly provided in this Section, performance by the Borrower of its obligations hereunder and the other Credit Documents shall not be excused or otherwise modified as a result of any Funding Default or the operation of this Section. The rights and remedies against a Defaulting Lender under this Section are in addition to other rights and remedies that the Borrower may have against such Defaulting Lender with respect to any Funding Default and which the Facility Agent or any Lender may have against such Defaulting Lender with respect to any Funding Default.

2.22. Right of the Borrower to Replace Lenders.

Anything contained herein to the contrary notwithstanding, in the event that:

- (a) any Lender (an "**Increased-Cost Lender**") shall (i) give notice to the Borrower that such Lender is an Affected Lender or that such Lender is entitled to receive payments under Section 2.18 or 2.19, and the circumstances that have caused such Lender to be an Affected Lender or that entitle such Lender to receive such payments remain in effect; and (ii) fail to withdraw such notice within five (5) Business Days after the date of such notice; or
- (b) (i) any Lender shall become a Defaulting Lender; and (ii) the Default Period for such Defaulting Lender shall remain in effect; or
- (c) in connection with any proposed change with respect to any of the provisions contemplated by Section 10.5(b), the consent of the Majority Lenders shall have been obtained but the consent of one or more of other Lenders (each a "**Non-Consenting Lender**") whose consent is required pursuant to Section 10.5(b) shall not have been obtained;

then with respect to each such Increased-Cost Lender, Defaulting Lender or Non-Consenting Lender (in each case, a "**Terminated Lender**"), the Borrower may, by giving written notice to the Facility Agent and any Terminated Lender of its election to do so, elect to cause such Terminated Lender (and such Terminated Lender hereby agrees) to Transfer (as defined in Section 10.6(b)) its outstanding Term Loan, Term Loan Commitments (if any) and all its other rights, title, interests and obligations under this Agreement in full to one or more Eligible Assignees (each a "**Replacement Lender**") in accordance with the provisions of Section 10.6 and the Borrower shall pay the fees, if any, payable thereunder in connection with any such Transfer from an Increased-Cost Lender or a Non-Consenting Lender, and the Defaulting Lender shall pay the fees, if any, payable thereunder in connection with any such Transfer from such Defaulting Lender; provided that:

- (i) on the date of such Transfer, the Replacement Lender shall pay to the Terminated Lender an amount equal to the sum of (A) an amount equal to the principal of, and all accrued interest on, all outstanding Term Loans of the Terminated Lender; (B) an amount equal to all unreimbursed drawings that have been funded by such Terminated Lender, together with all then unpaid interest with respect thereto at such time; and (C) an amount equal to all accrued, but theretofore unpaid fees owing to such Terminated Lender pursuant to Section 2.7;

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- (ii) on the date of such Transfer, the Borrower shall pay any amounts payable to such Terminated Lender pursuant to Section 2.17 (if an Increased-Cost Lender or a Non-Consenting Lender), 2.18 or 2.19(b);
 - (iii) in the event such Terminated Lender is a Non-Consenting Lender, each Replacement Lender shall consent, at the time of such Transfer, to each matter in respect of which such Terminated Lender was a Non-Consenting Lender; and
 - (iv) any such replacement shall not be deemed to be a waiver of any rights that the Borrower, any Agent or any other Lender shall have against such Terminated Lender.

Upon the prepayment of all amounts owing to any Terminated Lender and the termination of such Terminated Lender's Term Loan Commitments, if any, such Terminated Lender shall no longer constitute a "Lender" for purposes hereof. Each Lender agrees that if the Borrower exercises its option hereunder to cause a Transfer by such Lender (as Terminated Lender), such Lender shall, promptly after receipt of written notice of such election, execute and deliver all documentation (including an Assignment and Assumption) necessary to effectuate such Transfer in accordance with Section 10.6. In the event that a Lender does not comply with the requirements of the immediately preceding sentence within three (3) Business Days after receipt of such notice, each Lender hereby irrevocably authorizes and directs the Facility Agent to execute and deliver such documentation (including an Assignment and Assumption) on its behalf as may be required to give effect to a Transfer in accordance with Section 10.6 and any such documentation so executed by the Facility Agent shall be effective for purposes of documenting a Transfer pursuant to Section 10.6 and the Facility Agent shall notify the Terminated Lender immediately after such Transfer.

SECTION 3. CONDITIONS PRECEDENT

3.1. Closing.

The obligation of each Lender to make its Term Loan to the Borrower is subject to the prior satisfaction (or waiver in accordance with Section 10.5) of each of the following conditions (including receipt by the Facility Agent of all of the following documents and evidence of satisfaction of such other conditions listed below) before 4:00 p.m. (Hong Kong time) (or such later time as agreed by the Facility Agent in its sole discretion) one Business Day prior to the Closing Date (the "**CP Satisfaction Date**"), each of which shall be in form and substance reasonably satisfactory to the Facility Agent:

- (a) Credit Documents. This Agreement, the Intercreditor Agreement, the Collateral Documents listed in Part A of Appendix F and the Agent's Fee Letter, each duly executed and delivered by each applicable Credit Party.

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- (b) Officer's Certificate. A certificate of an Authorized Officer of each Credit Party, dated the CP Satisfaction Date, (i) attaching a copy of the Organizational Documents of such Credit Party, which, to the extent applicable, shall be certified as of a recent date by the appropriate Governmental Authority; (ii) setting forth signature and incumbency confirmations of each of the Authorized Officers of such Credit Party that has or will execute each of the Credit Documents to which it is or will be a party and any notices to be given thereunder; (iii) attaching resolutions of the Board of Directors or similar governing body of such Credit Party, approving and authorizing the execution, delivery and performance of this Agreement and each of the other Transaction Documents to which it is a party or by which it or its assets may be bound, certified as being in full force and effect without modification or amendment and authorizing the Authorized Officers to sign the Transaction Documents to which it is a party and to give notices thereunder; (iv) attaching resolutions of the shareholders (and in the case of a company or corporate shareholder, the resolutions of the board of directors of such company or corporation) of each Credit Party that is incorporated in Hong Kong, approving and authorizing the execution, delivery and performance of this Agreement and the other Transaction Documents to which it is a party or by which it or its assets may be bound, certified as being in full force and effect without modification or amendment; (v) attaching, to the extent applicable, a good standing certificate from the applicable Governmental Authority of each Credit Party's jurisdiction of incorporation, organization or formation, each dated within ten (10) Business Days prior to the Closing Date; (vi) confirming that there are no proceedings pending for the dissolution or liquidation of such Credit Party, and to the knowledge of such Authorized Officer, no such proceedings are threatened and the borrowing or guaranteeing of the Term Loan Commitments will not cause any borrowing or guarantee limit applicable to it to be exceeded; and (vii) attaching such other documents or confirmations as the Facility Agent may reasonably request.
- (c) Organizational and Group Structure. A final copy of the Group Structure Chart.
- (d) Consummation of the Acquisition. A certificate of an Authorized Officer of the Borrower dated the CP Satisfaction Date and certifying that, to the best knowledge of the Borrower, it expects that:
- (i) The Disbursement Certificate will be duly signed by an Authorized Officer of the Borrower dated the Closing Date and will be delivered to the Facility Agent on the Closing Date certifying that (1) all conditions to the effectiveness of the Acquisition (as set forth in the Share Purchase Agreement) shall have been satisfied (other than the payment of the Cash Consideration and Share Redemption Amounts to certain of the Sellers) or the fulfillment thereof shall have been waived with the prior written consent of the Initial Mandated Lead Arrangers; (2) upon the remittance of the Cash Consideration and the Share Redemption Amounts to the Sellers Designated Account as defined in and pursuant to Section 2.5(a)(i) of the Share Purchase Agreement, the Acquisition shall become effective in accordance with the terms of the Share Purchase Agreement, and the Borrower shall become the legal and beneficial owner, free and clear of all Liens, of all of the Target Shares; (3) the Borrower has duly issued the Share Consideration (as defined in the Share Purchase Agreement) to certain of the Sellers in accordance with the terms of the Share Purchase Agreement; and (4) the total consideration (excluding the Share Consideration) to be paid by the Group for all of the Target Shares (including any repayment of existing indebtedness of the Target Group) plus the amount of Transaction Costs (as set forth in the Base Case Model) is an amount equal to or less than the aggregate amount of the Term Loans to be made on the Closing Date plus the amount of freely available and unrestricted cash on hand of the Offshore Group Members.

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- (ii) A fully executed or conformed copy of each Acquisition Document and any documents executed in connection therewith will be delivered to the Facility Agent on and certified as of the Closing Date as true and correct copies thereof by an Authorized Officer of the Borrower under the Disbursement Certificate.
 - (iii) Signed copies of (1) the written legal opinion of Walkers, Cayman Islands counsel for the Target, addressed, *inter alia*, to the Finance Parties, dated the Closing Date and in the form attached as Exhibit E to the Share Purchase Agreement; and (2) the written legal opinion of Jingtian & Gongcheng Law Firm, PRC counsel for the Target, addressed, *inter alia*, to the Finance Parties, dated the Closing Date and in the form attached as Exhibit F to the Share Purchase Agreement, will be delivered to the Facility Agent on the Closing Date together with the Disbursement Certificate.
- (e) Governmental Authorizations and Consents. Each Credit Party shall have obtained all Governmental Authorizations (including the Competition Clearance) and all Authorizations of all other Persons, in each case that are necessary or required in connection with the transactions contemplated by the Credit Documents and the Acquisition as specified in the Acquisition Documents, and each of the foregoing shall be in full force and effect and in form and substance reasonably satisfactory to the Initial Mandated Lead Arrangers. All applicable waiting periods shall have expired without any action being taken or threatened by any competent authority that would restrain, prevent or otherwise impose adverse conditions on the transactions contemplated by the Transaction Documents or the financing thereof and no action, request for stay, petition for review or rehearing, reconsideration, or appeal with respect to any of the foregoing shall be pending, and the time for any applicable agency to take action to set aside its consent on its own motion shall have expired.
- (f) Collateral Documents. The Borrower and each other Guarantor has entered into each of the Collateral Documents set forth in Part A of Appendix F, and has complied with all its obligations thereunder (including its obligation to execute and deliver registrations, notices, acknowledgements, consents, originals of securities, blank or completed instruments of transfer, original title deeds and any other documents, as provided therein) that are required to be satisfied on or prior to the CP Satisfaction Date.

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- (g) Financial Statements, Base Case Model, Reports. (i) The Original Financial Statements; (ii) a pro forma unaudited consolidated balance sheet of the Borrower and its Subsidiaries as at the date of the most recent Original Financial Statement, reflecting the consummation of the Acquisition, the related financings and the other transactions contemplated by the Credit Documents to occur on or prior to the Closing Date; (iii) the Base Case Model; and (iv) final copies of each of the Reports.
- (h) Opinions of Counsel. Executed copies of the written legal opinions of (i) Simpson Thacher & Bartlett LLP, New York counsel to the Credit Parties; (ii) Maples and Calder, Cayman Islands counsel to the Credit Parties; (iii) Li & Partners, Hong Kong counsel to the Credit Parties; and (iv) Paul Hastings LLP, New York counsel to the Agents, the Mandated Lead Arrangers and the Lead Arranger, in each case dated the CP Satisfaction Date (and each Credit Party hereby instructs such counsel to deliver such opinions to the Finance Parties).
- (i) Payment of Fees, Costs and Expenses. The Borrower shall have paid on or prior to the CP Satisfaction Date (or arrangements have been made to be paid out of Available Cash or the flow of funds from the proceeds of the Term Loans to be made on the Closing Date) all Transaction Costs and other fees, costs and expenses then due and payable pursuant to the terms of the Credit Documents.
- (j) Solvency Certificate. On the CP Satisfaction Date, the Borrower shall be, and following the disbursement of the Term Loans, the Borrower will be, Solvent, and the Facility Agent shall have received a Solvency Certificate from the Borrower.
- (k) CP Satisfaction Date Certificate. A duly executed CP Satisfaction Date Certificate.
- (l) Letter of Direction. Within three (3) Business Days of the Closing Date, a funds flow statement and duly executed wire transfer instructions and authorizations (collectively, the "**Letter of Direction**") from the Borrower addressed to the Facility Agent, directing the disbursement on the Closing Date of the proceeds of the Term Loans.
- (m) "Know-your-customer" Checks. The Finance Parties shall have received all documentation and other information in respect of any Group Member or Affiliate thereof that is required by bank regulatory authorities or its internal procedures under applicable "know-your-customer" and anti-money laundering rules and regulations, including the USA Patriot Act, that any such Finance Party has requested from the Borrower at least five (5) Business Days prior to the Closing Date.
- (n) No Material Adverse Effect. From and after May 27, 2011, no change, event, effect or circumstances has occurred that has had or would reasonably be expected to have a Purchaser Material Adverse Effect or a Company Material Adverse Effect.
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- (o) Material Group Members. A copy of the pro forma calculations of the Borrower to demonstrate the Borrower's determination of the list of Material Group Members set forth on Appendix C (prepared by the Borrower assuming for such purpose that the Acquisition has occurred) (the "**CP Satisfaction Date Calculations**").
 - (p) Process Agent. A duly executed process agent acceptance letter or other evidence that the process agent referred to in Section 10.15(b) or as may be required under the applicable Collateral Document has accepted its appointment.
 - (q) Funding Notice. A duly executed and delivered Funding Notice, which shall specify a borrowing date on or prior to November 25, 2011.
 - (r) Non-Competition. Copies of non-competition and non-solicitation agreements entered into between the Borrower and the Group's chief executive officer, chief operating officer, chief financial officer and chief strategy officer for a period of at least two (2) years from the Closing Date.
 - (s) Accounts. The Borrower shall have (i) established with the Account Bank the Interest Reserve Account and the Mandatory Prepayment Account; and (ii) funded from cash on hand the Interest Reserve Account in an amount at least equal to the Minimum IRA Balance Amount as of the CP Satisfaction Date.
 - (t) Major Representations. As of the CP Satisfaction Date, the Major Representations shall be, and immediately after giving effect to the making of the Term Loans requested on the Closing Date and the consummation of the Acquisition, the Major Representations will be, true and correct in all respects to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall have been true and correct on and as of such earlier date.
 - (u) No Major Default. As of the CP Satisfaction Date, no Major Default shall have occurred and be continuing, or would result from the consummation of the Acquisition or the borrowing of the Term Loans on the Closing Date.

SECTION 4. REPRESENTATIONS AND WARRANTIES

In order to induce the Finance Parties to enter into this Agreement, and to induce the Lenders to make the Term Loans to be made thereby on the Closing Date, each Credit Party represents and warrants to each of the Finance Parties, that each of the following statements is true and correct:

4.1. Corporate Status.

- (a) Each Group Member is duly organized, validly existing and in good standing (where applicable) under the applicable laws of its jurisdiction of organization or formation as identified in Schedule 4.1.

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- (b) Each Group Member has the power and authority to own and operate its assets and carry on its business as it is being conducted and as proposed to be conducted.
 - (c) Each Group Member is qualified to do business and in good standing (where applicable) in every jurisdiction where its assets are located and wherever required to carry out its business and operations, except in jurisdictions where the failure to be so qualified, individually or in the aggregate, or in good standing has not had, and could not be reasonably expected to have, a Material Adverse Effect. As of the CP Satisfaction Date and the Closing Date, no Credit Party is qualified as a foreign corporation or other entity to do business in any jurisdiction other than its jurisdiction of its incorporation, organization or formation.
 - (d) No Group Member is a "public utility" within the meaning of, or subject to regulation under, the United States Federal Power Act of 1920 (16 U.S.C. §§791 et seq.), as amended.
 - (e) No Group Member is an "investment company" or a company "controlled" by an "investment company" or a "principal underwriter" of an "investment company" within the meaning of the United States Investment Company Act of 1940 (15 U.S.C. §§ 80a-1 et seq.), as amended, or subject to regulation under any United States federal or state law or regulation that limits its ability to incur or guarantee Indebtedness.

4.2. Binding Obligations.

- (a) Each Credit Document has been duly executed and delivered by each Credit Party that is or is expressed to be a party thereto.
- (b) Subject to the Legal Reservations:
 - (i) the obligations expressed to be assumed by it in each Transaction Document to which it is a party are legal, valid, binding and enforceable obligations; and
 - (ii) without limiting the generality of paragraph (i) above, each Collateral Document to which it is a party creates the Transaction Security that such Collateral Document purports to create, and those Collateral Documents are effective to create legal and valid First Priority (other than unperfected Transaction Security over the Unperfected Accounts permitted under the Agreed Security Principles) Liens in the Collateral in favor of the Security Agent.

4.3. Non-Conflict.

The execution, entry into, delivery and performance by each Credit Party of, and the transactions contemplated by, the Transaction Documents and the granting of the Transaction Security do not and will not:

- (a) conflict with in any material respect any applicable law, including any judgment or decree of any court or other Governmental Authority, binding on any Credit Party;

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- (b) conflict with any of the Organizational Documents of any Credit Party;
 - (c) conflict with the terms of, or would constitute a default or termination event (however described) under, (i) the Onshore Debt Documents, the Existing 2007 Bond or the Existing 2010 Bond; or (ii) any other agreement or instrument binding upon any Credit Party or any other Group Member or any of its or any other Group Member's assets, or constitute a default or termination event (however described) under any other Contractual Obligation, that, individually or in the aggregate, has had or could reasonably be expected to have a Material Adverse Effect; or
 - (d) result in or require the creation or imposition of any Lien upon any of the assets of any Group Member (other than Permitted Security).

4.4. Power and Authority.

- (a) Each Credit Party has the power to enter into, perform and deliver, and has taken all necessary action to authorize its execution, entry into, performance and delivery of, each of the Transaction Documents to which it is or will be a party and the transactions contemplated by those Transaction Documents.
- (b) The execution, entry into, delivery and performance by each Credit Party of, and the transactions contemplated by, each of the Transaction Documents to which it is a party, and the granting of the Transaction Security thereunder, do not and will not require (i) any approval of stockholders, members or partners or any approval or consent of any Person under any Contractual Obligation of any Group Member, except for such approvals or consents that have been or will be obtained on or before the CP Satisfaction Date and disclosed in writing to the Facility Agent; or (ii) any registration with, consent or approval of, or notice to, or other action to, with or by, any Governmental Authority, except for (1) the Competition Clearance; and (2) filings and recordings with respect to the Collateral to be made, or otherwise delivered to the Security Agent for filing or recordation, as of the Closing Date; and (3) such as have been obtained or made and are in full force and effect, as of the CP Satisfaction Date.

4.5. Validity and Admissibility into Evidence.

All Authorizations required:

- (a) to enable each Credit Party to lawfully to enter into, exercise its rights and comply with its obligations in the Transaction Documents to which it is a party; and
- (b) to make the Transaction Documents to which it is a party admissible in evidence in its Relevant Jurisdictions,

have been obtained or effected and are in full force and effect or, with respect to the Transaction Documents, will be promptly obtained and in full force and effect no later than the CP Satisfaction Date.

4.6. Governing Law and Enforcement.

- (a) Subject to the Legal Reservations, the choice of governing law of each of the Credit Documents will be recognized and enforced in each of its Relevant Jurisdictions.
- (b) Subject to the Legal Reservations, any judgment obtained in relation to a Credit Document in the jurisdiction of the governing law of that Credit Document will be recognized and enforced in each of its Relevant Jurisdictions.

4.7. Insolvency.

- (a) The Credit Parties, on a consolidated basis, are, and on the date of the incurrence of any Obligation by any Credit Party under a Credit Document will be, Solvent.
- (b) No Bankruptcy Event has occurred or, to its knowledge been threatened, in relation to any Credit Party or Material Group Member.

4.8. Filings or Stamp Taxes.

Under the laws of each of the Relevant Jurisdiction of each Credit Party, it is not necessary that any Credit Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration, notarial or similar Taxes or fees be paid on or in relation to the Credit Documents or the transactions contemplated by the Credit Documents; provide that

- (a) where the Relevant Jurisdiction is the Cayman Islands, stamp duty will be payable if the Credit Documents are signed in or later brought into the Cayman Islands or to be admitted in evidence in a Cayman Islands court;
- (b) where the Relevant Jurisdiction is Mauritius,
 - (i) the particulars of all charges created by a Mauritian company under any Collateral Documents shall be filed with the Mauritius Registrar of the Companies within twenty-eight (28) days of the creation of the charge;
 - (ii) any Credit Document to which a Mauritian company is a party to shall be registered with the Registrar General of Mauritius (and in the case of each fixed and floating charges governed by Mauritius law, shall be inscribed with the Conservator of Mortgages of Mauritius); and
 - (iii) the registration and inscription of such Credit Documents will amount to approximately Mauritius Rupees 50,000 for each document;
- (c) where the Relevant Jurisdiction is Hong Kong,
 - (i) certain charges specified in Section 80 of the Companies Ordinance provided by (A) any Credit Party incorporated in Hong Kong; or (B) any Credit Party not incorporated in Hong Kong and registered as an overseas company in Hong Kong under Part XI of the Companies Ordinance require registration in the Companies Registry of Hong Kong;

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- (ii) Collateral Documents governed by Hong Kong law charging trademarks that have been registered in Hong Kong shall be recorded at the Trade Marks Registry of Hong Kong to be effective against a Person acquiring a conflicting interest in or under the registered trademarks in ignorance of the transaction; and
 - (iii) an ad valorem stamp duty will be charged where there is a transfer of shares of any Credit Party incorporated in Hong Kong; and
- (d) where the Relevant Jurisdiction is the PRC, any WFOE Share Pledge shall be approved by and filed with the applicable PRC Governmental Authorities, and any Onshore Accounts Receivable Pledge shall be registered with the PRC Credit Reference Center, in each case in order to perfect the Transaction Security granted thereunder.

4.9. Deduction of Tax.

No Credit Party is required to make any deduction for or on account of Tax from any payment it may make under any Credit Document to a Finance Party.

4.10. No Default.

- (a) No Event of Default and, on the Signing Date, the CP Satisfaction Date and the Closing Date, no Default is continuing or could be reasonably expected to result from the making of any Term Loan or the entry into, the performance of, or any transaction contemplated by, any Transaction Document.
- (b) No Group Member is in breach of or default under or with respect to any of the terms of (i) the Onshore Debt Documents, the Existing 2007 Bond or the Existing 2010 Bond; or (ii) any of its other Contractual Obligation that, individually or in the aggregate, has had or could reasonably be expected to have a Material Adverse Effect.

4.11. No Misleading Information; Accuracy of Information Package.

Save as disclosed in writing to the Facility Agent, the Mandated Lead Arrangers and the Lead Arranger prior to the Signing Date (or, in relation to the Information Memorandum, prior to the date of the Information Memorandum):

- (a) all factual information contained in the Information Package was true and accurate in all material respects and, without prejudice to the foregoing, all other written factual information provided to any Finance Party in connection with the Acquisition, the Group or the Target Group, when taken as a whole, was true, complete and accurate in all material respects, in each case as at the date of the relevant report or document containing the information or (as the case may be) as at the date the information is expressed to be given;

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- (b) the financial projections contained in the Base Case Model have been prepared on the basis of recent historical information and were believed by the Borrower to be fair and based on assumptions believed to be reasonable at the time they were made;
 - (c) any financial projection or forecast contained in the Information Package has been prepared on the basis of recent historical information and were believed by the Borrower to be fair and based on assumptions believed to be reasonable (as at the date of the relevant report or document containing the projection or forecast) and arrived at after careful consideration;
 - (d) the expressions of opinion or intention provided by or on behalf of a Credit Party for the purposes of the Information Memorandum or the Information Package were made after careful consideration and (as at the date of the relevant report or document containing the expression of opinion or intention) were believed by such Credit Party to be fair and based on reasonable grounds;
 - (e) no event or circumstance has occurred or arisen and no information has been omitted from the Information Package and no information has been given or withheld, that results in the information contained in the Information Package, when taken as a whole, being untrue or misleading in any material respect; and
 - (f) no other documents, certificates or statements provided by or on behalf of any Group Member to a Finance Party for use in connection with the transactions contemplated by this Agreement and the other Credit Documents contained any untrue statement as to a material fact or omitted to state a material fact necessary to make the statements contained herein or therein, when taken as a whole, not misleading;

provided that it is acknowledged and agreed that the representations and warranties in this Section 4.11 that are made or deemed made on or prior to the Closing Date by each Credit Party are only made to the knowledge of such Credit Party to the extent that they relate to the Target Group.

4.12. Accuracy of Original Financial Statements.

- (a) The Original Financial Statements in respect of (i) the Borrower and its Subsidiaries were prepared in accordance with GAAP, consistently applied; and (ii) the Target and its Subsidiaries were, to the Borrower's knowledge, prepared in accordance with IFRS, consistently applied.
- (b) The unaudited Original Financial Statements fairly represent the financial condition and results of operations of the Borrower and its Subsidiaries (on a consolidated basis) for the relevant month or fiscal quarter.

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- (c) The audited Original Financial Statements give a true and fair view of the financial condition and results of operations of the Borrower and its Subsidiaries (on a consolidated basis) during the relevant fiscal year.
 - (d) There has been no material adverse change in the assets, business or financial condition of the Borrower and its Subsidiaries (on a consolidated basis) since December 31, 2010.
 - (e) The most recent Financial Statements delivered pursuant to Section 5.1:
 - (i) have been prepared in accordance with GAAP; and
 - (ii) give a true and fair view of (if audited) or fairly present (if unaudited) its consolidated financial condition as at the end of, and consolidated results of operations for, the period to which they relate.
 - (f) The Budgets and forecasts supplied under this Agreement were arrived at after careful consideration and have been prepared in good faith on the basis of recent historical information and on the basis of assumptions that were reasonable as at the date they were prepared and supplied.

4.13. No Proceedings Pending or Threatened.

There are no actions, suits, hearings, arbitration or administrative proceedings, litigation or investigations of, or before, any Governmental Authority, arbitral body or agency pending against, or to the knowledge of any Credit Party threatened against or affecting, the Credit Parties or any of their Subsidiaries that, individually or in the aggregate, has had or could reasonably be expected to have a Material Adverse Effect.

4.14. No Breach of Laws.

- (a) No Group Member has breached any applicable law, which breach, individually or in the aggregate, has or could reasonably be expected to have a Material Adverse Effect.
- (b) No labor or employment disputes are currently pending, or to its knowledge are threatened, against any Group Member that, individually or in the aggregate, has had or could reasonably be expected to have a Material Adverse Effect.
- (c) No Group Member, or any broker or other agent thereof, that is acting or benefiting in any capacity in connection with the Acquisition or any Term Loan:
 - (i) is in violation of any Anti-Terrorism Law;
 - (ii) is a Designated Person; or
 - (iii) deals in any property or interest in property blocked pursuant to any Anti-Terrorism Law or any Sanctioning Governmental Authorities.

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- (d) No Group Member has made (or attempted to make), directly or indirectly, an "unlawful payment" within the meaning of, and is not in any other way in violation of FCPA or any similar laws.
 - (e) No part of the proceeds of the Term Loans will be used, directly or indirectly, to fund any operations in, finance any investments or activities in or make any payments to, a Designated Person or a Sanctioned Entity, or any other business activities that are subject to sanctions, restrictions or embargoes imposed by any Sanctioning Governmental Authorities.

4.15. Environmental Laws.

- (a) Each Group Member is in compliance with Section 5.11 and to its knowledge no circumstances have occurred that would prevent such compliance in a manner or to an extent that has had or could reasonably be expected to have a Material Adverse Effect.
- (b) No Environmental Claim has been commenced or (to its knowledge) is threatened against any Group Member that has had or could reasonably be expected to have a Material Adverse Effect.
- (c) The cost to the Group of compliance with Environmental Laws (including Environmental Permits) is, to its knowledge, adequately provided for in the Base Case Model.

4.16. No Tax Liabilities.

- (a) No Group Member is materially overdue in the filing of any Tax returns and no Group Member is overdue in the payment of any amount in respect of Tax (other than Taxes in an aggregate amount of not more than US\$50,000 (or its equivalent)) except as currently being contested by the Credit Parties in good faith and by appropriate proceedings; provided that such reserves or other appropriate provisions, if any, as shall be required in conformity with GAAP shall have been made or provided therefor.
- (b) Each Credit Party is resident for Tax purposes only in the jurisdiction of its incorporation.

4.17. Security.

- (a) No Lien or Quasi-Security exists over all or any of the present or future assets of any Group Member other than Permitted Security.
- (b) No Lien or Quasi-Security exists over any of the Equity Interests over which any Group Member purports to grant Transaction Security.

4.18. No Financial Indebtedness; Guarantees; Loans.

- (a) No Group Member has any Indebtedness outstanding other than Permitted Indebtedness.
- (b) No Group Member has any guarantee outstanding other than Permitted Guarantees.
- (c) No Group Member has any loans outstanding other than Permitted Loans.

4.19. *Pari Passu* Ranking.

All unsecured and unsubordinated claims of a Finance Party or Hedge Counterparty against each Credit Party under the Credit Documents rank and will rank at least *pari passu* with the claims of all other unsecured and unsubordinated creditors of such Credit Party except those creditors whose claims are mandatorily preferred by laws of general application.

4.20. Good Title to Assets.

Each Group Member has a good, valid and marketable title to, or valid leases or licenses of, and, except as could not reasonably be expected to have a Material Adverse Effect, all appropriate Authorizations to use, the assets necessary to carry on its business as presently conducted.

4.21. Legal and Beneficial Ownership.

- (a) Each Group Member is the sole legal and beneficial owner of the respective assets over which it purports to grant Transaction Security.
- (b) All Equity Interests of each Offshore Group Member are, and all equity Interests of the Target will become on the Closing Date, legally and beneficially, directly or indirectly, wholly owned by the Borrower, free from any Liens or other competing interests.

4.22. Valid Ownership and Rights to Intellectual Property.

- (a) The Borrower and each other Group Member owns or has license to use all material Intellectual Property necessary for the conduct of its business as currently conducted;
- (b) The use of Intellectual Property by each Group Member does not infringe on the rights of any third party in any respect that has had or could reasonably be expected to have a Material Adverse Effect; and
- (c) has taken all formal or procedural actions required to maintain any Intellectual Property owned or licensed by it except where failure to do so could not reasonably be expected to have a Material Adverse Effect.

4.23. Group Structure Chart.

- (a) The Group Structure Chart delivered to the Facility Agent on the CP Satisfaction Date is true, complete and accurate as of the CP Satisfaction Date and the Closing Date and shows the following information:
 - (i) each Group Member assuming the Acquisition has been consummated (including current name and company registration number, its jurisdiction of incorporation or establishment, a list of shareholders and indicating whether a company is not a company with limited liability); and
 - (ii) all minority interests in any Group Member majority owned by any Credit Party and any person in which any Credit Party holds shares in its issued share capital or equivalent ownership interest of such person.
- (b) As of the CP Satisfaction Date and the Closing Date, all necessary intra-Group loans, transfers, share exchanges and other steps resulting in the final Group structure are set forth in the Group Structure Chart and have been or will be taken in compliance with all applicable laws.

4.24. Identity of Material Group Members.

Each Group Member listed on Appendix C is a "Material Group Member" as of the CP Satisfaction Date and the Closing Date (assuming the Acquisition has been consummated).

4.25. Representations under the Acquisition Documents, Disclosure.

- (a) The Acquisition Documents contain all the terms of the Acquisition.
- (b) To the Borrower's knowledge, no Major Representation in the Share Purchase Agreement or any other Acquisition Document is untrue or misleading as of the CP Satisfaction Date and the Closing Date.

4.26. No Adverse Consequences.

- (a) It is not necessary under the laws of any Relevant Jurisdictions:
 - (i) in order to only enable any Finance Party to enforce its rights under any Credit Document; or
 - (ii) by reason only of the execution of any Credit Document or the performance (if such Relevant Jurisdiction is the Cayman Islands or the British Virgin Islands, through a place of business outside of the Cayman Islands or the British Virgin Islands, as applicable) by any Finance Party of its obligations under any Credit Document,that any Finance Party should be licensed, qualified or otherwise entitled to carry on business in any Relevant Jurisdictions.

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- (b) None of the Finance Parties is or will be deemed to be resident, domiciled or carrying on business in its Relevant Jurisdictions by reason only of the execution, performance (if the Relevant Jurisdiction is the Cayman Islands or the British Virgin Islands, through a place of business outside of the Cayman Islands or the British Virgin Islands, as applicable) or enforcement of any Credit Document.

4.27. Holdings Companies.

Each Offshore Group Member acts as a holding company and does not carry on any operating business or other trade, and only engages in activities normal and incidental to its status as a holding company.

4.28. Accounting Reference Date.

In respect of each Group Member, the last day of its Fiscal Year for accounting purposes is December 31.

4.29. No Material Adverse Effect.

Since December 31, 2010, no event, circumstance or change has occurred that has caused or evidences, either individually or in the aggregate, a Material Adverse Effect.

4.30. Margin Stock.

Neither the Borrower nor any of its Subsidiaries owns any Margin Stock.

4.31. Times when Representations Made.

- (a) All the representations and warranties in Section 4 are made by each Credit Party on the Signing Date.
- (b) All Specified Representations are made by each Credit Party on the CP Satisfaction Date and the Closing Date.
- (c) The representations and warranties in Section 4.11 that are in respect of the Information Memorandum are made by each Credit Party on the Syndication Date.
- (d) The Repeating Representations are deemed to be made by each Credit Party on the first day of each Interest Period (except that those contained in Section 4.12(a), (b), (c) and (d) will cease to be so made once subsequent Financial Statements have been delivered under this Agreement).
- (e) Each representation or warranty deemed to be made after the Closing Date shall be deemed to be made by reference to the facts and circumstances existing at the date the representation or warranty is deemed to be made.

SECTION 5. AFFIRMATIVE COVENANTS

Each Credit Party covenants and agrees with the Finance Parties that, so long as any Commitment is in effect and until payment in full of all Obligations, such Credit Party shall perform, and shall cause each of its Subsidiaries to perform, each of the covenants in this Section.

5.1. Financial Statements.

The Borrower shall deliver to the Facility Agent and the Lenders:

- (a) as soon as they are filed by the Borrower with the SEC on Form 20-F after the end of each of its Fiscal Years (but in any event not later than 120 days after the end of each of its Fiscal Years) commencing with the Fiscal Year in which the Closing Date occurs, the audited consolidated financial statements of the Borrower and its Subsidiaries for that Fiscal Year; and
- (b) as soon as they are available, but in any event not later than 45 days after the end of each of the first three Fiscal Quarters of each Fiscal Year of the Borrower, the reviewed consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such Fiscal Quarter and the related reviewed consolidated statements of income and cash flows of the Borrower and its Subsidiaries for such Fiscal Quarter, setting forth in each case in comparative form the figures for the previous year.

5.2. Provision and Contents of Compliance Certificate.

- (a) The Borrower shall supply a duly executed completed Compliance Certificate to the Facility Agent with each set of its audited consolidated Annual Financial Statements and each set of its consolidated Quarterly Financial Statements.
- (b) The Compliance Certificate shall set forth (in reasonable detail) computations as to compliance with Section 6.1.
- (c) Each Compliance Certificate shall be signed by the chief financial officer of the Borrower and, if required to be delivered with the consolidated Annual Financial Statements of the Borrower, shall be reported on by the Borrower's Auditors substantially in the form of Annex A-4 to the form Compliance Certificate (the "**Compliance Report**").

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- (d) Each Finance Party hereby (i) acknowledges and agrees that the Auditors do not assume any duties or obligations to such Finance Party in connection with providing it access to the Compliance Report; (ii) agrees to release the Auditors and their personnel from any claim by such Finance Party that arises solely as a result of the Auditors permitting it access to the Compliance Report; and (iii) agrees not to disclose or distribute the Compliance Report (unless such report was or becomes generally available to the public other than as a result of disclosure by the Finance Parties) to any other parties (except (A) as required by law, rule, regulation or judicial or arbitration process; (B) to any rating agency or hedging counterparties on a non-reliance basis when requested by it; provided that prior to any such disclosure, such rating agency or hedging counterparties shall undertake in writing to preserve confidentiality of the Compliance Report and agree to be bound by the no-duty-of-care and release terms and conditions set forth in the above clauses (i), (ii) and (iii); (C) to their respective head offices, branch offices, representative offices, subsidiaries, related corporations, affiliates, officers, employees, directors, accountants, attorneys, agents or professional advisors on a need-to-know and non-reliance basis and provided that such Persons are under a duty of confidentiality, contractual or otherwise, to such Finance Parties; (D) to any prospective new Lender or Participant on a non-reliance basis that (1) agrees to be bound by the confidentiality, non-disclosure, no-duty-of-care and release terms and conditions set forth in the above clauses (i), (ii) and (iii); or (2) otherwise accepts provisions substantially similar to the above clauses (i), (ii) and (iii); or (E) with the prior written approval of the Auditors). The Auditors bear no liability or duty to any party other than the Borrower for the contents of the Compliance Report. The Compliance Report relates only to the procedures specified therein and does not extend to any financial statements of the Borrower, taken as a whole. Notwithstanding anything contained herein to the contrary, the Auditors providing such Compliance Report shall be third party beneficiaries under, and entitled to enforce the provisions of, this Section 5.2(d).

5.3. Requirements as to Financial Statements.

- (a) The Borrower shall procure that each set of Annual Financial Statements and Quarterly Financial Statements includes a balance sheet, profit and loss account and cash flow statement. In addition the Borrower shall procure that:
- (i) each set of Annual Financial Statements shall be audited by the Auditors and shall be accompanied by a comparison to the Budget (and contain a narrative by management in the event of any significant divergence from the Budget) and the prior year;
 - (ii) each set of Quarterly Financial Statements includes a statement by the chief financial officer of the Borrower commenting on the performance of the Group for the Fiscal Quarter to which such Quarterly Financial Statements relate and the Fiscal Year to date, the comparison of the performance of the Group for such Fiscal Quarter and the performance of the Group for the corresponding Fiscal Quarter in the previous year, and any material developments or proposals affecting the Group or its business or financial condition.

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- (b) Each set of Financial Statements delivered pursuant to Section 5.1:
- (i) shall be certified by the chief financial officer of the Borrower as giving a true and fair view of (in the case of Annual Financial Statements for any Fiscal Year), or fairly representing (in other cases), the financial condition and operations of the Borrower and its Subsidiaries as at the date as at which those Financial Statements were prepared and, in the case of the Annual Financial Statements, shall be accompanied by any letter addressed to the management of the Borrower by its Auditors and accompanying those Annual Financial Statements;
 - (ii) in the case of consolidated Financial Statements of the Group, shall be accompanied by a statement by the chief financial officer of the Borrower comparing actual performance for the period to which the Financial Statements relate to:
 - (1) the projected performance for that period set forth in the Budget; and
 - (2) the actual performance for the corresponding period in the preceding Fiscal Year of the Group; and
 - (iii) shall, following the Closing Date, be prepared in accordance with GAAP, accounting practices and financial reference periods consistent with those applied in the preparation of the Original Financial Statements; provided, that the parties hereto acknowledge that the financial statements of the Target prior to the Closing Date have been prepared in accordance with IFRS and that there shall be no requirement to restate any such financial statements or provide a detailed reconciliation of such financial statements with GAAP (for the avoidance of doubt, the Financial Statements of the Borrower and its Subsidiaries (including the Target Group) for the Fiscal Year 2011 shall be prepared in accordance with GAAP).

5.4. Budget.

- (a) The Borrower shall supply to the Facility Agent in sufficient copies for all the Lenders, as soon as the same become available but in any event within thirty (30) days after the end of each of its Fiscal Years, an annual Budget for that Fiscal Year.
- (b) The Borrower shall ensure that each Budget:
 - (i) is in a form reasonably acceptable to the Facility Agent and includes a projected consolidated balance sheet, as of the end of the following Fiscal Year, the related consolidated profit and loss and cash flow statement for the Group and a description of the underlying assumptions applicable thereto;
 - (ii) includes a comparison of the new Budget items against the actual performance of the Group during the prior Fiscal Year;
 - (iii) is prepared in accordance with GAAP and the accounting practices and financial reference periods applied to financial statements or management accounts under Section 5.1; and

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- (iv) has been approved by the board of directors of the Borrower (which approval may be of a high level summary or abstract of the Budget rather than the more detailed full Budget itself).
 - (c) If the Borrower updates or changes the Budget, it shall promptly deliver to the Facility Agent, in sufficient copies for each of the Lenders, such updated or changed Budget together with a written explanation of the main changes in that Budget.

5.5. Presentations.

Once in every Fiscal Year (or more frequently if requested to do so by the Facility Agent if the Facility Agent reasonably suspects a Default is continuing or may have occurred or may occur), upon reasonable notice and at a reasonable time and location, at least two (2) members of senior management of the Borrower (one of whom shall be the chief financial officer) shall give a presentation to the Finance Parties about the on-going business and financial performance of the Group and any other matter that a Finance Party may reasonably request.

5.6. Information: Miscellaneous.

The Credit Parties shall supply to the Facility Agent (in sufficient copies for all the Lenders, if the Facility Agent so requests):

- (a) at the same time as they are dispatched, copies of all reports, notices, proxy statements or other documents dispatched by the Borrower to its shareholders generally (or any class of them) or dispatched by the Borrower or any Credit Party to its creditors generally (or any class of them, including the holders of the Existing 2007 Bond and the Existing 2010 Bond);
- (b) promptly after filing thereof, copies of all reports on Form 6-K (or any successor forms adopted by the SEC) and each other document and form that the Borrower files with or submits to the SEC or any securities exchange;
- (c) promptly after becoming aware of them, the details of any litigation, arbitration or administrative proceedings that are current, threatened or pending against any Group Member and that, if adversely determined, could reasonably be expected to have a Material Adverse Effect;
- (d) promptly after becoming aware of them, the details of any written disclosure made pursuant to the terms of the Share Purchase Agreement that has or could reasonably be expected to have a material adverse effect on the information, opinions, intentions, forecasts and projections, taken as a whole, contained or referred to in the Information Package;
- (e) promptly after becoming aware of the relevant claim, the details of any claim that is current, threatened or pending against the Sellers or any other person in respect of the Acquisition Documents and details of any disposal or insurance claim that will require a prepayment under Section 2.10;

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- (f) promptly following request of the Facility Agent, a Mandated Lead Arranger or the Lead Arranger, details of the status of any outstanding Authorizations required in connection with the Acquisition and information reasonably requested in connection therewith;
 - (g) promptly following receipt at any time on or prior to the Closing Date, copies of all financial statements or management accounts of the Target Group (if any) provided to the Borrower by the Target or Sellers pursuant to the Share Purchase Agreement;
 - (h) promptly after request, such information as the Security Agent may reasonably require about the Transaction Security, the Collateral or compliance of the Credit Parties with the terms of any Credit Documents; and
 - (i) promptly after request, such further information regarding the financial condition, assets or operations of the Group or any Group Member (including any requested amplification or explanation of any item in the financial statements, budgets or other material provided by any Credit Party under this Agreement, any changes to management of the Group and an up-to-date copy of its shareholders' register (or equivalent in its jurisdiction of incorporation)) of any Group Member, as any Finance Party through the Facility Agent may reasonably request.

Concurrently with the delivery of any document or notice required to be delivered pursuant to this Section or Section 5.1, the Borrower shall indicate in writing whether such document or notice contains Nonpublic Information. The Borrower and each Lender acknowledge that certain of the Lenders may be "public-side" Lenders (Lenders that do not wish to receive material non-public information with respect to the Borrower, its Subsidiaries or their securities) and, if documents or notices required to be delivered pursuant to this Section, Section 5.1 or otherwise are being distributed through IntraLinks/IntraAgency, SyndTrak or another relevant website or other information platform (the "**Platform**"), any document or notice that the Borrower has indicated contains Nonpublic Information shall not be posted on that portion of the Platform designated for such public-side Lenders. If the Borrower has not indicated whether a document or notice delivered pursuant to this Section or Section 5.1 contains Nonpublic Information, the Facility Agent reserves the right to post such document or notice solely on that portion of the Platform designated for the Lenders that wish to receive material nonpublic information with respect to the Borrower, its Subsidiaries and their securities.

5.7. Notification of Default.

- (a) Each Credit Party shall notify the Facility Agent of any Default or Event of Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence (unless that Credit Party is aware that a notification has already been provided by another Credit Party).

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- (b) Promptly upon a request by the Facility Agent if it reasonably suspects a Default could be continuing or may occur, the Borrower shall supply to the Facility Agent a certificate signed by two Authorized Officers on its behalf certifying that no Default or Event of Default has occurred and is continuing (or if a Default or Event of Default is continuing, specifying the Default or Event of Default and the steps, if any, being taken to remedy it).

5.8. "Know Your Customer" Checks.

- (a) If:
- (i) the introduction of or any change in (or in the interpretation, administration or application of) any applicable law made after the Signing Date;
 - (ii) any change in the status of a Credit Party or the composition of the shareholders of a Credit Party (other than the Borrower) after the Signing Date; or
 - (iii) a proposed Transfer by a Lender of any of its rights or obligations under this Agreement to a party that is not a Lender prior to such Transfer,
- obliges the Facility Agent or any other Finance Party (or, in the case of paragraph (iii) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, each Credit Party shall promptly upon the request of the Facility Agent supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Finance Party or prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (iii) above, any prospective New Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and its internal policy pursuant to the transactions contemplated in the Credit Documents.
- (b) Each Lender shall promptly upon the request of the Facility Agent supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself) in order for the Facility Agent to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and its internal policy pursuant to the transactions contemplated in the Credit Documents.
- (c) The Borrower shall, by not less than ten (10) Business Days prior written notice to the Facility Agent, notify the Facility Agent (which shall promptly notify the Lenders) of its intention to request that one of its Subsidiaries becomes an additional Guarantor.

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- (d) Following the giving of any notice pursuant to paragraph (c) above, if the accession of such additional Guarantor obliges the Facility Agent or any Lender to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Borrower shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or on behalf of any prospective new Lender) in order for the Facility Agent or such Lender or any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and its internal policy pursuant to the accession of such Subsidiary to this Agreement as an additional Guarantor.

5.9. Authorizations.

Each Credit Party shall promptly:

- (a) obtain, comply with and do all that is necessary to maintain in full force and effect; and
- (b) supply certified copies to the Facility Agent of, each Authorization required under any applicable law of a Relevant Jurisdiction to:
- (i) enable it to perform its obligations under the Credit Documents and the Acquisition Documents;
- (ii) ensure the legality, validity, enforceability or admissibility in evidence of any Credit Document or Acquisition Document; and
- (iii) carry on its business where failure to do so has or could reasonably be expected to have a Material Adverse Effect.

5.10. Compliance with Laws.

- (a) Each Credit Party shall (and the Borrower shall ensure that each Group Member will) comply in all respects with all applicable laws (including all Environmental Laws) to which it may be subject, if failure so to comply has had or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.
- (b) Each Credit Party shall ensure that it will not, by act or omission, become subject to regulation under any of the any of the laws or regulations described in Sections 4.1(d), 4.1(e) and 4.14(d).

5.11. Environmental Compliance and Claims.

- (a) Each Credit Party shall (and the Borrower shall ensure that each Group Member will):
- (i) obtain, maintain and ensure compliance with all requisite Environmental Permits;

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- (ii) implement procedures to monitor compliance with and to prevent liability under any Environmental Law, if failure to do so has or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.
 - (b) Each Credit Party shall (through the Borrower), promptly upon becoming aware of the same, inform the Facility Agent in writing of:
 - (i) any Environmental Claim against any Group Member that is current, pending or threatened; and
 - (ii) any facts or circumstances that are reasonably likely to result in any Environmental Claim being commenced or threatened against any Group Member,

where the claim, if determined against that Group Member, has or could reasonably be expected to have a Material Adverse Effect.

5.12. Taxation.

- (a) Each Credit Party shall (and the Borrower shall ensure that each Group Member will) pay or cause to be paid all Taxes required to be paid by it within the time period allowed without incurring penalties, except for Taxes:
 - (i) in an aggregate amount of not more than US\$50,000 (or its equivalent); or
 - (ii) that are being contested in good faith by appropriate proceedings for which adequate reserves or other appropriate provision are being maintained for those Taxes and claims and the costs required to contest them in accordance with GAAP.
- (b) The Borrower shall not change its residence for Tax purposes, or become a resident for Tax purposes in any other jurisdiction.
- (c) No other Credit Party shall change its residence for Tax purposes, or become a resident for Tax purposes in any other jurisdiction unless
 - (i) it has provided the Facility Agent with at least thirty (30) days prior written notice; and
 - (ii) at the request of the Facility Agent, delivered a legal opinion from counsel reasonably acceptable to the Facility Agent in each relevant jurisdiction confirming that such change will not result in adverse tax consequences to any Finance Party.

5.13. Preservation of Assets.

Each Credit Party shall (and the Borrower shall ensure that each other Group Member will) maintain in good repair, working order and condition (ordinary wear and tear excepted) all of its assets necessary or desirable in the conduct of its business and from time to time will make or cause to be made all appropriate repairs, renewals and replacements thereof except where the failure to do so has not had or could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

5.14. *Pari Passu* Ranking.

Each Credit Party shall ensure that at all times any unsecured and unsubordinated claims of a Finance Party or Hedge Counterparty against it under the Credit Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors except those creditors whose claims are mandatorily preferred by laws of general application.

5.15. Payments and Enforcement of Rights under Acquisition Documents.

- (a) The Borrower shall promptly pay all amounts payable to the Sellers under the Acquisition Documents as and when they become due (except to the extent that any such amounts are being contested in good faith by a Group Member and where adequate reserves are set aside for any such payment).
- (b) The Borrower shall take all reasonable and practical steps to preserve and enforce its rights and pursue any claims and remedies arising under any Acquisition Documents.

5.16. Maintenance of Insurance.

- (a) Each Credit Party shall (and the Borrower shall ensure that each other Group Member will) maintain insurance on and in relation to its business and assets against at least those risks, in at least such amounts, with such deductibles and otherwise on such terms and conditions, as, in the reasonable judgment of the Borrower made in good faith, and to the extent as is usual for companies carrying on the same or substantially similar business in the same jurisdictions as the relevant Group Members.
- (b) All insurance required pursuant to paragraph (a) above shall be placed and maintained with reputable independent insurance companies or underwriters.
- (c) From and after the Closing Date, the Borrower shall use commercially reasonable efforts (which shall not include any increase in premium or cost of insurance or any requirement to change insurer) to ensure that each policy of insurance held by each Offshore Group Member shall (i) name the Security Agent, on behalf of Secured Parties, as an additional insured thereunder as its interests may appear; (ii) in the case of each casualty insurance policy, contain a loss payable clause or endorsement, reasonably satisfactory in form and substance to the Security Agent, that names the Security Agent, on behalf of the Secured Parties, as an additional loss payee thereunder; and (iii) provide for at least ten (10) days' prior written notice to the Security Agent of any material modification or cancellation of such policy.

5.17. Pensions.

Each Credit Party shall (and the Borrower shall ensure that each other Group Member will) ensure that all pension schemes operated by or maintained for the benefit of Group Members or any of their employees are fully funded or provided for, as the case may be, as required by applicable law in each relevant jurisdiction and that no action or omission is taken by any Group Member in relation to such a pension scheme that has or could reasonably be expected to have a Material Adverse Effect.

5.18. Access by the Facility Agent.

Each Credit Party shall (and the Borrower shall ensure that each other Group Member will) keep proper books of record and accounts in which full, true and correct entries in conformity in all material respects with GAAP (or IFRS, if applicable with respect to the Onshore Group Members) shall be made of all material dealings and transactions in relation to its business and activities. Each Credit Party shall (and the Borrower shall ensure that each other Group Member will) not more than once in every Fiscal Year unless (i) a Default is continuing; or (ii) the Facility Agent reasonably suspects a Default is continuing or may occur, permit the Facility Agent or the Security Agent or accountants or other professional advisers and contractors of the Facility Agent or the Security Agent, upon reasonable prior notice and at all reasonable times and, if a Default is continuing or occurs, at the risk and cost of the Credit Parties to (a) the premises, assets, books, accounts and records of each relevant Group Member; and (b) meet and discuss matters with senior management of the Group, or with the Borrower's Auditors (and the Borrower shall ensure that the Auditors are authorized to (i) discuss the financial position of each Group Member with any Agent upon the request of such Agent; and (ii) disclose to such Agent for the Finance Parties any information regarding the financial condition, assets, business or operations of the Group that such Agent may reasonably request).

5.19. Ownership and Maintenance of Intellectual Property.

- (a) Each Credit Party shall (and the Borrower shall ensure that each Group member will), in each case to the extent a failure to do so would have or could reasonably be expected to have a Material adverse Effect:
- (i) be the sole legal and beneficial owner of or have licensed to it all the Intellectual Property that is material in the context of its business and that is required by it in order to carry on its business as it is being conducted and as contemplated in the Base Case Model;
 - (ii) take all formal or procedural actions (including payment of fees) required to maintain any material Intellectual Property owned by it;
 - (iii) preserve and maintain the subsistence and validity of the Intellectual Property necessary for the business of the relevant Group member;
 - (iv) use reasonable endeavors to prevent any infringement in any material respect of the Intellectual Property;
 - (v) make registrations and pay all registration fees and taxes necessary to maintain the Intellectual Property in full force and effect and record its interest in that Intellectual Property; and

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- (vi) not use or permit the Intellectual Property to be used in a way or take any step or omit to take any step in respect of that Intellectual Property that may materially and adversely affect the existence or value of the Intellectual Property or imperil the right of any Group Member to use such property.
 - (b) No Credit Party shall (and the Borrower shall ensure that no other Group member will) discontinue the use of the Intellectual Property necessary for the business of a Group Member, if such discontinuation would have or could reasonably be expected to have a Material Adverse Effect.

5.20. Financial Assistance.

Each Credit Party shall (and the Borrower shall procure each other Group Member will) comply in all respects with any financial assistance legislation in applicable jurisdictions including in relation to the execution of the Credit Documents and payment of amounts due under this Agreement.

5.21. Bank Accounts.

- (a) Prior to September 15, 2012, the Borrower shall open the Sinking Fund Account with the Account Bank.
- (b) From and after September 15, 2012, the Borrower ensure that the amount on deposit in the Sinking Fund Account shall at all times equal or exceed the US\$ equivalent of the then Existing 2007 Bond Redemption Amount. The Borrower may only withdraw funds from the Sinking Fund Account to repay or prepay the principal amount of the Existing 2007 Bond.

5.22. Hedging.

No Credit Party shall (and the Borrower will procure that no other Group Members will) enter into any Treasury Transaction, other than:

- (a) the hedging transactions documented by Currency Agreements or Interest Rate Agreements and entered into pursuant to Section 5.27;
- (b) any other Treasury Transaction entered into for the hedging of actual or projected real exposures arising in the ordinary course of business of an Onshore Group Member and in each case not for speculative purposes; and
- (c) any other Treasury Transaction approved by the Majority Lenders.

5.23. Further Assurance.

- (a) Subject to the Agreed Security Principles, each Credit Party shall (and the Borrower shall procure that each Credit Party will) promptly, at its costs and expenses, do all such acts or execute all such documents (including assignments, transfers, mortgages, charges, notices and instructions) as the Security Agent may reasonably specify (and in such form as the Security Agent may reasonably require in favor of the Security Agent or its nominees) from time to time:
 - (i) to perfect the Security created or intended to be created under or evidenced by the Collateral Documents (which may include the execution of a mortgage, charge, assignment or other Security over all or any of the assets that are, or are intended to be, the subject of the Transaction Security) or for the exercise of any rights, powers and remedies of the Security Agent or the Finance Parties provided by or pursuant to the Credit Documents or by law;

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- (ii) to confer on the Security Agent or confer on the Secured Parties Transaction Security over all of the assets of that Credit Party located in any jurisdiction equivalent or similar to the Transaction Security intended to be conferred by or pursuant to the Collateral Documents; or
 - (iii) to facilitate the realization of the assets that are, or are intended to be, the subject of the Transaction Security.
- (b) Each Credit Party shall (and the Borrower shall procure that each Group Member will), promptly after reasonable request from the Security Agent, at its own costs and expenses, take all such action as is available to it (including making all filings and registrations) as may be necessary for the purpose of the creation, perfection, protection or maintenance of any Transaction Security conferred or intended to be conferred on the Security Agent or the Secured Parties by or pursuant to the Credit Documents.
 - (c) Without prejudice to the rights of the Finance Parties under or arising under Section 8.1(i), if during the term of this Agreement any provision of any Credit Document ceases to be in full force and effect or any Transaction Security (or the ranking thereof) ceases to be legal, valid, binding, enforceable or effective or is alleged by a party to it to be ineffective, each Credit Party shall, at its own costs and expenses, do all such actions and undertake all such steps as the Facility Agent may reasonably request to remedy such circumstances.
 - (d) Subject to Sections 5.8(c) and 5.8(d) and the Agreed Security Principles, in the event that any Person becomes an Offshore Subsidiary of the Borrower after the Closing Date, the Borrower shall (i) promptly send to the Facility Agent written notice setting forth (x) the date on which such Person became a Subsidiary of the Borrower; and (y) the exact legal name, jurisdiction of organization, organizational identification number (if any), place of business and capital structure of such Person and all other information reasonably requested by the Facility Agent; (ii) promptly (and in any event within thirty (30) days after such Person becomes an Offshore Subsidiary) cause such Offshore Subsidiary to become a Guarantor hereunder by executing and delivering to the Facility Agent and the Security Agent a Counterpart Agreement and grant (and cause such Offshore Subsidiary to grant) a First Priority Lien in favor of the Security Agent, for the benefit of the Secured Parties, in all of the Equity Interests of such Offshore Subsidiary and substantially all of its assets; and (iii) take (and cause such Offshore Subsidiary to take) all such actions (including the actions set forth in Part D of Appendix F) and execute and deliver, or cause to be executed and delivered, all applicable Collateral Documents and such other documents, opinions, instruments, agreements, and certificates as reasonably requested by the Security Agent in connection with the protecting, perfecting or giving priority to such Transaction Security in all applicable jurisdictions.

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- (e) Subject to the Agreed Security Principles, in the event that any Person becomes an Onshore Group Member directly owned by the Borrower or any Offshore Subsidiaries after the Closing Date, the Borrower shall (i) promptly (and in any event within thirty (30) days after such Person becomes an Onshore Group Member) enter into Collateral Documents (and cause each applicable Offshore Subsidiary to enter into Collateral Documents) in favor of the Security Agent, for the benefit of the Secured Parties, covering all of the Equity Interests of (and any shareholder loans made to) such Onshore Group Member, and use their best efforts to (1) obtain the approval from the Ministry of Commerce of the PRC or its local counterpart for each such Collateral Document within sixty (60) days after the date of execution of such Collateral Document (or such later date as may be agreed by the Security Agent); and (2) within forty (45) days after receipt of such approval (or such later date as may be agreed by the Security Agent), file with, and obtain written document from applicable Governmental Authorities evidencing that the registration is completed with, the Administration of Industry and Commerce of the PRC or its local counterpart for each such Collateral Document; and (ii) take (and cause any applicable Offshore Subsidiary to take) all such actions and execute and deliver, or cause to be executed and delivered, all applicable Collateral Documents and such other documents, opinions, instruments, agreements, and certificates as reasonably requested by the Security Agent.
- (f) Subject always to the Agreed Security Principles, if there is any Change in Law in the PRC that allows any Onshore Material Group Member to provide a guarantee of the Obligations or to grant Transaction Security over its assets to the Security Agent, then at the request of the Security Agent, the Borrower shall (to the extent applicable given such Change in Law) cause each such Onshore Material Group Member to take all of the actions (including the actions set forth in Part D of Appendix F) and execute and deliver, or cause to be executed and delivered, all applicable Collateral Documents and such other documents, opinions, instruments, agreements, and certificates as reasonably requested by the Security Agent in order to become a "Guarantor" hereunder and in connection with the creation and perfection of valid and enforceable First Priority Liens over all of its assets, and the Borrower and the Facility Agent shall negotiate in good faith any conforming changes that would be required to be made to the Credit Documents.

5.24. Dividends Maximization Undertaking.

From and after June 1st of each year, starting with calendar year 2012, the Credit Parties shall cause their Onshore Subsidiaries to declare and pay (and as soon as lawfully permitted) Onshore Distributions to the maximum extent permitted under applicable law (including the applicable laws of the PRC) up to an aggregate total amount equal to the Required Annual Onshore Distribution Amount; provided that the Onshore Group Members shall be entitled to retain a minimum cash balance of RMB 500,000,000 (or its equivalent) at all times, notwithstanding the foregoing requirement. For purposes of the foregoing, (a) the "**Required Annual Onshore Distribution Amount**" shall mean, for any year in which any Onshore Distribution is required to be made by the Group Members, the total amount of distributable earnings of all of the Onshore Group Members (each calculated on a consolidated basis) directly owned by any Offshore Group Member for the most recently ended Fiscal Year; and (b) "distributable earnings" shall mean, for any year, (i) the total amount of net income of such Onshore Group Members for such year calculated on a consolidated basis in accordance with generally accepted accounting principles of the PRC in effect as of the date of determination thereof; minus (ii) any statutory reserves required by the applicable laws of the PRC.

5.25. Ongoing Accuracy of Information.

The Borrower shall ensure that any written factual information, including Financial Statements or other documents, furnished to any Finance Party in connection with this Agreement, any other Credit Document or any amendment or modification hereof or thereof, or waiver hereunder or thereunder, when taken as a whole, is or will be true, complete and correct in all material respects and does not, or will not when furnished, contain any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and the furnishing of such information shall be deemed to be a representation and warranty by the Borrower on the date thereof as to the matters specified in this Section.

5.26. Auditors and Accounting Practices.

- (a) The auditor for the Borrower and its Subsidiaries shall at all times be PricewaterhouseCoopers Zhong Tian CPAs Limited Company or another Auditor.
- (b) Each Credit Party shall (and the Borrower shall ensure each Group Member will) cause its Fiscal Year to end on December 31 of each calendar year.

5.27. Conditions Subsequent.

- (a) Within ninety (90) days after the Closing Date, the Borrower shall enter into and thereafter maintain Interest Rate Agreements in respect of notional amounts, in the aggregate, equal to at least 75% of the outstanding principal amount from time to time (taking into account scheduled repayments) of the Term Loans for a period ending at least three (3) years from the Closing Date; provided that if such Interest Rate Agreements are entered into (i) in the form of swaps or collars (or similar form), no premium or lump sum payments (other than the unwinding proceeds) are to be paid or received by the Borrower (or any other Group Member) during the life thereof; and (ii) in any other form, such Interest Rate Agreements are entered into at par or "at the money."

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- (b) In the event that, following the Closing Date, the RMB/USD exchange rate is above 6.50 for any period of five (5) consecutive Business Days, then as soon as reasonably practicable and in any event within thirty (30) days of the last day of such period, the Borrower shall (to the extent sufficient Currency Agreements to meet the criteria outlined in this paragraph have not already been entered into) enter into, or cause one or more Group Members to enter into, Currency Agreements in respect of notional amounts, in the aggregate, equal to at least 50% of the outstanding principal amount from time to time (taking into account any remaining scheduled repayments) of the Term Loans for a period through the Final Maturity Date; provided that if such Currency Agreements are entered into (i) in the form of swaps or collars (or similar form), no premium or lump sum payments (other than the unwinding proceeds) are to be paid or received by the Borrower (or any other Group Member) during the life thereof; and (ii) in any other form, such Currency Agreements are entered into at par or "at the money."
- (c) Subject to the Agreed Security Principles, as soon as reasonably practicable and in any event within forty-five (45) days after the Closing Date, the Borrower shall procure that the Target and each of its Offshore Subsidiaries (i) accedes as a Guarantor to this Agreement; and (ii) grants the Transaction Security in favor of the Security Agent that is contemplated by Part B of Appendix F, and carries out the actions set forth in Part D of Appendix F.
- (d) As soon as reasonably practicable and in any event within forty-five (45) days after the Closing Date, the Credit Parties shall (i) enter into Collateral Documents in favor of the Security Agent covering (A) the Equity Interests of each Onshore Group Member listed in Part C of Appendix F (collectively, the "**WFOE Share Pledge**"); and (B) the intercompany accounts receivable owed by each Onshore Group Member listed in Part C of Appendix F (collectively, the "**Onshore Accounts Receivable Pledge**"); (ii) provide certified copies of the register of shareholder (股东名册) and investment certificate (出资证明书) recording such WFOE Share Pledge; and (iii) provide documents reasonably requested by the Security Agent in connection with the registration with the Credit Reference Center of the PRC (中国人民银行征信中心) for each Onshore Accounts Receivable Pledge. The Credit Parties shall use their best efforts to carry out any action reasonably required by the Security Agent to protect, perfect or give priority to each WFOE Share Pledge, including best efforts in (1) obtaining the approval from the Ministry of Commerce of the PRC or its local counterpart for each WFOE Share Pledge within sixty (60) days after the date of execution of such WFOE Share Pledge (or such later date as may be agreed by the Security Agent); and (2) within forty-five (45) days after receipt of such approval (or such later date as may be agreed by the Security Agent), filing with, and obtaining written document from applicable Governmental Authorities evidencing that the registration is completed with, the Administration of Industry and Commerce of the PRC or its local counterpart for each WFOE Share Pledge.

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- (e) The Credit Parties shall at their cost and expense duly submit or cause to be submitted for registration with the Hong Kong Companies Registry the required particulars of the Collateral Documents executed on or prior to the Closing Date under which any Credit Party is incorporated in Hong Kong or is registered under Part XI of the Companies Ordinance as soon as reasonably practicable and in any event within thirty (30) days of execution of the relevant Collateral Documents.
 - (f) On the Closing Date, the Borrower shall deliver to the Security Agent a duly executed copy of Equitable Mortgage providing a charge over the Target Shares governed by Cayman Islands law, together with a copy of resolutions amending the Target's Articles of Association reasonably satisfactory to the Security Agent and within five (5) days after the Closing Date (i) a copy of such resolution certified by the registered office provider as being filed with the Cayman Islands Registrar of Companies; and (ii) an executed copy of the written legal opinion of Maples and Calder, Cayman Islands counsel to the Credit Parties, with respect to the Target being a party to such Equitable Mortgage in form and substance reasonably satisfactory to the Facility Agent.
 - (g) As soon as reasonably practicable and in any event within five (5) days after the Closing Date, the Borrower shall deliver to the Security Agent a copy of the register of charges and mortgages of the Borrower certified by its registered office provider showing details of all charges (including the charges under the Collateral Documents entered into on or prior to the Closing Date).
 - (h) As soon as reasonably practicable and in any event within five (5) days after the Closing Date, the Credit Parties shall deliver to the Security Agent (i) the original share certificate of the Target representing all of the shares pledged under the Collateral Documents; (ii) the accompanying endorsements or other transfer forms or instruments, executed in blank and left undated; (iii) the executed undated resignation letters of each of the directors of the Target, together with the accompanying resolutions of the directors of the Target approving such resignations and the appointment of new directors; (iv) a copy of members' register of the Target certified by its registered office provider showing a notation in relation to such share charge; and (v) a duly executed letter to the registered agent of the Target evidencing the recording of additional client of record contemplated in such share charge.
 - (i) The Credit Parties shall at their cost and expense take any other action reasonably required by the Security Agent to protect, perfect or give priority to the Transaction Security in all applicable jurisdictions (including the execution, delivery, filing and registration of all documents, notices, instruments within the relevant time period specified in the applicable Collateral Documents).

5.28. Minimum Initial Offshore Cash Balance.

- (a) From and after February 29, 2012 and until the date on which the first Installment of the Term Loans has been fully repaid or prepaid (the "**First Installment Repayment Period**"), the Borrower shall ensure that the Offshore Group Members maintain in the aggregate Available Cash plus amounts on deposit in the Interest Reserve Account in an amount equal to or greater than the Minimum Initial Offshore Cash Balance Requirement.
- (b) The Borrower shall cause the Onshore Group Members to declare and pay Dividends to the Offshore Group Members to the extent necessary to comply with Section 5.28(a) above.
- (c) For purposes of this Section, the "**Minimum Initial Offshore Cash Balance Requirement**" means, on any date of determination, (i) an amount of Available Cash plus amounts on deposit in the Interest Reserve Account equal to (ii) the sum of (A) US\$35,000,000; plus (B) the Borrower's estimated amount of costs and expenses (including interest payments on the Term Loans and the Existing 2010 Bonds) expected or required to be spent or incurred by the Offshore Group Members from the date of determination until July 31, 2012.
- (d) On or prior to February 29, 2012, the Borrower shall deliver a certificate to the Facility Agent confirming compliance with the foregoing and setting forth in reasonable detail the calculation of the relevant cash balances of the Offshore Group Members as of February 29, 2012.
- (e) The requirements of this Section shall cease to apply upon the earlier to occur of (i) the last day of the First Installment Repayment Period; and (ii) the date on which the Borrower has made voluntary prepayments of the Term Loans in an amount equal to or greater than US\$35,000,000.

SECTION 6. NEGATIVE COVENANTS

Each Credit Party covenants and agrees that, so long as any Commitment is in effect and until payment in full of all Obligations, such Credit Party shall perform, and shall cause each of its Subsidiaries to perform, all covenants in this Section.

6.1. Financial Covenants.

- (a) Consolidated Total Debt to Consolidated Capitalization Ratio. The Borrower shall not permit the ratio of Consolidated Total Debt to Consolidated Capitalization as of each Quarterly Date set forth in the table below to exceed the correlative ratio indicated:

<u>Quarterly Date</u>	<u>Consolidated Total Debt to Consolidated Capitalization Ratio</u>
December 31, 2011	0.50:1.00

<u>Quarterly Date</u>	<u>Consolidated Total Debt to Consolidated Capitalization Ratio</u>
March 31, 2012	0.50:1.00
June 30, 2012	0.50:1.00
September 30, 2012	0.50:1.00
December 31, 2012	0.50:1.00
March 31, 2013	0.45:1.00
June 30, 2013	0.45:1.00
September 30, 2013	0.45:1.00
December 31, 2013	0.45:1.00
March 31, 2014 and each Quarterly Date thereafter	0.35:1.00

- (b) Debt Service Coverage Ratio. The Borrower shall not permit the Debt Service Coverage Ratio as of each Quarterly Date set forth in the table below to be less than the correlative ratio indicated:

<u>Quarterly Date</u>	<u>Debt Service Coverage Ratio</u>
December 31, 2011	1.25:1.00
March 31, 2012	1.25:1.00
June 30, 2012	1.25:1.00
September 30, 2012	1.25:1.00
December 31, 2012	1.25:1.00
March 31, 2013	1.35:1.00
June 30, 2013	1.35:1.00
September 30, 2013	1.35:1.00
December 31, 2013	1.35:1.00
March 31, 2014 and each Quarterly Date thereafter	1.50:1.00

- (c) Leverage Ratio. The Borrower shall not permit the Leverage Ratio as of each Quarterly Date set forth in the table below to exceed the correlative ratio indicated:

<u>Quarterly Date</u>	<u>Leverage Ratio</u>
December 31, 2011	3.00:1.00
March 31, 2012	3.00:1.00
June 30, 2012	3.00:1.00
September 30, 2012	2.50:1.00

Quarterly Date	Leverage Ratio
December 31, 2012	2.50:1.00
March 31, 2013	2.00:1.00
June 30, 2013	2.00:1.00
September 30, 2013 and each Quarterly Date thereafter	1.50:1.00

(d) Capital Expenditures.

- (i) The Borrower shall not, and shall not permit its Subsidiaries to, make or incur Consolidated Capital Expenditures, in any Fiscal Year indicated below, in an aggregate amount for the Borrower and its Subsidiaries in excess of the corresponding amount set forth below opposite such Fiscal Year:

Fiscal Year		Maximum Consolidated Capital Expenditures
2011	US\$	135,000,000
2012	US\$	180,000,000
2013	US\$	240,000,000
2014 and each Fiscal Year thereafter	US\$	295,000,000

- (ii) To the extent that Consolidated Capital Expenditures made by the Borrower and its Subsidiaries in any Fiscal Year are less than the amount set forth above opposite such Fiscal Year, 50% of such unused amount (the "Carry Forward Amount") may be carried forward to the immediately succeeding Fiscal Year (but not any subsequent period). Any Carry Forward Amount carried forward into the immediately succeeding Fiscal Year shall be deemed to be spent prior to any other Consolidated Capital Expenditure incurred during such subsequent Fiscal Year.

(e) Certain Calculations.

With respect to any period during which a Permitted Acquisition has occurred, for purposes of determining compliance with the financial covenants set forth in this Section, Consolidated EBITDA, Consolidated Total Debt, Consolidated Total Capitalization and the components of Debt Service Coverage Ratio shall be calculated with respect to such period on a pro forma basis (including pro forma adjustments arising out of events that are directly attributable to a specific transaction, are factually supportable and are expected to have a continuing impact, in each case determined on a basis consistent with Article 11 of Regulation S-X promulgated under the Securities Act and as interpreted by the staff of the SEC, which would include cost savings resulting from head count reduction, closure of facilities and similar restructuring charges, which pro forma adjustments shall be certified by the chief financial officer of the Borrower) using the historical audited financial statements of any business so acquired or to be acquired or sold or to be sold and the consolidated financial statements of the Group, which shall be reformulated as if (i) such Permitted Acquisition, and (ii) any Indebtedness incurred or repaid in connection therewith, in each case had been consummated or incurred or repaid at the beginning of such period (and assuming that such Indebtedness bears interest during any portion of the applicable measurement period prior to the relevant acquisition at the weighted average of the interest rates applicable to outstanding Term Loans incurred during such period).

(f) First Testing.

Notwithstanding anything to the contrary contained in this Section, if the Closing Date occurs after September 30, 2011, then the Borrower shall not be required to comply with the requirements of paragraphs (a), (b) and (c) of this Section in respect of December 31, 2011.

(g) Non-Remediability.

For the avoidance of doubt, the failure of the Borrower to comply with its obligations in this Section shall not be remediable.

6.2. Merger.

No Credit Party shall (and the Borrower shall ensure that no other Group Member will) enter into any amalgamation, demerger, merger, consolidation or corporate reconstruction other than a Permitted Transaction.

6.3. Change of Business.

No Credit Party shall (and the Borrower shall ensure that no other Group Member will) make any substantial change to the general nature of the business of the Borrower, the Credit Parties or the Group taken as a whole from that carried on by the Group at the Signing Date.

6.4. Acquisitions.

(a) Except as permitted under paragraph (b) below, no Credit Party shall (and the Borrower shall ensure that no other Group Member will):

- (i) acquire a company or any other Equity Interests or a business or undertaking (or, in each case, any interest in any of them); or
- (ii) incorporate a company or form a Person.

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- (b) Paragraph (a) above does not apply to an acquisition of a company or other Equity Interest or a business or undertaking (or, in each case, any interest in any of them) or the incorporation of a company for formation of a Person that is:
 - (i) a Permitted Acquisition; or
 - (ii) a Permitted Transaction.

6.5. Joint Ventures.

- (a) Except as permitted under paragraph (b) below, no Credit Party shall (and the Borrower shall ensure that no other Group Member will):
 - (i) enter into, invest in or acquire (or agree to acquire) any Equity Interests or other interests in any Joint Venture; or
 - (ii) transfer any assets or lend to or guarantee or give an indemnity for or grant a Lien in its assets to secure the obligations of a Joint Venture or maintain the solvency of or provide working capital to any Joint Venture (or agree to do any of the foregoing).
- (b) Paragraph (a) above does not apply to any acquisition of (or agreement to acquire) any interest in a Joint Venture or transfer of assets (or agreement to transfer assets) to a Joint Venture or loan made to or guarantee given in respect of the obligations of a Joint Venture if such transaction is a Permitted Acquisition, a Permitted Disposal, a Permitted Loan or a Permitted Joint Venture.

6.6. Holding Companies.

No Credit Party shall (and the Borrower shall ensure that no other Offshore Group Member will) trade, carry on any business, own any assets or incur any Indebtedness or any other obligations or liabilities except for:

- (a) the provision of administrative services (excluding treasury services) to other Group Members of a type customarily provided by a holding company to its Subsidiaries;
- (b) ownership of Equity Interests in its Subsidiaries, Intellectual Property, intra-Group debit balances, intra-Group credit balances and other credit balances in bank accounts, cash and Cash Equivalents but only if those Equity Interests, credit balances, cash and Cash Equivalents are subject to the Transaction Security;
- (c) repayment or conversion in accordance with the terms thereof of the Existing 2001 Bond and the Existing 2010 Bond; and
- (d) incurring any liabilities and performing any obligations under the Transaction Documents to which it is a party; and

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- (e) incurring professional fees and administration costs, and performing any other activities, in each case in the normal and ordinary course of business as a holding company (including, in the case of the Borrower, as a publically listed company).

6.7. Negative Pledge.

- (a) Except as permitted under paragraph (b) below, no Credit Party shall (and the Borrower shall ensure that no other Group Member will) create or permit to subsist any Lien or Quasi-Security over any of its assets.
- (b) Paragraph (a) does not apply to any Lien or Quasi-Security that is:
 - (i) Permitted Security; or
 - (ii) a Permitted Transaction.

6.8. Disposals.

- (a) Except as permitted under paragraph (b) below, no Credit Party shall (and the Borrower shall ensure that no Group Member will) Dispose of any asset.
- (b) Paragraph (a) above does not apply to any Disposal that is:
 - (i) a Permitted Disposal; or
 - (ii) a Permitted Transaction.

6.9. Arm's Length Basis.

- (a) Except as permitted by paragraph (b) below, no Credit Party shall (and the Borrower shall ensure no Group Member will), directly or indirectly, enter into any transaction with any Person (other than the Borrower or any of its wholly-owned Subsidiaries) except on arm's length terms.
- (b) The following transactions shall not be a breach of Section 6.9(a):
 - (i) any Permitted Transaction;
 - (ii) reasonable and customary fees paid to members of the board of directors (or similar governing body) of the Borrower and its Subsidiaries; or
 - (iii) compensation arrangements for officers and other employees of the Borrower and its Subsidiaries entered into in the ordinary course of business.

6.10. Loans or Credit.

- (a) Except as permitted under paragraph (b) below, no Credit Party shall (and the Borrower shall ensure that no other Group Member will) be a creditor in respect of any Indebtedness.

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- (b) Paragraph (a) above does not apply to:
 - (i) a Permitted Loan; or
 - (ii) a Permitted Transaction.

6.11. No Guarantees or Indemnities.

- (a) Except as permitted under paragraph (b) below, no Credit Party shall (and the Borrower shall ensure that no other Group Member will) incur or allow to remain outstanding any guarantee in respect of any obligation of any Person.
- (b) Paragraph (a) does not apply to a guarantee that is:
 - (i) a Permitted Loan;
 - (ii) a Permitted Guarantee; or
 - (iii) a Permitted Transaction.

6.12. Dividends and Share Redemption.

- (a) Except as permitted under paragraph (b) below, no Credit Party shall (and the Borrower shall ensure that no other Group Member will):
 - (i) declare, make or pay any Dividend on or in respect of its Equity Interests;
 - (ii) repay or distribute any Dividend or share premium reserve;
 - (iii) pay or allow any Group Member to pay any management, advisory or other fee to or to the order of any of the shareholders of the Borrower; or
 - (iv) redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so, or make any Restricted Payment.
- (b) Paragraph (a) above does not apply to:
 - (i) a Permitted Distribution; or
 - (ii) a Permitted Transaction (other than one referred to in paragraph (c) of the definition of that term).

6.13. Financial Indebtedness.

- (a) Except as permitted under paragraph (b) below, no Credit Party shall (and the Borrower shall ensure that no other Group Member will) incur or allow to remain outstanding any Indebtedness.
- (b) Paragraph (a) above does not apply to Indebtedness that is:
 - (i) Permitted Indebtedness; or

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- (ii) a Permitted Transaction.

6.14. Amendments to Transaction and Organizational Documents.

- (a) No Credit Party shall amend, vary, novate, supplement, supersede, waive or terminate any term of any Acquisition Document and any documents executed in connection therewith without (i) on or prior to the Closing Date, the prior written consent of the Initial Mandated Lead Arrangers; and (ii) after the Closing Date, the prior written consent of the Majority Lenders if such amendment, restatement, waiver or termination would have a material adverse effect on the interests of the Lenders or would result in a waiver or release of a claim in an aggregate amount of more than US\$10,000,000 (or its equivalent).
- (b) No Credit Party shall amend, vary, novate, supplement, supersede, waive or terminate any term of any Organizational Document of such Credit Party delivered to the Facility Agent pursuant to Section 3.1, 5.23 or 5.27 (as the case may be) except in a way that either individually or in the aggregate could not be reasonably expected to materially and adversely affect the interests of the Lenders or the other Finance Parties.

6.15. Security and Share Capital.

No Credit Party shall (and the Borrower shall ensure no other Group Member will) issue any Equity Interests except pursuant to:

- (a) a Permitted Share Issue; or
- (b) a Permitted Transaction.

6.16. Sanctions.

Each Credit Party shall (and the Borrower shall ensure that each other Group Member will) ensure that:

- (a) no Group Member (i) is or becomes a Designated Person or a Sanctioned Entity; (ii) has a more than 10% of its assets located in Sanctioned Entities; or (iii) derives more than 10% of its operating income from investments in, or transactions with, Designated Persons or Sanctioned Entities;
- (b) the proceeds of the Term Loans will not be used, directly or indirectly, (i) for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, or (ii) to fund any operations in, finance any investments or activities in or make any payments to, a Designated Person or a Sanctioned Entity, or any other business activities that are subject to sanctions, restrictions or embargoes imposed by any Sanctioning Governmental Authorities;

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- (c) no Group Member engages in any transaction that violates any of the applicable prohibitions set forth in any Anti-Terrorism Law;
 - (d) none of the funds or assets of any Credit Party that are used to repay any Obligation under the Credit Documents shall constitute property of, or shall be beneficially owned directly or indirectly by, any Designated Person or Sanctioned Entity and no Designated Person nor any Sanctioned Entity shall have or acquire any direct or indirect interest in any Group Member that would constitute a violation of any Anti-Terrorism Laws; and
 - (e) no Group Member funds all or part of any payment under this Agreement or any other Credit Document out of proceeds derived from transactions that violate the prohibitions set forth in any Anti-Terrorism Law.

SECTION 7. GUARANTY

7.1. Guaranty of the Obligations.

Subject to the provisions of Section 7.2, each Guarantor jointly and severally hereby irrevocably and unconditionally guaranties to the Facility Agent for the ratable benefit of the Beneficiaries the due and punctual payment in full of all Obligations when the same shall become due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (collectively, the "**Guaranteed Obligations**").

7.2. Contribution by Guarantors.

All Guarantors desire to allocate among themselves (collectively, the "**Contributing Guarantors**"), in a fair and equitable manner, their obligations arising under this Guaranty. Accordingly, in the event any payment or distribution is made on any date by a Guarantor (a "**Funding Guarantor**") under this Guaranty such that its Aggregate Payments exceeds its Fair Share as of such date, such Funding Guarantor shall be entitled to a contribution from each of the other Contributing Guarantors in an amount sufficient to cause each Contributing Guarantor's Aggregate Payments to equal its Fair Share as of such date.

"**Fair Share**" means, with respect to a Contributing Guarantor as of any date of determination, an amount equal to (a) the ratio of (i) the Fair Share Contribution Amount with respect to such Contributing Guarantor; to (ii) the aggregate of the Fair Share Contribution Amounts with respect to all Contributing Guarantors multiplied by (b) the aggregate amount paid or distributed on or before such date by all Funding Guarantors under this Guaranty in respect of the obligations Guaranteed.

"Fair Share Contribution Amount" means, with respect to a Contributing Guarantor as of any date of determination, the maximum aggregate amount of the obligations of such Contributing Guarantor under this Guaranty that would not render its obligations hereunder or thereunder subject to avoidance as a fraudulent transfer or conveyance under applicable law; provided that solely for purposes of calculating the Fair Share Contribution Amount with respect to any Contributing Guarantor for purposes of Section 7.2, any assets or liabilities of such Contributing Guarantor arising by virtue of any rights to subrogation, reimbursement or indemnification or any rights to or obligations of contribution hereunder shall not be considered as assets or liabilities of such Contributing Guarantor.

"Aggregate Payments" means, with respect to a Contributing Guarantor as of any date of determination, an amount equal to (a) the aggregate amount of all payments and distributions made on or before such date by such Contributing Guarantor in respect of this Guaranty (including in respect of this Section), minus (b) the aggregate amount of all payments received on or before such date by such Contributing Guarantor from the other Contributing Guarantors as contributions under this Section. The amounts payable as contributions hereunder shall be determined as of the date on which the related payment or distribution is made by the applicable Funding Guarantor. The allocation among Contributing Guarantors of their obligations as set forth in this Section shall not be construed in any way to limit the liability of any Contributing Guarantor hereunder. Each Guarantor is a third party beneficiary to the contribution agreement set forth in this Section.

7.3. Payment by Guarantors.

Subject to Section 7.2, the Guarantors hereby jointly and severally agree, in furtherance of the foregoing and not in limitation of any other right that any Beneficiary may have at law or in equity against any Guarantor by virtue hereof, that upon the failure of the Borrower to pay any of the Guaranteed Obligations when and as the same shall become due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including amounts that would become due but for the operation of an automatic stay under applicable law), the Guarantors will upon demand pay, or cause to be paid, in cash, to the Facility Agent for the ratable benefit of Beneficiaries, an amount equal to the sum of the unpaid principal amount of all Guaranteed Obligations then due as aforesaid, accrued and unpaid interest on such Guaranteed Obligations (including interest that, but for the Borrower's becoming the subject to a Bankruptcy Event, would have accrued on such Guaranteed Obligations, whether or not a claim is allowed against the Borrower for such interest in the related Bankruptcy Event) and all other Guaranteed Obligations then owed to Beneficiaries as aforesaid.

7.4. Liability of Guarantors Absolute.

- (a) Each Guarantor agrees that its obligations hereunder are irrevocable, absolute, independent and unconditional and shall not be affected by any circumstance that constitutes a legal or equitable discharge of a guarantor or surety other than payment in full in cash of the Guaranteed Obligations. In furtherance of the foregoing and without limiting the generality thereof, each Guarantor agrees as follows:
 - (i) this Guaranty is a guaranty of payment when due and not of collectability;

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- (ii) the Facility Agent may enforce this Guaranty upon the occurrence of an Event of Default notwithstanding the existence of any dispute between the Borrower and any Beneficiary with respect to the existence of such Event of Default;
 - (iii) the obligations of each Guarantor hereunder are independent of the obligations of the Borrower and the obligations of any other guarantor (including any other Guarantor) and the obligations of the Borrower, and a separate action or actions may be brought and prosecuted against each Guarantor whether or not any action is brought against the Borrower or any other Guarantors and whether or not the Borrower is joined in any such action or actions;
 - (iv) payment by any Guarantor of a portion, but not all, of the Guaranteed Obligations shall in no way limit, affect, modify or abridge any Guarantor's liability for any portion of the Guaranteed Obligations that has not been paid; and without limiting the generality of the foregoing, if the Facility Agent is awarded a judgment in any suit brought to enforce any Guarantor's covenant to pay a portion of the Guaranteed Obligations, such judgment shall not be deemed to release such Guarantor from its covenant to pay the portion of the Guaranteed Obligations that is not the subject of such suit, and such judgment shall not, except to the extent satisfied by such Guarantor, limit, affect, modify or abridge any other Guarantor's liability hereunder in respect of the Guaranteed Obligations;
 - (v) any Beneficiary, upon such terms as it deems appropriate, without notice or demand and without affecting the validity or enforceability hereof or giving rise to any reduction, limitation, impairment, discharge or termination of any Guarantor's liability hereunder, from time to time may (i) renew, extend, accelerate, increase the rate of interest on, or otherwise change the time, place, manner or terms of payment of the Guaranteed Obligations; (ii) settle, compromise, release or discharge, or accept or refuse any offer of performance with respect to, or substitutions for, the Guaranteed Obligations or any agreement relating thereto or subordinate the payment of the same to the payment of any other obligations; (iii) request and accept other guaranties of the Guaranteed Obligations and take and hold security for the payment hereof or the Guaranteed Obligations; (iv) release, surrender, exchange, substitute, compromise, settle, rescind, waive, alter, subordinate or modify, with or without consideration, any security for payment of the Guaranteed Obligations, any other guaranties of the Guaranteed Obligations, or any other obligation of any Person (including any other Guarantor) with respect to the Guaranteed Obligations; (v) enforce and apply any security now or hereafter held by or for the benefit of such Beneficiary in respect hereof or the Guaranteed Obligations and direct the order or manner of sale thereof, or exercise any other right or remedy that such Beneficiary may have against any such security, in each case as such Beneficiary in its discretion may determine consistent herewith and any applicable security agreement, including foreclosure on any such security pursuant to one or more judicial or nonjudicial sales, whether or not every aspect of any such sale is commercially reasonable, and even though such action operates to impair or extinguish any right of reimbursement or subrogation or other right or remedy of any Guarantor against the Borrower or any security for the Guaranteed Obligations; and (vi) exercise any other rights available to it under the Credit Documents or any Hedging Agreements; and

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- (vi) this Guaranty and the obligations of Guarantors hereunder shall be valid and enforceable and shall not be subject to any reduction, limitation, impairment, discharge or termination for any reason (other than payment in full in cash of the Guaranteed Obligations), including the occurrence of any of the following, whether or not any Guarantor shall have had notice or knowledge of any of them: (i) any failure or omission to assert or enforce or agreement or election not to assert or enforce, or the stay or enjoining, by order of court, by operation of law or otherwise, of the exercise or enforcement of, any claim or demand or any right, power or remedy (whether arising under the Credit Documents or any Hedging Agreements, at law, in equity or otherwise) with respect to the Guaranteed Obligations or any agreement relating thereto, or with respect to any other guaranty of or security for the payment of the Guaranteed Obligations; (ii) any rescission, waiver, amendment or modification of, or any consent to departure from, any of the terms or provisions (including provisions relating to events of default) hereof, any of the other Credit Documents, any of the Hedging Agreements or any agreement or instrument executed pursuant thereto, or of any other guaranty or security for the Guaranteed Obligations, in each case whether or not in accordance with the terms hereof or such Credit Document, such Hedging Agreement or any agreement relating to such other guaranty or security; (iii) the Guaranteed Obligations, or any agreement relating thereto, at any time being found to be illegal, invalid or unenforceable in any respect; (iv) the application of payments received from any source (other than payments received pursuant to the other Credit Documents or any of the Hedging Agreements or from the proceeds of any security for the Guaranteed Obligations, except to the extent such security also serves as collateral for indebtedness other than the Guaranteed Obligations) to the payment of indebtedness other than the Guaranteed Obligations, even though any Beneficiary might have elected to apply such payment to any part or all of the Guaranteed Obligations; (v) any Beneficiary's consent to the change, reorganization or termination of the corporate structure or existence of the Borrower or any of its Subsidiaries and to any corresponding restructuring of the Guaranteed Obligations; (vi) any failure to perfect or continue perfection of a Lien in any collateral that secures any of the Guaranteed Obligations; (vii) any defenses, set-offs or counterclaims that the Borrower may allege or assert against any Beneficiary in respect of the Guaranteed Obligations, including failure of consideration, breach of warranty, payment, statute of frauds, statute of limitations, accord and satisfaction and usury; and (viii) any other act or thing or omission, or delay to do any other act or thing that may or might in any manner or to any extent vary the risk of any Guarantor as an obligor in respect of the Guaranteed Obligations.

(b) This Guaranty is a primary obligation of each Guarantor and not merely a contract of surety.

7.5. Waivers by Guarantors.

Each Guarantor hereby waives, for the benefit of Beneficiaries, (a) any right to require any Beneficiary, as a condition of payment or performance by such Guarantor, to (i) proceed against the Borrower, any other guarantor (including any other Guarantor) of the Guaranteed Obligations or any other Person; (ii) proceed against or exhaust any security held from the Borrower, any such other guarantor or any other Person; (iii) proceed against or have resort to any balance of any deposit account or credit on the books of any Beneficiary in favor of the Borrower or any other Person; or (iv) pursue any other remedy in the power of any Beneficiary whatsoever; (b) any defense arising by reason of the incapacity, lack of authority or any disability or other defense of the Borrower or any other Guarantor including any defense based on or arising out of the lack of validity or the unenforceability of the Guaranteed Obligations or any agreement or instrument relating thereto or by reason of the cessation of the liability of the Borrower or any other Guarantor from any cause other than payment in full of the Guaranteed Obligations; (c) any defense based upon any statute or rule of law that provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal; (d) any defense based upon any Beneficiary's errors or omissions in the administration of the Guaranteed Obligations, except behavior that amounts to bad faith; (e) (i) any principles or provisions of law, statutory or otherwise, that are or might be in conflict with the terms hereof and any legal or equitable discharge of such Guarantor's obligations hereunder; (ii) the benefit of any statute of limitations affecting such Guarantor's liability hereunder or the enforcement hereof; (iii) any rights to set-offs, recoupments and counterclaims; and (iv) promptness, diligence and any requirement that any Beneficiary protect, secure, perfect or insure any security interest or lien or any assets subject thereto; (f) notices, demands, presentments, protests, notices of protest, notices of dishonor and notices of any action or inaction, including acceptance hereof, notices of default hereunder, under the Hedging Agreements or under any agreement or instrument related thereto, notices of any renewal, extension or modification of the Guaranteed Obligations or any agreement related thereto, notices of any extension of credit to the Borrower and notices of any of the matters referred to in Section 7.4 and any right to consent to any thereof; and (g) any defenses or benefits that may be derived from or afforded by law that limit the liability of or exonerate guarantors or sureties, or that may conflict with the terms hereof.

7.6. Guarantors' Rights of Subrogation, Contribution, etc.

Until the Guaranteed Obligations shall have been indefeasibly paid in full, each Guarantor hereby waives any claim, right or remedy, direct or indirect, that such Guarantor now has or may hereafter have against the Borrower or any other Guarantor or any of its assets in connection with this Guaranty or the performance by such Guarantor of its obligations hereunder, in each case whether such claim, right or remedy arises in equity, under contract, by statute, under common law or otherwise and including (a) any right of subrogation, reimbursement or indemnification that such Guarantor now has or may hereafter have against the Borrower with respect to the Guaranteed Obligations; (b) any right to enforce, or to participate in, any claim, right or remedy that any Beneficiary now has or may hereafter have against the Borrower; and (c) any benefit of, and any right to participate in, any collateral or security now or hereafter held by any Beneficiary. In addition, until the Guaranteed Obligations shall have been indefeasibly paid in full, each Guarantor shall withhold exercise of any right of contribution such Guarantor may have against any other guarantor (including any other Guarantor) of the Guaranteed Obligations, including any such right of contribution as contemplated by Section 7.2. Each Guarantor further agrees that, to the extent the waiver or agreement to withhold the exercise of its rights of subrogation, reimbursement, indemnification and contribution as set forth herein is found by a court of competent jurisdiction to be void or voidable for any reason, any rights of subrogation, reimbursement or indemnification such Guarantor may have against the Borrower or against any collateral or security, and any rights of contribution such Guarantor may have against any such other guarantor, shall be junior and subordinate to any rights any Beneficiary may have against the Borrower, to all right, title and interest any Beneficiary may have in any such collateral or security, and to any right any Beneficiary may have against such other guarantor. If any amount shall be paid to any Guarantor on account of any such subrogation, reimbursement, indemnification or contribution rights at any time when all Guaranteed Obligations shall not have been finally and indefeasibly paid in full, such amount shall be held in trust for the Facility Agent on behalf of Beneficiaries and shall forthwith be paid over to the Facility Agent for the benefit of Beneficiaries to be credited and applied against the Guaranteed Obligations, whether matured or unmatured, in accordance with the terms hereof.

7.7. Subordination of Other Obligations.

Any Indebtedness of the Borrower or any other Guarantor now or hereafter held by any Guarantor shall be subordinated in right of payment to the Guaranteed Obligations, as set forth in the Intercreditor Agreement.

7.8. Continuing Guaranty.

This Guaranty is a continuing guaranty and shall remain in effect until all of the Guaranteed Obligations shall have been paid in full. Each Guarantor hereby irrevocably waives any right to revoke this Guaranty as to future transactions giving rise to any Guaranteed Obligations.

7.9. Authority of Guarantors or the Borrower.

It is not necessary for any Beneficiary to inquire into the capacity or powers of any Guarantor or the Borrower or the officers, directors or any agents acting or purporting to act on behalf of any of them.

7.10. Financial Condition of the Borrower.

Any Term Loan may be made to the Borrower or continued from time to time, and any Hedging Agreements may be entered into from time to time, in each case without notice to or authorization from any Guarantor regardless of the financial or other condition of the Borrower at the time of any such grant or continuation or at the time such Hedging Agreement is entered into, as the case may be. No Beneficiary shall have any obligation to disclose or discuss with any Guarantor its assessment, or any Guarantor's assessment, of the financial condition of the Borrower. Each Guarantor has adequate means to obtain information from the Borrower on a continuing basis concerning the financial condition of the Borrower and its ability to perform its obligations under the Credit Documents and the Hedging Agreements, and each Guarantor assumes the responsibility for being and keeping informed of the financial condition of the Borrower and of all circumstances bearing upon the risk of nonpayment of the Guaranteed Obligations. Each Guarantor hereby waives and relinquishes any duty on the part of any Beneficiary to disclose any matter, fact or thing relating to the business, operations or conditions of the Borrower now known or hereafter known by any Beneficiary.

7.11. Bankruptcy.

- (a) So long as any Guaranteed Obligations remain outstanding, no Guarantor shall, without the prior written consent of the Facility Agent acting pursuant to the instructions of the Majority Lenders, commence or join with any other Person in commencing, or participate in or maintain, any Bankruptcy Event. The obligations of Guarantors hereunder shall not be reduced, limited, impaired, discharged, deferred, suspended or terminated by any case or proceeding, voluntary or involuntary, involving a Bankruptcy Event of the Borrower or any other Guarantor or by any defense that the Borrower or any other Guarantor may have by reason of the order, decree or decision of any court or administrative body resulting from any such proceeding.
- (b) Each Guarantor acknowledges and agrees that any interest on any portion of the Guaranteed Obligations that accrues after the commencement of any case or proceeding referred to in clause (a) above (or, if interest on any portion of the Guaranteed Obligations ceases to accrue by operation of law by reason of the commencement of such case or proceeding, such interest as would have accrued on such portion of the Guaranteed Obligations if such case or proceeding had not been commenced) shall be included in the Guaranteed Obligations because it is the intention of Guarantors and Beneficiaries that the Guaranteed Obligations that are guaranteed by Guarantors pursuant hereto should be determined without regard to any rule of law or order that may relieve the Borrower of any portion of such Guaranteed Obligations. Guarantors will permit any trustee in bankruptcy, receiver, debtor in possession, assignee for the benefit of creditors or similar Person to pay the Facility Agent, or allow the claim of the Facility Agent in respect of, any such interest accruing after the date on which such case or proceeding is commenced.

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- (c) In the event that all or any portion of the Guaranteed Obligations are paid by the Borrower, the obligations of Guarantors hereunder shall continue and remain in full force and effect or be reinstated, as the case may be, in the event that all or any part of such payments are rescinded or recovered directly or indirectly from any Beneficiary as a preference, fraudulent transfer or otherwise, and any such payments that are so rescinded or recovered shall constitute Guaranteed Obligations for all purposes hereunder.

7.12. Termination.

The obligations of all Guarantors shall terminate on the date on which all Obligations are indefeasibly paid in full in cash. In connection with such termination, the Security Agent shall, at the request of the Borrower, execute and deliver to the Borrower and such Guarantor, at the sole costs and expenses of the Borrower or such Guarantor, all documents that such Guarantor or the Borrower may reasonably request to evidence such termination, in each case without any recourse, representation or warranty.

SECTION 8. EVENTS OF DEFAULT

8.1. Events of Default.

Each of the following conditions or events shall be an Event of Default:

- (a) Non-Payment. Failure by the Borrower to pay (i) when due any installment of principal of any Term Loan, whether at stated maturity, by acceleration, by notice of voluntary prepayment, by mandatory prepayment or otherwise; or (ii) any interest on any Term Loan or any fee or any other amount due hereunder within five (5) days after the date due.
- (b) Breach of Financial Covenants and Certain Other Covenants. Failure of any Credit Party to perform or comply with any term or condition contained in Section 2.3, Sections 5.1, Section 5.2, Section 5.7, or Section 6.1.
- (c) Breach of Other Covenants Under Credit Documents. Any Credit Party shall default in the performance of or compliance with any term contained herein or any of the other Credit Documents, other than any such term referred to in any other clause of Section 8.1, and such default (if fully remediable) shall not have been remedied or waived within fifteen (15) Business Days after the earlier of (i) an officer or director of such Credit Party becoming aware of such default; or (ii) receipt by the Borrower of notice from the Facility Agent or any Lender of such default.

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- (d) Misrepresentations. Any representation, warranty, certification or other statement made or deemed made by any Credit Party in any Credit Document or in any certificate or document at any time given by any Credit Party or any of its Subsidiaries in writing to any Finance Party pursuant to this Agreement or such other Credit Document shall be incorrect or misleading as of the date made or deemed made; and such default (if fully remediable) shall not have been remedied or waived within fifteen (15) Business Days after the earlier of (i) an officer or director becoming aware of such default; or (ii) receipt by the Borrower of notice from the Facility Agent or any Lender of such default.
- (e) Cross Default. The (i) failure of any Credit Party or any of their respective Subsidiaries to pay when due any principal of or interest on or any other amount payable in respect of one or more items of Indebtedness (other than Indebtedness referred to in Section 8.1(a)) with an aggregate principal amount of US\$10,000,000 (or its equivalent) or more, in each case beyond the grace period, if any, provided therefor; or (ii) breach or default by any Credit Party with respect to any other material term of (1) one or more items of Indebtedness in the individual or aggregate principal amounts referred to in clause (i) above; or (2) any loan agreement, mortgage, indenture or other agreement relating to such items of Indebtedness in the individual or aggregate principal amounts referred to in clause (i) above, in each case beyond the grace period, if any, provided therefor, if the effect of such breach or default is to cause, or to permit the holder or holders of that Indebtedness (or a trustee on behalf of such holder or holders), to cause, that Indebtedness to become or be declared due and payable (or redeemable) prior to its stated maturity or the stated maturity of any underlying obligation, as the case may be.
- (f) Insolvency.
- (i) Any Credit Party or Material Group Member is unable or admits inability to pay its debts as they fall due or is deemed to or declared to be unable to pay its debts under applicable law, suspends or threatens to suspend making payments on any of its debts by reason of actual or anticipated financial difficulties, or commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness.
 - (ii) The value of the assets of any Credit Party is less than its liabilities.
 - (iii) A moratorium is declared in respect of the indebtedness of any Credit Party or Material Group Member. If such a moratorium occurs, the ending of the moratorium will not remedy any Event of Default caused by that moratorium.
- (g) Insolvency Proceedings.
- (i) Any corporate or similar action, legal proceedings or other procedure or step is taken in relation to:
 - (1) bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganization (by way of voluntary arrangement, scheme of arrangement or otherwise) of any Credit Party or Material Group Member;

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- (2) a general assignment for the benefit of creditors of any Credit Party or Material Group Member;
 - (3) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of any Credit Party or Material Group Member or any of its assets; or
 - (4) enforcement of any Lien over any assets of any Group Member having an aggregate fair market value of US \$5,000,000 (or its equivalent) or more from and after the Signing Date, or any analogous procedure or step is taken in any jurisdiction.
- (ii) Paragraph (i) shall not apply to:
- (1) any winding-up petition that is frivolous or vexatious and is discharged, stayed or dismissed within twenty (20) Business Days of commencement (or within sixty (60) days of commencement, if the Facility Agent has received a certificate from the chief financial officer of the Borrower within such twenty (20) Business Day period certifying that such winding-up petition is frivolous or vexatious and the applicable Group Member is solvent);
 - (2) any step taken to appoint a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of any Credit Party or Material Group Member or any of its assets if the Facility Agent (acting reasonably) is satisfied that such step will be withdrawn or be unsuccessful; or
 - (3) any step or procedure contemplated by paragraph (b) of the definition of Permitted Transaction.
- (h) Creditors' Process. Any creditor's expropriation, attachment, sequestration, distress or execution or any analogous process in any jurisdiction affects any asset or assets of a Credit Party or Material Group Member having an aggregate value of US\$10,000,000 (or its equivalent) and is not discharged within twenty (20) Business Days (or within sixty (60) days of commencement, if the Facility Agent has received a certificate from the chief financial officer of the Borrower within such twenty (20) Business Day period certifying that such process is frivolous or vexatious).

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- (i) Unlawfulness and Invalidity: Transaction Security.
- (i) Subject to the Legal Reservations, it is or becomes unlawful for a Credit Party to perform any of its obligations under the Credit Documents or any Transaction Security created or expressed to be created or evidenced by the Collateral Documents (subject to clause (iv) below, other than the PRC Collateral Documents, as a result of Change in Law) ceases to be effective, or is or becomes unlawful.
 - (ii) Subject to the Legal Reservations, any obligation of any Credit Party under any Credit Documents is not or ceases to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Credit Documents.
 - (iii) Subject to the Legal Reservations, any Credit Document ceases to be in full force and effect or any Transaction Security (subject to clause (iv) below, other than the PRC Collateral Documents, as a result of Change in Law) ceases to be legal, valid, binding, enforceable or effective or is alleged by a party to it (other than a Credit Party) to be ineffective.
 - (iv) Any Transaction Security created or expressed to be created or evidenced under the PRC Collateral Documents ceases to be legal, valid, binding, enforceable or effective as a result of Change in Law and such default shall not have been remedied or waived within three (3) months after such Change in Law becoming effective.
- (j) Cessation of Ongoing Business. Any Credit Party or Material Group Member suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of any Disposal or other transaction expressly permitted under this Agreement.
- (k) Change of Ownership. The Borrower Disposes, directly or indirectly, of any Equity Interests in (i) any Offshore Group Member; or (ii) any Onshore Material Group Member other than in connection with a Permitted Disposal.
- (l) Qualified Audit Opinion. The Auditors of the Group qualify the Annual Financial Statements of the Borrower and its Subsidiaries (except for any qualification made by the Auditors of the Group with respect to the Annual Financial Statements of the Borrower and its Subsidiaries for the Fiscal Year ending December 31, 2011 solely for the lack of comparison against the interim quarterly financial results of the Target and its Subsidiaries for the quarters ended March 31, 2010 and June 30, 2010).
- (m) Expropriation. Any seizure, expropriation, nationalization or similar action by or on behalf of any governmental, regulatory or other authority or other person of any asset or assets of the Group Members which individually or in the aggregate have a fair market value equal to or more than US\$5,000,000 (or its equivalent) during any Fiscal Year.

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- (n) Repudiation or Rescission of Agreements.
- (i) A Credit Party rescinds or purports to rescind or repudiates or purports to repudiate a Credit Document or any of the Transaction Security.
 - (ii) After the Closing Date, any party to the Acquisition Documents rescinds or purports to rescind or repudiates or purports to repudiate any of those agreements or instruments in whole or in part where to do so has or could reasonably be expected to have a material adverse effect on the interests of the Lenders under the Credit Documents.
- (o) Litigation. Any litigation, arbitration, administrative, governmental, regulatory or other investigations, proceedings or disputes are commenced or threatened in relation to the Transaction Documents or the transactions contemplated in the Transaction Documents or against any Group Member or its assets that has or could reasonably be expected to have a Material Adverse Effect.
- (p) Judgments and Attachments. One or more money judgments, writs or warrants of attachment or similar proceedings involving in the aggregate at any time an amount in excess of US\$10,000,000 (or its equivalent) (to the extent not adequately covered by insurance as to which a solvent and unaffiliated insurance company has acknowledged coverage) shall be entered or filed against the Borrower or any of its Subsidiaries or any of their respective assets and shall remain undischarged, unvacated, unbonded or unstayed for a period of sixty (60) days (or in any event later than five (5) days prior to the date of any proposed sale thereunder).
- (q) Material Adverse Effect. Any event or circumstance occurs that has had or could reasonably be expected to have a Material Adverse Effect.
- (r) Suspension in Trading of Listed Shares. The trading in the ADSs or shares of the Borrower that are listed on any stock exchange are suspended for more than five (5) consecutive Business Days on which such stock exchange is trading, or such ADSs or shares are delisted from such stock exchange.
- (s) Foreign Exchange Remittances. The imposition by any Governmental Authorities of the PRC of any restrictions on (i) the conversion of Dollars to RMB or RMB to Dollars; or (ii) the remittance of Dollars from Onshore Group Members to Offshore Group Members, in either case where such restrictions have limited, or could reasonably be expected to limit, in any material respect, the ability of any Credit Party to make payments of principal, interest and fees on the Term Loans or for any Credit Party fulfilling any other Obligations hereunder (after taking into account any Governmental Authorizations to be obtained by any Group Member).

Upon (1) the occurrence and during the continuance of any Event of Default described in Section 8.1(f) or 8.1(g), automatically; or (2) the occurrence and during the continuance of any other Event of Default, at the request of (or with the consent of) the Majority Lenders, upon notice to the Borrower by the Facility Agent:

- (A) subject to Section 2.1(c), the Term Loan Commitments, if any, of each Lender having such Term Loan Commitments shall immediately terminate;
- (B) the unpaid principal amount of and accrued interest on the Term Loans, and all other Obligations, shall immediately become due and payable, in each case without presentment, demand, protest or other requirements of any kind, all of which are hereby expressly waived by each Credit Party; and
- (C) the Facility Agent may cause the Security Agent to enforce any and all Liens granted or created pursuant to the Collateral Documents.

8.2. Clean-Up Period.

- (a) Notwithstanding any other provision of any Credit Document, any Event of Default that is continuing on the Closing Date will be deemed not to be an Event of Default if:
 - (i) it would have been (if it were not for this provision) an Event of Default only by reason of circumstances relating exclusively to any member of the Target Group (or any obligation to cause or ensure in relation to a member of the Target Group);
 - (ii) it is capable of remedy and reasonable steps are being taken to remedy it;
 - (iii) the circumstances giving rise to it have not been procured by or approved by the Borrower or any other Group Member; and
 - (iv) it does not have and could not reasonably be expected to have a Material Adverse Effect.
- (b) If the relevant circumstances are continuing on or after the date falling sixty (60) days after the Closing Date, there shall be an Event of Default notwithstanding the above (and without prejudice to the rights and remedies of the Finance Parties).

SECTION 9. AGENTS

9.1. Appointment of Agents.

- (a) Each Lender hereby appoints (i) each of BNP, Chinatrust, CACIB, CS, J.P. Morgan, NATIXIS and Shinhan as a Mandated Lead Arranger hereunder; and (ii) ICBC as the Lead Arranger hereunder, and each Lender hereby authorizes each such Person to act as a Mandated Lead Arranger or Lead Arranger in accordance with the terms hereof and the other Credit Documents. BNP Paribas Hong Kong Branch is hereby appointed the Facility Agent and the Security Agent hereunder and under the other Credit Documents and each Lender hereby authorizes BNP Paribas Hong Kong Branch to act as the Facility Agent and the Security Agent in accordance with the terms hereof and the other Credit Documents. Each Agent hereby agrees to act in its capacity as such upon the express conditions contained herein and the other Credit Documents, as applicable. Without limiting the generality of the other provisions in the Credit Documents, each Agent shall promptly notify the other Finance Parties if it receives notice from a Credit Party or a Lender referring to this Agreement describing a Default or it is aware of the non-payment of any principal, interest or other fee payable to a Finance Party under this Agreement. The provisions of Section 9 are solely for the benefit of the Agents and the Lenders and no Credit Party shall have any rights as a third party beneficiary of any of the provisions thereof. In performing its functions and duties hereunder, each Agent shall act solely as an agent of the Lenders and does not assume and shall not be deemed to have assumed any obligation towards or relationship of agency or trust with or for the Borrower or any of its Subsidiaries. Each Mandated Lead Arranger and Lead Arranger, without consent of or notice to any party hereto, may assign any and all of its rights or obligations hereunder to any of its Affiliates. None of BNP, Chinatrust, CACIB, CS, J.P. Morgan, NATIXIS and Shinhan in its capacity as a Mandated Lead Arranger, nor ICBC in its capacity as the Lead Arranger, shall have any obligations arising under any Credit Document, but shall be entitled to all benefits of Section 9 and elsewhere in the Credit Documents to the extent provided therein.
- (b) Each Lender hereby authorizes the Facility Agent to enter into the Intercreditor Agreement for and on behalf of such Lender. Upon the Facility Agent's execution of the Intercreditor Agreement, each Lender hereby agrees to be bound by all of the terms, provisions and conditions in the Intercreditor Agreement as a "Senior Lender" party thereto.

9.2. Powers and Duties.

Each Lender irrevocably authorizes each Agent to take such action on such Lender's behalf and to exercise such powers, rights and remedies hereunder and under the other Credit Documents as are specifically delegated or granted to such Agent by the terms hereof and thereof, together with such powers, rights and remedies as are reasonably incidental thereto. Each Agent shall have only those duties and responsibilities that are expressly specified herein and the other Credit Documents. Each Agent may exercise such powers, rights and remedies and perform such duties by or through its agents or employees. No Agent shall have, by reason hereof or any of the other Credit Documents, a fiduciary relationship in respect of any Lender; and nothing herein or any of the other Credit Documents, expressed or implied, is intended to or shall be so construed as to impose upon any Agent any obligations in respect hereof or any of the other Credit Documents except as expressly set forth herein or therein. Except where a Credit Document specifically provides otherwise, each Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Person party to a Credit Document. Each Agent's duties under the Credit Documents are solely mechanical and administrative in nature.

9.3. General Immunity.

- (a) No Responsibility for Certain Matters. No Agent shall be responsible to any Lender for the execution, effectiveness, genuineness, validity, enforceability, collectability or sufficiency hereof or any other Credit Document or for any representations, warranties, recitals or statements made herein or therein or made in any written or oral statements or in any financial or other statements, instruments, reports or certificates or any other documents furnished or made by any Agent to the Lenders or by or on behalf of any Credit Party or to any Lender in connection with the Credit Documents and the transactions contemplated thereby or for the financial condition or business affairs of any Credit Party or any other Person liable for the payment of any Obligations, nor shall any Agent be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained in any of the Credit Documents or as to the use of the proceeds of the Term Loans or as to the existence or possible existence of any Event of Default or Default or to make any disclosures with respect to the foregoing. Anything contained herein to the contrary notwithstanding, the Facility Agent shall not have any liability arising from confirmations of the amount of outstanding Term Loans. The Facility Agent may assume (unless it has received notice to the contrary in its capacity as agent for the Lenders) that (i) no Default has occurred (unless it has actual knowledge of a Default arising under Section 8.1(a)); (ii) any right, power, authority or discretion vested in any Finance Party or the Majority Lenders has not been exercised; and (iii) any notice or request made by the Borrower is made on behalf of and with the consent and knowledge of all the Credit Parties.
- (b) Exculpatory Provisions. No Agent nor any of its officers, partners, directors, employees or agents shall be liable to the Lenders for any action taken or omitted by any Agent under or in connection with any of the Credit Documents except to the extent caused by such Agent's gross negligence or willful misconduct. Each Agent shall be entitled to refrain from any act or the taking of any action (including the failure to take an action) in connection herewith or any of the other Credit Documents or from the exercise of any power, discretion or authority vested in it hereunder or thereunder unless and until such Agent shall have received instructions in respect thereof from the Majority Lenders (or such other Lenders as may be required to give such instructions under Section 10.5) and, upon receipt of such instructions from the Majority Lenders (or such other Lenders, as the case may be), such Agent shall be entitled to act or (where so instructed) refrain from acting, or to exercise such power, discretion or authority, in accordance with such instructions. Without prejudice to the generality of the foregoing, (i) each Agent shall be entitled to rely, and shall be fully protected in relying, upon any communication, instrument or document believed by it to be genuine and correct and to have been signed or sent by the proper Person, and shall be entitled to rely and shall be protected in relying on opinions and judgments of attorneys (who may be attorneys for the Borrower and its Subsidiaries), accountants, experts and other professional advisors selected by it; and (ii) no Lender shall have any right of action whatsoever against any Agent as a result of such Agent acting or (where so instructed) refraining from acting hereunder or any of the other Credit Documents in accordance with the instructions of the Majority Lenders (or such other Lenders as may be required to give such instructions under Section 10.5). Notwithstanding any other provision of any Credit Document to the contrary, none of the Agents, the Mandated Lead Arrangers or the Lead Arranger is obliged to do or omit to do anything if it would or might in its reasonable opinion constitute a breach of any law or regulation or a breach of a fiduciary duty or duty of confidentiality. Nothing in this Agreement shall oblige the Facility Agent to carry out any "know-your-customer" or other checks in relation to any Person on behalf of any Lender and each Lender confirms to the Facility Agent that it is solely responsible for any such checks it is required to carry out and that it shall not rely on any statement in relation to such checks made by the Facility Agent. The Facility Agent shall not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Credit Documents to be paid by the Facility Agent if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognized clearing or settlement system used by the Facility Agent for the purpose of such payment. No party to this Agreement (other than the Agents) may take any proceedings against any officer, employee or agent of the Agents in respect of any claim it might have against the Agents or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Credit Document or any Transaction Document and any officer, employee or agent of the Agents may rely on this Section.

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- (c) Delegation of Duties. Each Agent may perform any and all of its duties and exercise its rights and powers under this Agreement or under any other Credit Document by or through any one or more sub-agents appointed by such Agent. Each Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Affiliates. The exculpatory, indemnification and other provisions of this Section and of Section 9.6 shall apply to any of the Affiliates of each Agent and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as the Facility Agent or the Security Agent (as applicable). All of the rights, benefits, and privileges (including the exculpatory and indemnification provisions) of this Section and of Section 9.6 shall apply to any such sub-agent and to the Affiliates of any such sub-agent, and shall apply to their respective activities as sub-agent as if such sub-agent and Affiliates were named herein. Notwithstanding anything herein to the contrary, with respect to each sub-agent appointed by each Agent, (i) such sub-agent shall be a third party beneficiary under this Agreement with respect to all such rights, benefits and privileges (including exculpatory rights and rights to indemnification) and shall have all of the rights and benefits of a third party beneficiary, including an independent right of action to enforce such rights, benefits and privileges (including exculpatory rights and rights to indemnification) directly, without the consent or joinder of any other Person, against any or all of the Credit Parties and the Lenders; (ii) such rights, benefits and privileges (including exculpatory rights and rights to indemnification) shall not be modified or amended without the consent of such sub-agent; and (iii) such sub-agent shall only have obligations to the applicable Agent and not to any Credit Party, any Lender or any other Person and no Credit Party, Lender or any other Person shall have any rights, directly or indirectly, as a third party beneficiary or otherwise, against such sub-agent. Each Agent may engage, pay for and rely on the advice or services of any lawyers, accountants, surveyors or other experts.

9.4. Agents Entitled to Act as Lender.

The agency hereby created shall in no way impair or affect any of the rights and powers of, or impose any duties or obligations upon, any Agent in its individual capacity as a Lender or other Finance Party hereunder. With respect to its participation in the Term Loans, each Agent shall have the same rights and powers hereunder as any other Lender and may exercise the same as if it were not performing the duties and functions delegated to it hereunder, and the term "Lender" shall, unless the context clearly otherwise indicates, include each Agent in its individual capacity. Any Agent and its Affiliates may accept deposits from, lend money to, own securities of, and generally engage in any kind of banking, trust, financial advisory or other business with the Borrower or any of its Affiliates as if it were not performing the duties specified herein, and may accept fees and other consideration from the Borrower for services in connection herewith and otherwise without having to account for the same to the Lenders.

Notwithstanding the above, in acting as facility agent for the Finance Parties or security agent for the Secured Parties, each Agent shall be regarded as acting through agency division of its financial institution which shall be treated as a separate entity from any of its other divisions or departments. Such Agent shall not be deemed to have received any notice or information if its agency division has not received such notice or information even if such notice or information may have been received by another division or department of such Agent's financial institution.

9.5. Lenders' Representations, Warranties and Acknowledgment.

- (a) Each Lender represents and warrants that it has made its own independent investigation of the financial condition and affairs of the Borrower and its Subsidiaries in connection with Term Loans hereunder and that it has made and shall continue to make its own appraisal of the creditworthiness of the Borrower and its Subsidiaries. No Agent shall have any duty or responsibility, either initially or on a continuing basis, to make any such investigation or any such appraisal on behalf of the Lenders or to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before the making of the Term Loans or at any time or times thereafter, and no Agent shall have any responsibility with respect to the accuracy of or the completeness of any information provided to the Lenders.

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- (b) Each Lender, by delivering its signature page to this Agreement or an Assignment and Assumption, shall be deemed to have acknowledged receipt of, and consented to and approved, each Credit Document and each other document required to be approved by any Finance Party.
- (c) Without affecting the responsibility of any Credit Party for information supplied by it or on its behalf in connection with any Transaction Document, each Lender accepts and acknowledges to the Facility Agent, the Security Agent, the Mandated Lead Arrangers and the Lead Arranger that:
- (i) some or all of the information (including financial projections or other financial data) that has or may be provided to the Lenders (through the Facility Agent, the Security Agent, the Mandated Lead Arrangers, the Lead Arranger or otherwise) is or may constitute (1) non-public information; or (2) relevant information (as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (the "SFO")) or similar applicable laws in any other applicable jurisdiction) in relation to the Borrower (collectively, "**Price Sensitive Information**") and that the use of such information may be regulated or prohibited by applicable laws relating to, among other things, insider dealing or market abuse;
 - (ii) upon possession of the Price Sensitive Information, a Lender may be prohibited or restricted under the applicable laws from, among other things, dealing in or counseling or procuring another Person to deal in the listed securities of the Borrower or its derivatives, or the listed securities of a related corporation (as defined in the SFO or similar applicable laws in any other applicable jurisdiction) of the Borrower or its derivatives, or otherwise from using or disclosing the Price Sensitive Information;
 - (iii) none of the Facility Agent, the Security Agent, the Mandated Lead Arrangers nor the Lead Arranger shall be liable for any action taken by it under or in connection with distributing such Price Sensitive Information; provided that where it is required to act on the instructions of any Lender or the Lenders, the Facility Agent, the Security Agent, any Mandated Lead Arranger or the Lead Arranger may ask for a confirmation or certificate (in form and substance satisfactory to the Facility Agent, the Security Agent, any Mandated Lead Arranger or the Lead Arranger, as applicable) confirming that the instructing Lender or Lenders is or are not in possession of any Price Sensitive Information and that it is or they are not instructing the Facility Agent, the Security Agent, any Mandated Lead Arranger or the Lead Arranger, as applicable, to act as a consequence of being in possession of any Price Sensitive Information; and
 - (iv) any information received under or in connection with the Transaction Documents shall not be used by such Lender for any unlawful purpose, and each Lender shall make an independent evaluation of, and ensure its compliance with, any legal and regulatory restrictions on the use or disclosure of such information.

9.6. Right to Indemnity.

Each Lender, in proportion to its Pro Rata Share, severally agrees to indemnify each Agent, to the extent that such Agent shall not have been reimbursed by any Credit Party, for and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including counsel fees and disbursements) or disbursements of any kind or nature whatsoever that may be imposed on, incurred by or asserted against such Agent in exercising its powers, rights and remedies or performing its duties hereunder or under the other Credit Documents or otherwise in its capacity as such Agent in any way relating to or arising out of this Agreement or the other Credit Documents; provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from such Agent's gross negligence or willful misconduct. If any indemnity furnished to any Agent for any purpose shall, in the opinion of such Agent, be insufficient or become impaired, such Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished; provided that in no event shall this sentence require any Lender to indemnify any Agent against any liability, obligation, loss, damage, penalty, action, judgment, suit, cost, expense or disbursement in excess of such Lender's Pro Rata Share thereof; and provided further that this sentence shall not be deemed to require any Lender to indemnify any Agent against any liability, obligation, loss, damage, penalty, action, judgment, suit, cost, expense or disbursement described in the proviso in the immediately preceding sentence.

9.7. Successor Facility Agent and Security Agent.

- (a) The Facility Agent may resign at any time by giving thirty (30) days prior written notice thereof to the Lenders and the Borrower, and the Facility Agent may be removed at any time with or without cause by an instrument or concurrent instruments in writing delivered to the Borrower and the Facility Agent and signed by the Majority Lenders. Upon any such notice of resignation or any such removal, the Majority Lenders shall have the right, upon five (5) Business Days notice to the Borrower, to appoint a successor Facility Agent. Upon the acceptance of any appointment as the Facility Agent hereunder by a successor Facility Agent, that successor Facility Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring or removed Facility Agent and the retiring or removed Facility Agent shall promptly (i) transfer to such successor Facility Agent all sums, securities and other items of Collateral held under the Collateral Documents, together with all records and other documents necessary or appropriate in connection with the performance of the duties of the successor Facility Agent under the Credit Documents; and (ii) execute and deliver to such successor Facility Agent such amendments to financing statements, and take such other actions, as may be necessary or appropriate in connection with the assignment to such successor Facility Agent of the Liens created under the Collateral Documents, whereupon such retiring or removed Facility Agent shall be discharged from its duties and obligations hereunder. If the Majority Lenders have not appointed a successor Facility Agent, the Facility Agent shall have the right to appoint a financial institution to act as the Facility Agent hereunder; provided that the Facility Agent's resignation shall become effective upon the appointment of a successor. Except as provided in the immediately preceding sentence, any resignation or removal of the Person then acting as Facility Agent pursuant to this Section shall also constitute the resignation or removal of that same Person as the Security Agent (if such Person is then acting as the Security Agent). After any retiring or removed Facility Agent's resignation or removal hereunder as the Facility Agent, the provisions of Section 9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was the Facility Agent hereunder. Any successor Facility Agent appointed pursuant to this Section shall, upon its acceptance of such appointment, become the successor Security Agent for all purposes hereunder. If the Person acting as the Facility Agent pursuant to this Section has resigned as the Facility Agent but retained its role as the Security Agent and no successor Security Agent has become the Security Agent pursuant to the immediately preceding sentence, then such Person may resign as the Security Agent upon notice to the Borrower and the Majority Lenders at any time.

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- (b) In addition to the foregoing, the Security Agent may resign at any time by giving thirty (30) days prior written notice thereof to the Lenders and the Credit Parties, and the Security Agent may be removed at any time with or without cause by an instrument or concurrent instruments in writing delivered to the Credit Parties and the Security Agent signed by the Majority Lenders. Upon any such notice of resignation or any such removal, the Majority Lenders shall have the right, upon five (5) Business Days notice to the Facility Agent, to appoint a successor Security Agent. Upon the acceptance of any appointment as the Security Agent hereunder by a successor Security Agent, that successor Security Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring or removed Security Agent under this Agreement and the Collateral Documents, and the retiring or removed Security Agent under this Agreement shall promptly (i) transfer to such successor Security Agent all sums, Securities and other items of Collateral held hereunder or under the Collateral Documents, together with all records and other documents necessary or appropriate in connection with the performance of the duties of the successor Security Agent under this Agreement and the Collateral Documents; and (ii) execute and deliver to such successor Security Agent or otherwise authorize the filing of such amendments to financing statements, and take such other actions, as may be necessary or appropriate in connection with the assignment to such successor Security Agent of the Liens created under the Collateral Documents, whereupon such retiring or removed Security Agent shall be discharged from its duties and obligations under this Agreement and the Collateral Documents. After any retiring or removed Security Agent's resignation or removal hereunder as the Security Agent, the provisions of this Agreement and the Collateral Documents shall inure to its benefit as to any actions taken or omitted to be taken by it under this Agreement or the Collateral Documents while it was the Security Agent hereunder.

9.8. Collateral Documents and Guaranty.

- (a) Agents under Collateral Documents and Guaranty. Each Secured Party hereby further authorizes the Facility Agent or the Security Agent, as applicable, on behalf of and for the benefit of the Secured Parties, to be the agent for and representative of the Secured Parties with respect to the Guaranty, the Collateral and the Collateral Documents; provided that neither the Facility Agent nor the Security Agent shall owe any fiduciary duty, duty of loyalty, duty of care, duty of disclosure or any other obligation whatsoever to any holder of the Obligations with respect to any Hedging Agreement. Subject to Section 10.5, without further written consent or authorization from any Secured Party, the Facility Agent or the Security Agent, as applicable may execute any documents or instruments necessary to (i) in connection with a sale or disposition of assets permitted by this Agreement, release any Lien encumbering any item of Collateral that is the subject of such sale or other disposition of assets or to which the Majority Lenders (or such other Lenders as may be required to give such consent under Section 10.5) have otherwise consented; or (ii) release any Guarantor from the Guaranty pursuant to Section 7.12 or with respect to which the Majority Lenders (or such other Lenders as may be required to give such consent under Section 10.5) have otherwise consented.
- (b) Right to Realize on Collateral and Enforce Guaranty. Anything contained in any of the Credit Documents to the contrary notwithstanding, the Borrower, the Facility Agent, the Security Agent and each Secured Party hereby agree that (i) no Secured Party shall have any right individually to realize upon any of the Collateral or to enforce the Guaranty, it being understood and agreed that all powers, rights and remedies hereunder may be exercised solely by the Facility Agent, on behalf of the Secured Parties in accordance with the terms hereof and all powers, rights and remedies under the Collateral Documents may be exercised solely by the Security Agent on behalf of the Secured Parties in accordance with the terms thereof; and (ii) in the event of a foreclosure by the Security Agent on any of the Collateral pursuant to a public or private sale or other disposition, the Security Agent or any Lender may be the purchaser or licensor of any or all of such Collateral at any such sale or other disposition and the Security Agent, as agent for and representative of the Secured Parties (but not any Lender or Lenders in its or their respective individual capacities unless the Majority Lenders shall otherwise agree in writing) shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at any such public sale, to use and apply any of the Obligations as a credit on account of the purchase price for any collateral payable by the Security Agent at such sale or other disposition.
- (c) Rights under Hedging Agreements. No Hedging Agreement will create (or be deemed to create) in favor of any Hedge Counterparty that is a party thereto any rights in connection with the management or release of any Collateral or of the obligations of any Guarantor under the Credit Documents except as expressly provided in Section 10.5(d)(i) of this Agreement or in the Intercreditor Agreement.

9.9. Withholding Taxes.

To the extent required by any applicable law, the Facility Agent may withhold from any payment to any Lender an amount equivalent to any applicable Indemnified WHT or other amount required to be withheld pursuant to Applicable Law. Each Lender shall severally indemnify (only to the extent that the Credit Parties have not already indemnified the Facility Agent for such amount and without limiting the obligation of the Credit Parties to do so) the Facility Agent for any Indemnified WHT or other withholding tax attributable to such Lender that are paid or payable by the Facility Agent in connection with any Credit Documents and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified WHT or other withholding tax (and any penalties or interest associated therewith) were correctly or legally imposed or asserted by the relevant Governmental Authority. The indemnity under this Section 9.9 shall be paid within 10 days after the Facility Agent delivers to the applicable Lender a notice stating the amount of any Indemnified WHT or other withholding tax (and any penalties, interest and reasonable expenses arising therefrom or with respect thereto) so paid or payable by the Facility Agent. Such notice shall be conclusive of the amount so paid or payable absent manifest error.

SECTION 10. MISCELLANEOUS

10.1. Notices.

- (a) Notices Generally. Any notice or other communication herein required or permitted to be given to or by a Credit Party or Finance Party shall be sent to such Person's address as set forth on Appendix E or in the other relevant Credit Document, and in the case of any Lender, the address as indicated on Appendix E or otherwise indicated to the Facility Agent in writing by at least five (5) Business Days (or such shorter period agreed by the Facility Agent) notice. Except as otherwise set forth in paragraph (b) below, each notice hereunder shall be in writing and may be personally served, telexed or sent by fax, mail or courier service and shall be deemed to have been given when delivered in person or by courier service and signed for against receipt thereof, upon receipt of fax, or three (3) Business Days after depositing it in the mail with postage prepaid and properly addressed; provided that no notice to any Agent shall be effective until received by such Agent; provided further that any such notice or other communication shall at the request of the Facility Agent be provided to any sub-agent appointed pursuant to Section 9.3(c) hereto as designated by the Facility Agent from time to time.

(b) Electronic Communications.

- (i) Notices and other communications to the Credit Parties and Finance Parties hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites, including the Platform) pursuant to procedures approved by the Facility Agent; provided that the foregoing shall not apply to notices to any Lender pursuant to Section 2 if such Lender has notified the Facility Agent that it is incapable of receiving notices under such Section by electronic communication. Unless the Facility Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement); provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient; and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.
- (ii) Each of the Credit Parties understands that the distribution of material through an electronic medium is not necessarily secure and that there are confidentiality and other risks associated with such distribution and agrees and assumes the risks associated with such electronic distribution, except to the extent caused by the willful misconduct or gross negligence of the Facility Agent.
- (iii) The Platform and any Approved Electronic Communications are provided "as is" and "as available". None of the Agents or any of their respective officers, directors, employees, agents, advisors or representatives (the "**Agent Affiliates**") warrant the accuracy, adequacy, or completeness of the Approved Electronic Communications or the Platform and each expressly disclaims liability for errors or omissions in the Platform and the Approved Electronic Communications. No warranty of any kind, express, implied or statutory, including any warranty of merchantability, fitness for a particular purpose, non-infringement of third party rights or freedom from viruses or other code defects is made by the Agent Affiliates in connection with the Platform or the Approved Electronic Communications.
- (iv) Each of the Credit Parties and the Finance Parties agrees that the Facility Agent may, but shall not be obligated to, store any Approved Electronic Communications on the Platform in accordance with the Facility Agent's customary document retention procedures and policies.

10.2. Expenses.

The Borrower agrees to pay (a) all reasonable and documented out-of-pocket expenses incurred by the Agents, each of the Mandated Lead Arrangers and the Lead Arranger and their respective Affiliates, including Paul Hastings LLP, counsel for the Agents, the Mandated Lead Arrangers and the Lead Arranger, and a single firm of local counsel in each Relevant Jurisdiction for the Agents, the Mandated Lead Arrangers and the Lead Arranger, in connection with the syndication of the credit facilities provided for herein, and the negotiation, preparation and execution of the Credit Documents (whether or not the transactions contemplated thereby shall be consummated); (b) all reasonable documented out-of-pocket expenses incurred by the Agents and their Affiliates, including the reasonable fees, charges and disbursements of one firm of outside legal counsel to the Agents, in connection with any consents, amendments, waivers or other modifications thereto (whether or not the transactions contemplated thereby shall be consummated); (c) all documented out-of-pocket expenses incurred by the Finance Parties, including the documented out-of-pocket expenses of one firm of counsel (and, if necessary, of a single separate firm of local counsel in each Relevant Jurisdiction) for the Finance Parties (and in the case of an actual or perceived conflict of interest (as reasonably determined by an Agent or a Lender affected by such conflict) where such affected Finance Party informs the Borrower of such conflict and thereafter retains its own counsel, such other firm of counsel for such affected Finance Party), in connection with the enforcement, collection or protection of their rights in connection with the Credit Documents, including their rights under this Section, or in connection with the Term Loans made hereunder, including all documented out-of-pocket expenses (including allocated costs of internal counsel) incurred during any workout, restructuring or related negotiations in respect of such Term Loans or in connection with a Bankruptcy Event (and for the avoidance of doubt, no costs of internal counsel will be included for any amendment, waiver or other modification to documents that are unrelated to any workout, restructuring or related negotiations stemming from an Event of Default); and (d) all reasonable documented out-of-pocket expenses incurred by the Agents in the administration of the Credit Documents, including the reasonable documented fees, charges and disbursements of one firm of counsel (and if necessary, of a single separate firm of local counsel in each Relevant Jurisdiction). Expenses reimbursable by the Credit Parties under this Section include:

- (i) appraisals;
- (ii) liens and title searches, title insurance and endorsements to title insurance policies;
- (iii) taxes, fees and other charges for recording any mortgages, filing financing statements and continuations, and other actions to perfect, protect and continue the Security Agent's Liens; and
- (iv) forwarding loan proceeds, collecting checks and other items of payment, and establishing and maintaining the accounts and lock boxes, and costs and expenses of preserving and protecting the Collateral.

Other than to the extent required to be paid on the CP Satisfaction Date or the Closing Date, as the case may be, all amounts due under this Section shall be payable by the Borrower within fifteen (15) days of receipt of an invoice relating thereto and setting forth such expenses in reasonable detail.

10.3. Indemnity.

- (a) In addition to the payment of expenses pursuant to Section 10.2, whether or not the transactions contemplated hereby shall be consummated or the Term Loans shall be borrowed, each Credit Party agrees to indemnify and hold harmless, each Finance Party and its officers, partners, members, directors, trustees, advisors, employees, agents and Affiliates (each, an "**Indemnitee**"), from and against any and all Indemnified Liabilities; provided that no Credit Party shall have any obligation to an Indemnitee hereunder with respect to any Indemnified Liabilities to the extent such Indemnified Liabilities (i) arise from the gross negligence, bad faith or willful misconduct of that Indemnitee; (ii) result from a material breach of the obligations of any that Indemnitee under the Credit Documents; or (iii) result from disputes brought by and between and among Indemnitees (not involving an act or omission of the Borrowers, the Credit Parties or their Affiliates as determined by a court of competent jurisdiction in a final and non-appealable decision). To the extent that the undertakings to indemnify and hold harmless set forth in this Section may be unenforceable in whole or in part because they are violative of or voidable under any applicable law (including for reasons of public policy), the applicable Credit Party shall contribute the maximum portion that it is permitted to pay and satisfy under applicable law to the payment and satisfaction of all Indemnified Liabilities incurred by Indemnitees or any of them.
- (b) To the extent permitted by applicable law, no party to this Agreement shall assert, and each party hereby waives, any claim against each other party and its respective Affiliates, directors, employees, attorneys or agents, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) (whether or not the claim therefor is based on contract, tort or duty imposed by any applicable legal requirement) arising out of, in connection with, arising out of, as a result of, or in any way related to, this Agreement or any Credit Document or any agreement or instrument contemplated hereby or thereby or referred to herein or therein, the transactions contemplated hereby or thereby, any Term Loan or the use of the proceeds thereof or any act or omission or event occurring in connection therewith, and the Borrower (on behalf of itself and each other Credit Party) hereby waives, releases and agrees not to sue upon any such claim or any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

10.4. Set-Off.

In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence of any Event of Default, each Lender is hereby authorized by each Credit Party at any time or from time to time to set off and to appropriate and to apply any and all deposits (general or special, including Indebtedness evidenced by certificates of deposit, whether matured or unmatured, but not including trust accounts) and any other Indebtedness at any time held or owing by such Lender to or for the credit or the account of any Credit Party against and on account of the obligations and liabilities of any Credit Party to such Lender hereunder, and participations therein and under the other Credit Documents, including all claims of any nature or description arising out of or connected hereto, and participations therein or with any other Credit Document, irrespective of whether or not (a) such Lender shall have made any demand hereunder; or (b) the principal of or the interest on the Term Loans or any other amounts due hereunder shall have become due and payable pursuant to Section 2 and although such obligations and liabilities, or any of them, may be contingent or unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of set-off) that such Lender may have under any other document or agreement. The applicable Lender shall notify the Obligors' Agent and the Facility Agent of such set-off application; provided that any failure to give or any delay in giving such notice shall not affect the validity of any such set-off or application under this Section.

10.5. Amendments and Waivers.

- (a) Majority Lenders Consent. Subject to the additional requirements of Sections 10.5(b), (c) and (d), no amendment, modification, termination or waiver of any provision of the Credit Documents, or consent to any departure by any Credit Party therefrom (each, a "**proposed change**"), shall in any event be effective unless made pursuant to an agreement or agreements in writing entered into by the Borrower and the Majority Lenders or by the Borrower and the Facility Agent with the consent of the Majority Lenders.
- (b) Lenders Consent. Notwithstanding Section 10.5(a), in addition to Majority Lender approval, no proposed change (after obtaining the prior written consent of the Majority Lenders) may:
 - (i) increase the Commitment of any Lender, without the written consent of such Lender;
 - (ii) reduce the principal amount of any Term Loan or reduce the rate of interest thereon, or reduce any fees payable to any Lender hereunder, without the written consent of such Lender;
 - (iii) postpone the scheduled date of payment of the principal amount of any Term Loan to any Lender, or any interest thereon, or any fees payable to any Lender hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of the Commitment of any Lender, without the written consent of such Lender;
 - (iv) change Section 2.12(c) or (d) or amend the defined term "Pro Rata Share" in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender,
 - (v) change any of the provisions of this Section or the definition of "Majority Lenders" or any other provision hereof specifying the number or percentage of the Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender;

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- (vi) change the currency of payment of any amount under the Credit Documents, without the consent of each Lender;
 - (vii) release any Lien over the Collateral or all or any Guarantors from the Guaranty, except in connection with a Permitted Disposal or as otherwise expressly provided in the Credit Documents or with the consent of each Lender; or
 - (viii) consent to the assignment or transfer by any Credit Party of any of its rights and obligations under any Credit Document, without the consent of each Lender.
- (c) Technical Amendments. The Facility Agent may, with the consent of the Borrower only, amend, modify or supplement this Agreement or any other Credit Document to cure any ambiguity, omission, defect or inconsistency, so long as such amendment, modification or supplement does not adversely affect the rights of any Lender.
- (d) Other Consents. No proposed change shall:
- (i) amend, modify or waive this Agreement or any other Credit Document so as to alter the ratable treatment of Obligations arising under the Credit Documents and Obligations arising under Hedging Agreements or the definition of "**Hedge Counterparty**," "**Hedging Agreement**," "**Obligations**," or "**Secured Obligations**" (as defined in the Intercreditor Agreement) in each case in a manner adverse to any Hedge Counterparty with Obligations then outstanding, without the written consent of any such Hedge Counterparty;
 - (ii) amend, modify or otherwise affect the rights or duties of an Agent hereunder without the prior written consent of such Agent;
 - (iii) amend, modify or otherwise affect the rights (or create any duties) of a Mandated Lead Arranger hereunder, without the prior written consent of such Mandated Lead Arranger; or
 - (iv) amend, modify or otherwise affect the rights (or create any duties) of the Lead Arranger hereunder, without the prior written consent of the Lead Arranger.

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- (e) Snooze and Lose. In connection with any proposed change described in Section 10.5(a), if a Lender does not deliver to the Facility Agent an acceptance or rejection of the proposed change within twenty (20) Business Days (or such longer period as is agreed by the Borrower and the Facility Agent in relation to any proposed change) after the date the Borrower delivers a written request for a proposed change to the Facility Agent (or if any additional information that would reasonably be expected to be material to a Lender's decision concerning a proposed change is requested from the Borrower by the Facility Agent during such twenty (20) Business Day period, then such period shall instead end twenty (20) Business Days from the date on which the Facility Agent has received all such material information so requested from the Borrower); then such Lender's Term Loans and Term Loan Commitments shall not be included for the purpose of calculating whether a certain percentage of Term Loans or Term Loan Commitments has been obtained to approve an proposed change; provided that for the foregoing to be effective, the proposed change must contain a reference to this paragraph (e) and note that the Term Loan Exposure of any Lender that does not deliver to the Facility Agent an acceptance or rejection of the proposed change within twenty (20) Business Days will not included for the purpose of calculating whether a certain percentage of Term Loans or Term Loan Commitments has been obtained to approve the applicable proposed change.
- (f) Execution of Amendments. The Facility Agent may, but shall have no obligation to, with the concurrence of the Lenders, execute amendments, modifications, waivers or consents on behalf of the Lenders. Any waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given. No notice to or demand on any Credit Party in any case shall entitle any Credit Party to any other or further notice or demand in similar or other circumstances. Any amendment, modification, termination, waiver or consent effected in accordance with this Section shall be binding upon each Lender at the time outstanding, each future Lender and, if signed by the Borrower, on all of the Credit Parties.

10.6. Successors and Assigns; Participations.

- (a) Generally. This Agreement shall be binding upon the parties hereto and their respective successors and assigns and shall inure to the benefit of the parties hereto and the successors and assigns of the Lenders. No Credit Party's rights or obligations hereunder nor any interest therein may be assigned or delegated by any Credit Party without the prior written consent of all Lenders and any such assignment without the Lenders' prior written consent shall be null and void. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, Affiliates of each of the Finance Parties and each Indemnitee) any legal or equitable right, remedy or claim under or by reason of this Agreement.

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- (b) Register. The Borrower, the Facility Agent and the Lenders shall deem and treat the Persons listed as Lenders in the Register as the holders and owners of the corresponding Term Loan Commitments and Term Loans listed therein for all purposes hereof, and no sale, assignment or transfer of any Term Loan Commitment or Term Loan (each, a "**Transfer**") to any Person (a "**New Lender**") shall be effective, in each case, unless and until recorded in the Register following receipt by the Facility Agent of an Assignment and Assumption effecting the Transfer thereof, together with the required forms and certificates regarding tax matters and any fees payable in connection with such Transfer, in each case, as provided in Section 10.6(d). Each Transfer shall be recorded in the Register on the fifth Business Day (or such shorter period agreed by the Facility Agent) after the Assignment and Assumption is received by the Facility Agent, if received by 12:00 noon, Hong Kong time, and on the following Business Day if received after such time, and prompt notice thereof shall be provided to the Borrower and a copy of such Assignment and Assumption shall be maintained, as applicable, by the Facility Agent. The date of such recordation of a transfer shall be referred to herein as the "**Assignment Effective Date**." Any request, authority or consent of any Person that, at the time of making such request or giving such authority or consent, is listed in the Register as a Lender shall be conclusive and binding on any subsequent holder, assignee or transferee of the corresponding Term Loan Commitments or Term Loans.
- (c) Right to Assign. Each Lender shall have the right at any time Transfer all or a portion of its rights and obligations under this Agreement, including all or a portion of its Term Loan Commitment or Term Loans owing to it or other Obligations (provided however that pro rata Transfers shall not be required and each Transfer shall be of a uniform, and not varying, percentage of all rights and obligations under and in respect of any applicable Term Loan and any related Term Loan Commitments):
- (i) to a New Lender satisfying the criteria of clause (a) of the definition of the term of "Eligible Assignee" upon the giving of notice to the Borrower and the Facility Agent; and
 - (ii) to any New Lender satisfying the criteria of clause (b) of the definition of the term of "Eligible Assignee" after consultation with the Borrower for at least three (3) Business Days (such consultation not to be required at any time an Event of Default shall have occurred and then be continuing) and upon giving of notice to the Facility Agent; provided that any such Transfer pursuant to this Section 10.6(c)(ii) shall be in an aggregate amount of not less than US\$1,000,000 and multiple amounts of US\$1,000,000 (or such lesser amount as may be agreed to by the Facility Agent or as shall constitute the aggregate amount of the Term Loan Commitments and Term Loans of the assigning Lender).

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- (d) Mechanics. Transfers of Term Loans and Term Loan Commitments by the Lenders shall be effected by manual execution and delivery to the Facility Agent of an Assignment and Assumption not later than 12:00 noon (Hong Kong time) at least five (5) Business Days (or such shorter period agreed by the Facility Agent) prior to the Assignment Effective Date. Transfers made pursuant to the foregoing provision shall be effective as of the Assignment Effective Date. In connection with each Transfer, together with the Assignment and Assumption, there shall be delivered to the Facility Agent such forms, certificates or other evidence, if any, with respect to tax withholding matters as the Facility Agent may reasonably request, together with payment to the Facility Agent of a registration and processing fee of US\$3,500 (except that no such registration and processing fee shall be payable in the case of a New Lender that satisfies the criteria of clause (a) of the definition of the term of "Eligible Assignee"). In addition, the New Lender, if it shall not be an existing Lender, shall at the request of the Facility Agent (i) deliver to the Facility Agent an administrative questionnaire in which the New Lender designates one or more contact persons to whom all syndicate-level information (which may contain material non-public information about the Borrower, the Credit Parties and their related parties or their respective securities) will be made available and who may receive such information in accordance with the New Lender's compliance procedures and applicable laws, including U.S. Federal and state securities laws; and (ii) supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself) in order for the Facility Agent to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and its internal policy pursuant to the transactions contemplated in the Credit Documents.
- (e) Representations and Warranties of Lenders. Each Lender, upon execution and delivery of this Agreement, and each New Lender upon succeeding to an interest in the Commitments and Term Loans pursuant to an Assignment and Assumption, as the case may be, represents and warrants to the Facility Agent that as of the Closing Date or as of the Assignment Effective Date, as applicable, that (i) it is an Eligible Assignee; (ii) it has experience and expertise in the making of or investing in commitments or loans such as the Term Loan Commitments or Term Loans, as the case may be; and (iii) it will make or invest in, as the case may be, its Term Loan Commitments or Term Loans within the meaning of the Securities Act or the Exchange Act or other U.S. federal or other applicable securities laws (it being understood that, subject to the provisions of this Section, the disposition of such Term Loan Commitments or Term Loans or any interests therein shall at all times remain within its exclusive control).
- (f) Effect of Assignment. Subject to the terms and conditions of this Section, as of the Assignment Effective Date, (i) the New Lender shall have the rights and obligations of a "Lender" hereunder to the extent of its interest in the Term Loans and Term Loan Commitments as reflected in the Register and shall thereafter be a party hereto and a "Lender" for all purposes hereof; (ii) the assigning Lender thereunder shall, to the extent that rights and obligations hereunder have been assigned to the New Lender, relinquish its rights (other than any rights that survive the termination hereof under Section 10.8) and be released from its obligations hereunder (and, in the case of an assignment covering all or the remaining portion of an assigning Lender's rights and obligations hereunder, such Lender shall cease to be a party hereto on the Assignment Effective Date; provided that anything contained in any of the Credit Documents to the contrary notwithstanding, such assigning Lender shall continue to be entitled to the benefit of all indemnities hereunder as specified herein with respect to matters arising out of the prior involvement of such assigning Lender as a Lender hereunder); (iii) the Term Loan Commitments shall be modified to reflect any Term Loan Commitment of such New Lender and any Term Loan Commitment of such assigning Lender, if any; and (iv) if any such Transfer occurs after the issuance of any Note hereunder, the assigning Lender shall, upon the effectiveness of such Transfer or as promptly thereafter as practicable, surrender its applicable Notes to the Facility Agent for cancellation, and thereupon the Borrower shall issue and deliver new Notes, if so requested by the New Lender or assigning Lender, to such New Lender or to such assigning Lender, with appropriate insertions, to reflect the new Term Loan Commitments or outstanding Term Loans of the New Lender or the assigning Lender.

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- (g) Participations. Any Lender may, without the consent of the Borrower or any Finance Party, sell participations to one or more banks or other Person that is an Eligible Assignee (a "**Participant**") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Term Loan Commitment and the Term Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged; (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations; and (iii) the Borrower, the Agents and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in Section 10.5(b) that affects such Participant. The Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.16, 2.17, 2.18 and 2.19 (subject to the requirements and limitations therein) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (c) of this Section; provided that such Participant (A) agrees to be subject to the provisions of Sections 2.13 and 2.20 as if it were an assignee under paragraph (c) of this Section; and (B) shall not be entitled to receive any greater payment under Sections 2.17 or 2.19, with respect to any participation, than its participating Lender would have been entitled to receive, except to the extent such entitlement to receive a greater payment results from a Change in Law that occurs after the Participant acquired the applicable participation. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 10.4 as though it were a Lender; provided such Participant agrees to be subject to Sections 2.13 and 2.20 (and the applicable provisions of the Intercreditor Agreement) as though it were a Lender. Each Lender that sells a participation shall, acting solely for this purpose as an agent of the Borrower, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Term Loans or other obligations under this Agreement (the "**Participant Register**"); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person (including the identity of any Participant or any information relating to a Participant's interest in any Commitments or Term Loans or its other obligations under any Credit Document) except to the extent that such disclosure is necessary to establish that such Commitment, Term Loan or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. Each Lender that sells a participation (i) may prior to any such sale or transfer, notify each Participant of the provisions of Section 2.22, and (ii) may notify each Participant of any matter requiring the consent of the affected Lenders pursuant to Section 10.5(b) from time to time. If, when voting on a matter requiring the consent of affected Lenders pursuant to Section 10.5(b), a Lender splits its vote to reflect the instructions of its Participants, then any percentage of that Lender's vote cast against the requested change on the instructions of its Participant (the dissenting portion) shall be treated as a Non-Consenting Lender and the Borrower may require such Lender to terminate, unwind, liquidate or otherwise cancel its arrangements with its Participant (with the dissenting portion) and transfer the interest, rights and obligations corresponding to the dissenting portion to the Replacement Lenders in accordance with Section 2.22.

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- (h) Liens Granted by Lenders. Any Lender may at any time grant a Lien in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any Lien to secure obligations to a U.S. Federal Reserve Bank, and this Section shall not apply to any such granting of a Lien; provided that no such granting of a Lien shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.
- (i) Disenfranchisement of Sponsor Affiliates.
- (i) For so long as a Sponsor Affiliate (i) beneficially owns any Term Loan Exposure; or (ii) has entered into a sub-participation agreement relating to a Term Loan Exposure or other agreement or arrangement having a substantially similar economic effect and such agreement or arrangement has not been terminated:
- (1) in ascertaining the Majority Lenders; or whether any relevant percentage (including, for the avoidance of doubt, unanimity) of Credit Participations (as defined in the Intercreditor Agreement); or the agreement of any specified group of Lenders has been obtained to approve any request for a proposed change or to carry any other vote or approve any action under this Agreement or any other Credit Document, such Term Loan Exposure shall be deemed to be zero and, subject to paragraph (2) below, such Sponsor Affiliate (or the Person with whom it has entered into that sub-participation, other agreement or arrangement (a "**Counterparty**")) shall be deemed not to be a Lender.

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- (2) Paragraph (1) above shall not apply to the extent that a Counterparty is a Lender by virtue otherwise than by beneficially owning the relevant Term Loan Exposure.
 - (ii) Each Sponsor Affiliate that is a Lender agrees that:
 - (1) in relation to any meeting or conference call to which all the Lenders, all the Secured Parties or any combination of those groups of Secured Parties are invited to attend or participate, it shall not attend or participate in the same if so requested by the Security Agent or, unless the Security Agent otherwise agrees, be entitled to receive the agenda or any minutes of the same; and
 - (2) it shall not, unless the Security Agent otherwise agrees, be entitled to receive any report or other document prepared at the request of, or on the directions of, the Security Agent or one or more of the Secured Parties.

10.7. Independence of Covenants.

All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or would otherwise be within the limitations of, another covenant shall not avoid the occurrence of a Default or an Event of Default if such action is taken or condition exists.

10.8. Survival of Representations, Warranties and Agreements.

All representations, warranties and agreements made herein shall survive the execution and delivery hereof and the making of any Term Loan. Notwithstanding anything herein or implied by law to the contrary, the agreements set forth in Sections 2.13, 2.17, 2.18, 2.19, 9.3(b), 9.6, 10.2, 10.3 and 10.4 shall survive the payment of the Term Loans.

10.9. No Waiver; Remedies Cumulative.

No failure or delay on the part of any Finance Party in the exercise of any power, right or privilege hereunder or under any other Credit Document shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other power, right or privilege. The rights, powers and remedies given to each Finance Party hereby are cumulative and shall be in addition to and independent of all rights, powers and remedies existing by virtue of any applicable law or in any of the other Credit Documents or any Hedging Agreements. Any forbearance or failure to exercise, and any delay in exercising, any right, power or remedy hereunder shall not impair any such right, power or remedy or be construed to be a waiver thereof, nor shall it preclude the further exercise of any such right, power or remedy.

10.10. Marshalling; Payments Set Aside.

Neither any Agent nor any other Secured Party shall be under any obligation to marshal any assets in favor of any Credit Party or any other Person or against or in payment of any or all of the Obligations. To the extent that any Credit Party makes a payment or payments to the Facility Agent (or to the Facility Agent, on behalf of the Lenders) or any other Secured Party, or any Agent or any other Secured Party enforces any Lien or exercises its rights of set-off, and such payment or payments or the proceeds of such enforcement or set-off or any part thereof, are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, receiver or any other party under any applicable law relating to a Bankruptcy Event or any equitable cause, then, to the extent of such recovery, the obligation or part thereof originally intended to be satisfied, and all Liens, rights and remedies therefor or related thereto, shall be revived and continued in full force and effect as if such payment or payments had not been made or such enforcement or setoff had not occurred.

10.11. Severability.

To the maximum extent permitted by applicable law, if any provision in or obligation hereunder or under any other Credit Document shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

10.12. Obligations Several; Independent Nature of Lenders' Rights.

The obligations of the Lenders under the Credit Documents are several, and no Lender shall be responsible for the obligations or Commitments of any other Lender. Nothing contained herein or in any other Credit Document, and no action taken by the Lenders pursuant hereto or thereto, shall be deemed to constitute the Lenders as a partnership, an association, a joint venture or any other kind of entity. The amounts payable at any time hereunder to each Lender shall be a separate and independent debt, and each Lender shall be entitled to protect and enforce its rights arising out hereof and it shall not be necessary for any other Lender to be joined as an additional party in any proceeding for such purpose.

10.13. Headings.

Section headings herein are included herein for convenience of reference only and shall not constitute a part hereof for any other purpose or be given any substantive effect.

10.14. APPLICABLE LAW.

THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES ARISING HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, U.S.A., WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES THEREOF.

10.15. CONSENT TO JURISDICTION.

- (a) ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST ANY CREDIT PARTY ARISING OUT OF OR RELATING HERETO OR ANY OTHER CREDIT DOCUMENT, OR ANY OF THE OBLIGATIONS, MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE, COUNTY AND CITY OF NEW YORK, BOROUGH OF MANHATTAN, UNITED STATES OF AMERICA. BY EXECUTING AND DELIVERING THIS AGREEMENT, EACH CREDIT PARTY, FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, IRREVOCABLY (A) ACCEPTS GENERALLY AND UNCONDITIONALLY THE JURISDICTION AND VENUE OF SUCH COURTS; (B) WAIVES ANY DEFENSE OF FORUM NON CONVENIENS; (C) AGREES THAT SERVICE OF ALL PROCESS IN ANY SUCH PROCEEDING IN ANY SUCH COURT MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO THE APPLICABLE CREDIT PARTY AT ITS ADDRESS PROVIDED IN ACCORDANCE WITH SECTION 10.1; (D) AGREES THAT SERVICE AS PROVIDED IN CLAUSE (C) ABOVE IS SUFFICIENT TO CONFER PERSONAL JURISDICTION OVER THE APPLICABLE CREDIT PARTY IN ANY SUCH PROCEEDING IN ANY SUCH COURT, AND OTHERWISE CONSTITUTES EFFECTIVE AND BINDING SERVICE IN EVERY RESPECT; AND (E) AGREES THAT THE AGENTS AND THE LENDERS RETAIN THE RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW OR TO BRING PROCEEDINGS AGAINST ANY CREDIT PARTY IN THE COURTS OF ANY OTHER JURISDICTION.
- (b) Without prejudice to any other mode of service allowed under applicable law, each Credit Party (other than any Credit Party incorporated in United States):
- (i) irrevocably appoints the Person specified in the applicable process agent appointment letter as its agent for service of process in relation to any action, suit or proceedings before courts in the State of New York, USA in connection with any Credit Document;
 - (ii) agrees that service of process in the manner provided in this Section in any action, suit or proceeding will be deemed personal service, will be accepted by such Credit Party as such and will be valid and binding upon such Credit Party for all purposes of any such action, suit or proceeding;
 - (iii) agrees that failure by a process agent to notify the relevant Credit Party of the process will not invalidate the proceedings concerned; and

-
- (iv) agrees that if any Person appointed as an agent for service of process is unable for any reason to act as agent for service of process, the Borrower (on behalf of all the Credit Parties) shall promptly (and in any event within fifteen (15) Business Days of such event taking place) appoint another agent on terms acceptable to the Facility Agent. Failing this, the Facility Agent may appoint another agent, on the sole cost and expense of the Credit Parties, for this purpose.

10.16. WAIVER OF JURY TRIAL.

EACH OF THE PARTIES HERETO HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING HEREUNDER OR UNDER ANY OF THE OTHER CREDIT DOCUMENTS OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS LOAN TRANSACTION OR THE LENDER/THE BORROWER RELATIONSHIP THAT IS BEING ESTABLISHED. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. EACH PARTY HERETO ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS AGREEMENT, AND THAT EACH WILL CONTINUE TO RELY ON THIS WAIVER IN ITS RELATED FUTURE DEALINGS. EACH PARTY HERETO FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING (OTHER THAN BY A MUTUAL WRITTEN WAIVER SPECIFICALLY REFERRING TO THIS SECTION AND EXECUTED BY EACH OF THE PARTIES HERETO), AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS HERETO OR ANY OF THE OTHER CREDIT DOCUMENTS OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE TERM LOANS MADE HEREUNDER. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

10.17. Confidentiality.

Each Finance Party shall hold all non-public information regarding the Group and its businesses identified as such by the Borrower and obtained by such Finance Party pursuant to the requirements hereof in accordance with such Finance Party's customary procedures for handling confidential information of such nature, it being understood and agreed by the Credit Parties that, in any event, each Finance Party may make (i) disclosures of such information to any Related Parties of such Finance Party and to their respective agents and advisors (and to other Persons authorized by a Finance Party to organize, present or disseminate such information in connection with disclosures otherwise made in accordance with this Section); provided that such Person is under a duty of confidentiality, contractual or otherwise, to such Finance Party; (ii) disclosures of such information reasonably required by any bona fide or potential assignee, transferee or participant in connection with the contemplated assignment, transfer or participation of any Term Loans or any participations therein or by any direct or indirect contractual counterparties (or the professional advisors thereto) to any swap or derivative transaction relating to any Group Member and its obligations (provided, such assignees, transferees, participants, counterparties and advisors are advised of and agree to be bound by either the provisions of this Section or other provisions at least as restrictive as this Section); (iii) disclosures to any rating agency when required by it; provided that prior to any disclosure, such rating agency shall undertake in writing to preserve the confidentiality of any confidential information relating to the Credit Parties received by it from any of the Agents or any Lender; (iv) disclosures to the International Swaps and Derivatives Association, Inc. ("**ISDA**") or any Credit Derivatives Determination Committee or sub-committee of ISDA where such disclosure is required by them in order to determine whether the obligations under the Credit Documents will be, or in order for the obligations under the Credit Documents to become, deliverable under a Treasury Transaction which incorporates the 2009 ISDA Credit Derivatives Determinations Committees and Auction Settlement Supplement or other provisions substantially equivalent thereto; (v) disclosures to any Group Member or any Person permitted by any Credit Party; (vi) disclosures in connection with the exercise of any remedies hereunder or under any other Credit Document; and (vii) disclosures required or requested by any applicable law (including any regulation issued under the Banking Act, Chapter 19 of Singapore and applicable to banks in Singapore in relation to the prevention of money laundering or countering the financing of terrorism), any Governmental Authority or representative thereof or pursuant to legal, regulatory, judicial or arbitration process. In addition, each Agent and each Lender may disclose the existence of this Agreement and the information about this Agreement to market data collectors, similar services providers to the lending industry, and service providers to the Agents and the Lenders in connection with the administration and management of this Agreement and the other Credit Documents. This Section supersedes any previous confidentiality undertaking given by a Finance Party in connection with the Term Loans prior to it becoming a party hereof.

10.18. Usury Savings Clause.

- (a) For purposes of this Section, "**Highest Lawful Rate**" means the maximum lawful interest rate, if any, that at any time or from time to time may be contracted for, charged, or received under applicable law by or in respect of any Lender and that are presently in effect or, to the extent allowed by applicable law, that may hereafter be in effect and that allow a higher maximum non-usurious interest rate than applicable laws now allow.

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- (b) Notwithstanding any other provision herein, the aggregate interest rate charged with respect to any of the Obligations, including all charges or fees in connection therewith deemed in the nature of interest under applicable law, shall not exceed the Highest Lawful Rate. If the rate of interest (determined without regard to the preceding sentence) under this Agreement at any time exceeds the Highest Lawful Rate, the outstanding amount of the Term Loans made hereunder shall bear interest at the Highest Lawful Rate until the total amount of interest due hereunder equals the amount of interest that would have been due hereunder if the stated rates of interest set forth in this Agreement had at all times been in effect. In addition, if when the Term Loans made hereunder are repaid in full the total interest due hereunder (taking into account the increase provided for above) is less than the total amount of interest that would have been due hereunder if the stated rates of interest set forth in this Agreement had at all times been in effect, then to the extent permitted by applicable law, the Borrower shall pay to the Facility Agent an amount equal to the difference between the amount of interest paid and the amount of interest that would have been paid if the Highest Lawful Rate had at all times been in effect. Notwithstanding the foregoing, it is the intention of the Lenders and the Borrower to conform strictly to any and all applicable laws in respect of usury. Accordingly, if any Lender contracts for, charges, or receives any consideration that constitutes interest in excess of the Highest Lawful Rate, then any such excess shall be cancelled automatically and, if previously paid, shall at such Lender's option be applied to the outstanding amount of the Term Loans made hereunder or be refunded to the Borrower.

10.19. Counterparts.

This Agreement (and each amendment hereto or waiver granted in respect hereof) may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page of this Agreement (and each amendment hereto or waiver granted in respect hereof) by fax or any other electronic means (including e-mail) that reproduces an image of the actual executed signature page shall be effective as delivery of a manually executed counterpart of this Agreement, amendment or waiver.

10.20. Effectiveness.

This Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto and receipt by the Borrower and the Facility Agent of written notification (including by electronic communications in PDF format) of such execution and authorization of delivery thereof.

10.21. USA Patriot Act.

Each Lender and the Facility Agent (for itself and not on behalf of any Lender) hereby notifies each Credit Party that pursuant to the requirements of the USA Patriot Act, it is required to obtain, verify and record information that identifies each Credit Party, which information includes the name and address of each Credit Party and other information that will allow such Lender or the Facility Agent, as applicable, to identify such Credit Party in accordance with the USA Patriot Act.

10.22. Electronic Execution of Assignments.

The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

10.23. No Fiduciary Duty.

The parties hereto acknowledge and agree that each Finance Party and each of its Affiliates (collectively, solely for purposes of this paragraph, the "**Lenders**"), may from time to time have or acquire economic interests that conflict with those of the Borrower or another Group Member. The Borrower agrees that nothing in the Credit Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty between the Lenders, on the one hand, and the Borrower, any Group Member, their stockholders or its Affiliates, on the other. The Borrower acknowledges and agrees that (a) the transactions contemplated by the Credit Documents are arm's-length commercial transactions between the Lenders, on the one hand, and the Borrower and the other Group Members, on the other; (b) in connection therewith and with the process leading to such transaction, each of the Lenders is acting solely as a principal and not the agent or fiduciary of the Borrower, any other Group Member, their management, stockholders, creditors or any other person; (c) no Lender has assumed an advisory or fiduciary responsibility in favor of the Borrower or any other Group Member with respect to the transactions contemplated hereby or the process leading thereto (irrespective of whether any Lender or any of its Affiliates has advised or is currently advising the Borrower or any other Group Member on other matters) or any other obligation to the Borrower or other Group Member, except the obligations expressly set forth in the Credit Documents; and (d) the Borrower and the other Group Members have consulted their own legal and financial advisors to the extent it deemed appropriate. The Borrower further acknowledges and agrees that it and the other Group Members are responsible for making their own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to the Borrower or any other Group Member, in connection with such transaction or the process leading thereto.

10.24. Borrower as Agent.

- (a) Each Offshore Group Member (other than the Borrower) by its execution of this Agreement or a Counterpart Agreement, irrevocably appoints the Borrower to act on its behalf as its agent in relation to the Credit Documents (in such capacity, the "**Obligors' Agent**") and irrevocably authorizes:
- (i) the Borrower on its behalf to supply all information concerning itself contemplated by this Agreement to the Finance Parties and to give all notices and instructions, to make such agreements and to effect the relevant amendments, supplements and variations capable of being given, made or effected by any Offshore Group Member notwithstanding that they may affect the Offshore Group Member, without further reference to or the consent of that Offshore Group Member; and
 - (ii) each Finance Party to give any notice, demand or other communication that is required to be delivered to that Offshore Group Member pursuant to the Credit Documents to the Borrower,
- and in each case the Offshore Group Member shall be bound as though the Offshore Group Member itself had given the notices and instructions or executed or made the agreements or effected the amendments, supplements or variations, or received the relevant notice, demand or other communication.
- (b) Every act, omission, agreement, undertaking, settlement, waiver, amendment, supplement, variation, notice or other communication given or made by the Obligors' Agent or given to the Obligors' Agent under any Credit Document on behalf of another Offshore Group Member or in connection with any Credit Document (whether or not known to any other Offshore Group Member and whether occurring before or after such other Offshore Group Member became a party to any Credit Document) shall be binding for all purposes on that Offshore Group Member as if that Offshore Group Member had expressly made, given or concurred with it. In the event of any conflict between any notices or other communications of the Obligors' Agent and any other Offshore Group Member, those of the Obligors' Agent shall prevail.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, each of the Parties hereto has caused this Agreement to be duly executed and delivered by its respective Authorized Officer as of the date first written above.

HOME INNS & HOTELS MANAGEMENT INC.

as Borrower

By: /s/ May Yihong Wu

Name: May Yihong

Title: Chief Strategy Officer

HOME INNS & HOTELS MANAGEMENT INC.

as Guarantor

By: /s/ May Yihong Wu

Name: May Yihong Wu

Title: Chief Strategy Officer

HOME INNS & HOTELS MANAGEMENT
(HONG KONG) LIMITED

as Guarantor

By: /s/ May Yihong Wu

Name: May Yihong Wu

Title: Director

YITEL HOTEL MANAGEMENT (HONG KONG)
LIMITED

as Guarantor

By: /s/ May Yihong Wu

Name: May Yihong Wu

Title: Director

HONG KONG AI HOME HOTEL INVESTMENT
LIMITED

as Guarantor

By: /s/ May Yihong Wu

Name: May Yihong Wu

Title: Director

BNP PARIBAS HONG KONG BRANCH

as Facility Agent

By: /s/ Mary Loo

Name: Mary Loo

Title: Manager

Regional Agency, Hong Kong

By: /s/ Didier Leblanc

Name: Didier Leblanc

Title: Managing Director, Head of Loan

Syndication, Acquisition & Leveraged Finance,

Asia Pacific

BNP PARIBAS HONG KONG BRANCH

as Security Agent

By: /s/ Mary Loo

Name: Mary Loo

Title: Manager

Regional Agency, Hong Kong

By: /s/ Didier Leblanc

Name: Didier Leblanc

Title: Managing Director, Head of Loan

Syndication, Acquisition & Leveraged Finance,

Asia Pacific

BNP PARIBAS HONG KONG BRANCH as

Mandated Lead Arranger

By: /s/ Pierre Joseph Costa

Name: Pierre Joseph Costa

Title: Regional Head for Asia Pacific & Japan,

Structured Finance

By: /s/ Didier Leblanc

Name: Didier Leblanc

Title: Managing Director, Head of Loan

Syndication, Acquisition & Leveraged Finance,

Asia Pacific

BNP PARIBAS HONG KONG BRANCH

as Lender

By: /s/ Pierre Joseph Costa

Name: Pierre Joseph Costa

Title: Regional Head for Asia Pacific & Japan,

Structured Finance

By: /s/ Didier Leblanc

Name: Didier Leblanc

Title: Managing Director, Head of Loan

Syndication, Acquisition & Leveraged Finance,

Asia Pacific

CHINATRUST COMMERCIAL BANK, LTD.

as Mandated Lead Arranger

By: /s/ Charleen Sung

Name: Charleen Sung

Title: Chief Country Officer, Hong Kong Branch

CHINATRUST COMMERCIAL BANK, LTD.

as Lender

By: /s/ Charleen Sung

Name: Charleen Sung

Title: Chief Country Officer, Hong Kong Branch

CRÉDIT AGRICOLE CORPORATE AND
INVESTMENT BANK

as Mandated Lead Arranger

By: /s/ Dominique Fournier

Name: Dominique FOURNIER

Title: Managing Director and Regional Head,
Real Estate & Hotel Group,
Structured Finance Asia

By: /s/ Julian Ostheim

Name: Julian OSTHEIM

Title: Managing Director
Head of Acquisition
& Leveraged Finance Asia

CRÉDIT AGRICOLE CORPORATE AND
INVESTMENT BANK

as Lender

By: /s/ Dominique Fournier

Name: Dominique FOURNIER

Title: Managing Director and Regional Head,
Real Estate & Hotel Group,
Structured Finance Asia

By: /s/ Julian Ostheim

Name: Julian OSTHEIM

Title: Managing Director
Head of Acquisition
& Leveraged Finance Asia

[For Home Inns & Hotels Management Inc.
Credit Agreement]

CREDIT SUISSE AG, SINGAPORE BRANCH

as Mandated Lead Arranger

By: /s/ James Wood

Name: James Wood

Title: Director, General Counsel Division

By: /s/ Kuvesh Pather

Name: Kuvesh Pather

Title: Director

CREDIT SUISSE AG, SINGAPORE BRANCH

as Lender

By: /s/ James Wood

Name: James Wood

Title: Director, General Counsel Division

By: /s/ Kuvesh Pather

Name: Kuvesh Pather

Title: Director

JPMORGAN CHASE BANK, N.A., ACTING
THROUGH ITS HONG KONG BRANCH

as Mandated Lead Arranger

By: /s/ Sonia Li

Name: Sonia Li

Title: Managing Director

JPMORGAN CHASE BANK, N.A., ACTING
THROUGH ITS HONG KONG BRANCH

as Lender

By: /s/ Neha Rastogi

Name: Neha Rastogi

Title: Vice President

NATIXIS, HONG KONG BRANCH

as Mandated Lead Arranger

By: /s/ Eva Fung

Name: EVA FUNG

Title: Head of Acquisition & Strategic Finance –
Asia

NATIXIS, HONG KONG BRANCH as

Mandated Lead Arranger

By: /s/ Nicolas Farman

Name: NICOLAS FARMAN

Title: Director
Acquisition & Strategic Finance – Asia

NATIXIS, HONG KONG BRANCH

as Lender

By: /s/ Eva Fung

Name: EVA FUNG

Title: Head of Acquisition & Strategic Finance –
Asia

NATIXIS, HONG KONG BRANCH

as Lender

By: /s/ Nicolas Farman

Name: NICOLAS FARMAN

Title: Director
Acquisition & Strategic Finance – Asia

SHINHAN ASIA LIMITED

as Mandated Lead Arranger

By: /s/ Chang-Soo Oh

Name: Chang-Soo OH

Title: CEO

SHINHAN ASIA LIMITED

as Lender

By: /s/ Chang-Soo Oh

Name: Chang-Soo OH

Title: CEO

INDUSTRIAL AND COMMERCIAL BANK OF
CHINA (ASIA) LIMITED

as Lead Arranger

By: /s/ Spark Su

Name: Spark Su

Title: Head of Telecommunications,
Technology and Industrial Section

By: /s/ Wami Ha

Name: Wami Ha

Title: Head of Corporate Finance Section

INDUSTRIAL AND COMMERCIAL BANK OF
CHINA (ASIA) LIMITED

as Lender

By: /s/ Spark Su

Name: Spark Su

Title: Head of Telecommunications,
Technology and Industrial Section

By: /s/ Wami Ha

Name: Wami Ha

Title: Head of Corporate Finance Section

INTERCREDITOR AGREEMENT

among

HOME INNS & HOTELS MANAGEMENT INC.
AS BORROWER

THE BORROWER AND CERTAIN SUBSIDIARIES THEREOF
AS ORIGINAL DEBTORS AND INTRA-GROUP LENDERS

BNP PARIBAS HONG KONG BRANCH
CHINATRUST COMMERCIAL BANK, LTD.
CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK
CREDIT SUISSE AG, SINGAPORE BRANCH
JPMORGAN CHASE BANK, N.A., ACTING THROUGH ITS HONG KONG BRANCH
NATIXIS, HONG KONG BRANCH
SHINHAN ASIA LIMITED
AS MANDATED LEAD ARRANGERS

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED
AS LEAD ARRANGER

THE HEDGE COUNTERPARTIES PARTY HERETO

and

BNP PARIBAS HONG KONG BRANCH
AS FACILITY AGENT AND SECURITY AGENT

US\$240,000,000 SENIOR SECURED CREDIT FACILITY

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INTERCREDITOR AGREEMENT

THIS INTERCREDITOR AGREEMENT is dated as of September 29, 2011 and made by and among:

- (1) **HOME INNS & HOTELS MANAGEMENT INC.**, a Cayman Islands company (the "**Borrower**");
- (2) the Borrower and each other Person that is a Guarantor as of the date of this Agreement (each as an "**Original Debtor**" and an "**Intra-Group Lender**");
- (3) **BNP PARIBAS HONG KONG BRANCH, CHINATRUST COMMERCIAL BANK, LTD., CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK, CREDIT SUISSE AG, SINGAPORE BRANCH, JPMORGAN CHASE BANK, N.A., ACTING THROUGH ITS HONG KONG BRANCH, NATIXIS, HONG KONG BRANCH** and **SHINHAN ASIA LIMITED** as mandated lead arrangers (the "**Mandated Lead Arrangers**");
- (4) **INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED**, as lead arranger (the "**Lead Arranger**");
- (5) the **FINANCIAL INSTITUTIONS** named on the signing pages as Hedge Counterparties (if any, as of the date of this Agreement);
- (6) **BNP PARIBAS HONG KONG BRANCH** as security agent for the Secured Parties (the "**Security Agent**"); and
- (7) **BNP PARIBAS HONG KONG BRANCH** as facility agent for the Senior Lenders (the "**Facility Agent**").

RECITALS

WHEREAS:

- A. The Borrower, each of the other Guarantors, the lending institutions specified therein as the Lenders, the Agents, the Mandated Lead Arrangers and the Lead Arranger have entered into the Credit Agreement, pursuant to which the Term Loans will be provided to the Borrower.
- B. Each Intra-Group Lender intends that all of the Intra-Group Liabilities that are owed to it or become due at any time shall be fully subordinated and junior in right of payment to the Secured Obligations owed to the Secured Parties.
- C. The Senior Lenders and the Senior Hedge Counterparties intend that all of the obligations and liabilities of each Group Member arising out of or under (i) the Credit Agreement and the other Credit Documents; and (ii) the Senior Hedging Agreements will, in each case, be senior secured obligations of such Group Member, ranking *pari passu* as between each other in all respects.
- D. The Borrower intends that all of the obligations and liabilities of each Group Member arising out of or under the Junior Hedging Agreements (if any) will be unsecured unsubordinated obligations of such Group Member, ranking *pari passu* with all of such Group Member's other unsecured and unsubordinated obligations.

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- E. It is a condition precedent to the disbursement of the Term Loans that the Borrower and each other Guarantor have entered into this Agreement.
- F. In order to induce the Senior Lenders to extend credit, make the Term Loans and provide other financial accommodations to the Borrower, each Debtor and each Intra-Group Lender has agreed to the intercreditor and other provisions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, each of the parties hereto agrees as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

"1992 ISDA Master Agreement" means the Master Agreement (Multicurrency Cross Border) as published by the International Swaps and Derivatives Association, Inc.

"2002 ISDA Master Agreement" means the 2002 Master Agreement as published by the International Swaps and Derivatives Association, Inc.

"Acceleration Event" means the Facility Agent exercising any of its rights under Section 8.1 of the Credit Agreement.

"Agent Liabilities" means the Liabilities owed by any Debtor to the Facility Agent or Security Agent under the Debt Documents.

"Aggregate Hedged Amount" means, in relation to a Hedge Counterparty, the aggregate of the notional amounts hedged by the relevant Debtors under each Hedging Agreement that is an interest rate or foreign currency hedge transaction and to which such Hedge Counterparty is party.

"Arranger Liabilities" means the Liabilities owed by the Debtors to the Mandated Lead Arrangers and the Lead Arranger under the Debt Documents.

"Borrowing Liabilities" means, in relation to a Group Member, the liabilities (not being Guarantee Liabilities) it may have as a principal debtor to a Creditor or Debtor in respect of Indebtedness arising under the Debt Documents (whether incurred solely or jointly and including liabilities as a Borrower under and as defined in the Credit Documents).

"Close-Out Netting" means:

- (a) in respect of a Hedging Agreement based on a 1992 ISDA Master Agreement, any step involved in determining the amount payable in respect of an Early Termination Date (as defined in the 1992 ISDA Master Agreement) under section 6(e) of the 1992 ISDA Master Agreement before the application of any subsequent Set-off (as defined in the 1992 ISDA Master Agreement);
- (b) in respect of a Hedging Agreement based on a 2002 ISDA Master Agreement, any step involved in determining an Early Termination Amount (as defined in the 2002 ISDA Master Agreement) under section 6(e) of the 2002 ISDA Master Agreement; and

(c) in respect of a Hedging Agreement based on any other ISDA Master Agreement, any step involved on a termination of the hedging transactions under such Hedging Agreement pursuant to any provision of such Hedging Agreement that has a similar effect to either provision referenced in paragraph (a) and paragraph (b) above.

"**Common Assurance**" means any guarantee, indemnity or other assurance against loss in respect of any of the Liabilities, the benefit of which (however conferred) is, to the extent legally possible and subject to any Agreed Security Principles, given to all the Secured Parties in respect of their Liabilities.

"**Common Currency**" means US\$.

"**Common Currency Amount**" means, in relation to an amount, such amount converted (to the extent not already denominated in the Common Currency) into the Common Currency at the Security Agent's Spot Rate of Exchange on the Business Day prior to the relevant calculation.

"**Common Transaction Security**" means any Transaction Security that is created in favor of the Security Agent for the benefit of the Secured Parties in respect of the Secured Liabilities and that ranks (or is intended or purported to rank) in the order of priority contemplated in Section 2.2.

"**Consent**" means any consent, approval, release or waiver or agreement to any amendment.

"**Credit Agreement**" means the US\$240,000,000 Credit Agreement made by and among, *inter alios*, the Borrower and the Senior Lenders and dated as of September 26, 2011.

"**Credit Participation**" means, in relation to a Primary Creditor, the aggregate of:

- (a) its Term Loan Exposure (after application of Section 10.6(i) of the Credit Agreement); and
- (b) in respect of any hedging transaction of such Primary Creditor under any Hedging Agreement that has, as of the date the calculation is made, been terminated or closed out in accordance with the terms of this Agreement, the net amount, if any, payable to it under such Hedging Agreement in respect of such termination or close-out as of the date of termination or close-out (and before taking into account any interest accrued on such amount since the date of termination or close-out) to the extent such amount remains unpaid after the date on which it becomes due and payable (such amount to be certified by the relevant Primary Creditor and as calculated in accordance with the relevant Hedging Agreement); and
- (c) after the Senior Lender Discharge Date only, in respect of any hedging transaction of such Primary Creditor under any Hedging Agreement that has, as of the date the calculation is made, not been terminated or closed out, the amount, if any, that would be payable to it under such Hedging Agreement in respect of such hedging transaction, if the date on which the calculation is made was deemed to be an Early Termination Date (as defined in the relevant ISDA Master Agreement) for which the relevant Debtor is the Defaulting Party (as defined in the relevant ISDA Master Agreement), such amount, in each case, to be certified by the relevant Primary Creditor and as calculated in accordance with the relevant Hedging Agreement.

The amount of any Credit Participation shall be calculated in accordance with Section 21.7.

"**Credit Party**" means the Borrower and its Subsidiaries that are party to this Agreement from time to time, including in the capacity of a Debtor or an Intra-Group Lender.

"**Credit Related Close-Out**" means any Permitted Hedge Close-Out that is not a Non-Credit Related Close-Out.

"**Creditor/Agent Accession Undertaking**" means:

- (a) an undertaking substantially in the form set forth in Schedule 2; or
- (b) an Assignment and Assumption (as defined in the Credit Agreement), as the context may require, or
- (c) in the case of an acceding Debtor that is expressed to accede as an Intra-Group Lender in the relevant Debtor Accession Letter, such Debtor Accession Letter.

"**Creditors**" means the Senior Lenders, the Hedge Counterparties and the Intra-Group Lenders.

"**Debt Documents**" means this Agreement, the Hedging Agreements, the Credit Documents (including the Collateral Documents), any agreement evidencing the terms of the Intra-Group Liabilities and any other document designated as such by the Security Agent and the Borrower.

"**Debtor**" means each Original Debtor and any Group Member that becomes a Party as a Debtor in accordance with the terms of Section 15.

"**Debtor Accession Letter**" means:

- (a) a letter substantially in the form set forth in Schedule 1 (*Form of Debtor Accession Letter*); or
- (b) (only in the case of a Group Member that is acceding as a guarantor under the Credit Agreement) a Counterpart Agreement (as defined in the Credit Agreement).

"**Debtor Liabilities**" means, in relation to a Group Member, any liabilities owed to any Debtor (whether actual or contingent and whether incurred solely or jointly) by such Group Member.

"**Delegate**" means any delegate, agent, subagent or attorney appointed by the Security Agent.

"**Disposal Proceeds**" has the meaning given to such term in Section 11.

"**Distress Event**" means any of:

- (a) an Acceleration Event; or
- (b) the enforcement of any Transaction Security.

"Distressed Disposal" means a Disposal of an asset of a Group Member that is being effected:

- (a) at the request of the Majority Primary Creditors in circumstances where the Transaction Security has become enforceable;
- (b) by way of the enforcement of the Transaction Security; or
- (c) by a Debtor after the occurrence of a Distress Event to a Person that is not a Group Member.

"Enforcement Action" means:

- (a) in relation to any Liabilities:
 - (i) the acceleration of any Liabilities or the making of any declaration that any Liabilities are prematurely due and payable (other than as a result of it becoming unlawful for a Senior Lender to perform its obligations under, or of any voluntary or mandatory prepayment arising under, the Debt Documents);
 - (ii) the making of any declaration that any Liabilities are payable on demand;
 - (iii) the making of a demand in relation to a Liability that is payable on demand (other than, in relation to Intra-Group Liabilities, the making of a demand that is not otherwise prohibited under the Credit Agreement to the extent that the payment of such Liability gives effect to a Permitted Payment);
 - (iv) the making of any demand against any Group Member in relation to any Guarantee Liabilities of such Group Member;
 - (v) the exercise of any right to require any Group Member to acquire any Liability (including exercising any put or call option against any Group Member for the redemption or purchase of any such liability);
 - (vi) the exercise of any right of set-off, account combination or payment netting against any Group Member in respect of any Liabilities other than the exercise of any such right:
 - (A) as Close-Out Netting by a Hedge Counterparty;
 - (B) as Payment Netting by a Hedge Counterparty;
 - (C) as Inter-Hedging Agreement Netting by a Hedge Counterparty; and
 - (D) that is not otherwise prohibited under the Credit Agreement to the extent that the exercise of such right gives effect to a Permitted Payment; and
 - (vii) the suing for, commencing or joining of any legal or arbitration proceedings against any Group Member to recover any Liabilities;
- (b) the premature termination or close-out of any hedging transaction under any Hedging Agreement;

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- (c) the taking of any steps to enforce or require the enforcement of any Transaction Security;
 - (d) the entering into of any composition, compromise, assignment or arrangement with any Group Member that owes any Liabilities, or has given any Security, guarantee or indemnity or other assurance against loss in respect of such Liabilities (other than any action permitted under Section 15 or any such action in the ordinary course of business (and not in the context of a Bankruptcy Event)); or
 - (e) the occurrence of a Bankruptcy Event in relation to any Material Group Member that owes any Liabilities, or has given any Transaction Security, guarantee, indemnity or other assurance against loss in respect of any of such Liabilities,
except that the following shall not constitute Enforcement Action:
 - (i) the taking of any action falling within paragraphs (a)(vii) or (e) above that is necessary (but only to the extent necessary) to preserve the validity, existence or priority of claims in respect of Liabilities, including the registration of such claims before any court or governmental authority and the bringing, supporting or joining of proceedings to prevent any loss of the right to bring, support or join proceedings by reason of applicable limitation periods; or
 - (ii) a Hedge Counterparty bringing legal proceedings against any Person solely for the purpose of:
 - (A) obtaining injunctive relief (or any analogous remedy) to restrain any actual or putative breach of any Debt Document to which it is party;
 - (B) obtaining specific performance (other than specific performance of an obligation to make a payment) with no claim for damages; or
 - (C) requesting judicial interpretation of any provision of any Debt Document to which it is party with no claim for damages; or
 - (iii) any (full or partial) waiver, cancellation, novation or conversion into equity of any Intra-Group Liabilities that is not otherwise prohibited under the Credit Agreement or this Agreement.

"Final Discharge Date" means the first date on which (a) the Senior Lender Discharge Date has occurred; and (b) all Senior Hedging Liabilities have been indefeasibly paid in full in cash, whether or not as the result of an enforcement, and the Hedge Counterparties are under no further obligation to provide financial accommodation to any of the Debtors under the Debt Documents.

"Guarantee Liabilities" means, in relation to a Group Member, the liabilities under the Debt Documents (present or future, actual or contingent and whether incurred solely or jointly) it may have to a Creditor or Debtor as or as a result of its being a guarantor or surety (including liabilities arising by way of guarantee, indemnity, contribution or subrogation and in particular any guarantee or indemnity arising under or in respect of the Credit Documents), and without double-counting.

"Hedge Counterparty" means a Senior Hedge Counterparty or a Junior Hedge Counterparty.

"Hedge Counterparty Obligations" means the Senior Hedge Counterparty Obligations or the Junior Hedge Counterparty Obligations.

"Hedge Excess" means the amount by which the Total Interest Rate Hedged Amount or the Total Currency Hedged Amount exceeds the Permitted Maximum Hedged Amount.

"Hedge Proportion" means, in relation to a Hedge Counterparty and such Hedge Counterparty's Aggregate Hedged Amount, the proportion (expressed as a percentage) borne by such Hedge Counterparty's Aggregate Hedged Amount to the Total Interest Rate Hedged Amount or the Total Currency Hedged Amount (as applicable).

"Hedging Agreement" means any interest rate or foreign currency swap, collar, cap, hedging or other similar agreement or arrangement for the purposes of hedging interest rate or foreign currency risks (including any futures contract, option contract or synthetic cap with respect to any of the foregoing and any combination of the foregoing agreements or arrangements), and any confirmation executed in connection therewith.

"Hedging Liabilities" means Senior Hedge Liabilities or Junior Hedge Liabilities.

"Impaired Hedge Counterparty" means a Hedge Counterparty at any time when:

- (a) (to the extent the relevant Hedging Agreement is based on the 2002 ISDA Master Agreement), an event of default has occurred with respect to such Hedge Counterparty pursuant to section 5(a)(ii)(2) of the 2002 ISDA Master Agreement;
- (b) an event of default has occurred with respect to such Hedge Counterparty pursuant to section 5(a)(i) of the 2002 ISDA Master Agreement or, as the case may be, the 1992 ISDA Master Agreement;
- (c) an event of default has occurred with respect to such Hedge Counterparty pursuant to section 5(a)(vii) of the 2002 ISDA Master Agreement or, as the case may be, the 1992 ISDA Master Agreement or any other ISDA Master Agreement; or
- (d) (if such Hedge Counterparty is also a Senior Lender) it is a Defaulting Lender,

unless, in the case of any of paragraphs (a) to (c) above, the relevant Hedging Agreement provides that such event of default shall not apply to such Hedge Counterparty or, without prejudice to the forgoing, in the case of paragraph (a) above:

- (i) payment is made within any applicable grace period;
- (ii) such Hedge Counterparty is disputing in good faith whether it is contractually obliged to make the payment in question; or
- (iii) such Hedge Counterparty is exercising its rights under such Hedging Agreement, to the extent not otherwise in conflict with this Agreement.

"Intercreditor Amendment" means any amendment or waiver that is subject to Section 21.

"Inter-Hedging Agreement Netting" means the exercise of any right of set-off, account combination, close-out netting or payment netting (whether arising out of a cross agreement netting agreement or otherwise) by a Hedge Counterparty against liabilities owed to a Debtor by such Hedge Counterparty under a Hedging Agreement in respect of Hedging Liabilities owed to such Hedge Counterparty by such Debtor under another Hedging Agreement.

"Intra-Group Lenders" means each Group Member that has made a loan available to, granted credit to or made any other financial arrangement or accommodation having similar effect with another Group Member and that is named on the signing pages as an Intra-Group Lender (if any, at the date of this Agreement) or that becomes a party as an Intra-Group Lender in accordance with the terms of Section 15.

"Intra-Group Liabilities" means the Liabilities owed by any Group Member to any of the Intra-Group Lenders, which Liabilities for the avoidance of doubt must be unsecured.

"ISDA Master Agreement" means a 1992 ISDA Master Agreement or a 2002 ISDA Master Agreement or any other ISDA master agreement that is a successor to the foregoing; and if such other ISDA master agreement is used, then section and clause referenced herein to the 1992 ISDA Master Agreement or a 2002 ISDA Master Agreement shall be deemed to be to the same relevant section of the other ISDA master agreement.

"Junior Hedge Counterparty" means any Person (other than a Debtor or Senior Hedge Counterparty) that is party to a Junior Hedging Agreement.

"Junior Hedge Counterparty Obligations" means the obligations owed by any Junior Hedge Counterparty to the Debtors under or in connection with the Junior Hedging Agreements.

"Junior Hedging Agreement" means any Hedging Agreement entered into by a Debtor other than a Senior Hedging Agreement.

"Junior Hedging Liabilities" means the liabilities and obligations owed by any Debtor to the Junior Hedge Counterparties under or in connection with the Junior Hedging Agreements.

"Liabilities" means all present and future liabilities and obligations at any time of any Group Member to the Creditors, the Agents, the Mandated Lead Arrangers and the Lead Arranger under the Debt Documents, both actual and contingent and whether incurred solely or jointly or in any other capacity together with any of the following matters relating to or arising in respect of those liabilities and obligations:

- (a) any refinancing, deferral or extension;
- (b) any claim for breach of representation, warranty or undertaking or on an event of default or under any indemnity given under or in connection with any document or agreement evidencing or constituting any other liability or obligation falling within this definition;
- (c) any claim for damages or restitution; and
- (d) any claim as a result of any recovery by any Debtor of a Payment on the grounds of preference,

and any amounts that would be included in any of the above but for any discharge, non-provability or unenforceability of those amounts in any insolvency or other proceedings.

"Liabilities Acquisition" means, in relation to a Person and to any Liabilities, a transaction where such Person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of, the rights and benefits in respect of those Liabilities.

"Majority Senior Lenders" has the meaning given to the term "Majority Lenders" in the Credit Agreement after the application of Section 2.21 and Section 10.6(i) of the Credit Agreement.

"Majority Primary Creditors" means, at any time, any Primary Creditors whose Credit Participations at such time aggregate more than 66.67% of the total Credit Participations of all Primary Creditors at such time.

"Mandatory Prepayment" means a mandatory prepayment of any of the Senior Lender Liabilities pursuant to Section 2.10 of the Credit Agreement.

"Non-Credit Related Close-Out" means a Permitted Hedge Close-Out described in any of paragraphs (a)(i), (a)(iii) or (a)(viii) of Section 4.10.

"Original Debtors" means the Borrower and other Group Members listed on Appendix B to the Credit Agreement.

"Other Liabilities" means, in relation to a Group Member, any liabilities or obligations (not being Borrowing Liabilities or Guarantee Liabilities) it may have to an Intra-Group Lender or Debtor.

"Party" means a party to this Agreement.

"Payment" means, in respect of any Liabilities (or any other liabilities or obligations), a payment, prepayment, repayment, redemption, defeasance or discharge of those Liabilities (or other liabilities or obligations).

"Payment Netting" means in respect of a Hedging Agreement based on an ISDA Master Agreement, netting under section 2(c) of the relevant ISDA Master Agreement.

"Permitted Hedge Close-Out" means, in relation to a hedging transaction under a Hedging Agreement, a termination or close out of such hedging transaction that is permitted pursuant to Section 4.10.

"Permitted Hedge Payments" means the Payments permitted by Section 4.3.

"Permitted Intra-Group Payments" means the Payments permitted by Section 5.2.

"Permitted Maximum Hedged Amount" means an amount equal to the Term Loan Exposure.

"Permitted Payment" means a Permitted Hedge Payment, a Permitted Intra-Group Payment, or a Permitted Senior Lender Payment.

"Permitted Senior Lender Payments" means the Payments permitted by Section 3.1.

"Primary Creditors" means the Senior Lenders and the Senior Hedge Counterparties.

"Primary Creditor Liabilities" means the Senior Lender Liabilities and the Senior Hedging Liabilities.

"Receiver" means a receiver or receiver and manager or administrative receiver of the whole or any part of the Collateral.

"Recoveries" has the meaning given to such term in Section 12.1.

"Relevant Liabilities" means:

- (a) in the case of a Creditor:
 - (i) the Arranger Liabilities owed to a Mandated Lead Arranger and the Lead Arranger ranking (in accordance with the terms of this Agreement) *pari passu* with or in priority to such Creditor;
 - (ii) the Common Currency Amount of the Liabilities owed to Creditors ranking (in accordance with the terms of this Agreement) *pari passu* with or in priority to such Creditor (as the case may be) together with all Agent Liabilities owed to the Facility Agent; and
 - (iii) all present and future liabilities and obligations, actual and contingent, of the Debtors to the Security Agent; and
- (b) in the case of a Debtor, the Liabilities owed to the Creditors together with the Agent Liabilities owed to the Facility Agent of those Creditors, the Arranger Liabilities and all present and future liabilities and obligations, actual and contingent, of the Debtors to the Security Agent.

"Secured Obligations" means all the Liabilities and all other present and future obligations at any time due, owing or incurred by each Group Member or other Credit Party to any Secured Party under the Credit Documents (including the Senior Hedging Agreements), both actual and contingent and whether incurred solely or jointly and as principal or surety or in any other capacity.

"Secured Parties" means the Security Agent, any Receiver or Delegate and each of the Facility Agent, the Mandated Lead Arrangers, the Lead Arranger and the Primary Creditors from time to time but, in the case of the Facility Agent, a Mandated Lead Arranger, the Lead Arranger or a Primary Creditor, only if it is a party to this Agreement or (in the case of an Agent or a Primary Creditor) has acceded to this Agreement, in the appropriate capacity, pursuant to Section 15.8.

"Security Agent's Spot Rate of Exchange" means, in respect of the conversion of one currency (the **"First Currency"**) into another currency (the **"Second Currency"**) the Security Agent's spot rate of exchange for the purchase of the Second Currency with the First Currency in the Hong Kong foreign exchange market at or about 11:00 am (Hong Kong time) on a particular day, which shall be notified by the Security Agent in accordance with paragraph (d) of Section 13.7.

"Security Documents" means:

- (a) each of the Collateral Documents;
- (b) any other document entered into at any time by any of the Debtors creating any guarantee, indemnity, Lien or other assurance against financial loss in favor of any of the Secured Parties as security for any of the Secured Obligations; and
- (c) any Lien granted under any covenant for further assurance in any of the documents set forth in paragraphs (a) and (b) above.

"Security Property" means:

- (a) the Collateral;
- (b) all obligations expressed to be undertaken by a Debtor to pay amounts in respect of the Liabilities to the Security Agent as agent for the Secured Parties and secured by the Transaction Security together with all representations and warranties expressed to be given by a Debtor in favor of the Security Agent as agent for the Secured Parties;
- (c) the Security Agent's interest in any trust fund created pursuant to Section 8;
- (d) any guarantee, indemnity or other assurance against loss offered to the Security Agent as agent for the Secured Parties (or any of them) under Section 3.3; and
- (e) any other amounts or assets, whether rights, entitlements, chose in action or otherwise, actual or contingent, which the Security Agent is required by the terms of the Debt Documents to hold as agent for the benefit of the Secured Parties.

"Senior Hedge Counterparty" means any Person that becomes Party to this Agreement as a Senior Hedge Counterparty pursuant to Section 15.8.

"Senior Hedge Counterparty Obligations" means the obligations owed by any Senior Hedge Counterparty to the Debtors under or in connection with the Senior Hedging Agreements.

"Senior Hedging Agreement" means any Hedging Agreement (as defined in the Credit Agreement) entered into by a Senior Hedge Counterparty.

"Senior Hedging Liabilities" means the Liabilities owed by any Debtor to the Senior Hedge Counterparties under or in connection with the Senior Hedging Agreements.

"Senior Lender Discharge Date" means the first date on which all Senior Lender Liabilities have been indefeasibly paid in full in cash, whether or not as the result of an enforcement, and the Senior Lenders are under no further obligation to provide financial accommodation to any of the Debtors under any of the Debt Documents.

"Senior Lender Liabilities" means the Liabilities owed by the Debtors to the Senior Lenders under the Credit Documents.

"**Senior Lender Refinancing**" means a refinancing (or repayment) in full in cash of the Senior Lender Liabilities.

"**Senior Lenders**" means each "Lender" (as defined in the Credit Agreement).

"**Total Currency Hedged Amount**" means, at any time, the aggregate of each Aggregate Hedged Amount relating to a foreign currency hedge transaction at such time.

"**Total Interest Rate Hedged Amount**" means, at any time, the aggregate of each Aggregate Hedged Amount relating to an interest rate hedge transaction at such time.

"**Transaction Security**" means the Security created or evidenced or expressed to be created or evidenced under or pursuant to the Security Documents.

"**VAT**" means any value added tax and any other tax of a similar nature.

1.2 Construction

Unless otherwise stated, terms defined in the Credit Agreement shall have the same meanings when used in this Agreement.

1.3 Interpretation

The provisions of Sections 1.2 and 1.3 of the Credit Agreement are applicable to this Agreement and incorporated by referenced herein, *mutatis mutandis*.

1.4 Priority

If there is any conflict between the terms and conditions of this Agreement and anything contained in any other Debt Document, the terms and conditions of this Agreement shall prevail.

2. RANKING AND PRIORITY

2.1 Primary Creditor Liabilities

Each of the Parties agrees that the Senior Lender Liabilities and the Senior Hedging Liabilities shall rank *pari passu* in right and priority of payment and shall be without any preference between them.

2.2 Transaction Security

Each of the Parties agrees that the Transaction Security shall rank and secure the Senior Lender Liabilities and the Senior Hedging Liabilities (but only to the extent that such Transaction Security by its terms secures such Liabilities) *pari passu* and without any preference between them.

2.3 Intra-Group

(a) Each of the Parties agrees that the Intra-Group Liabilities are hereby subordinated and made junior in right of payment and exercise of remedies to the prior irrevocable and final payment in full in cash of the Liabilities owed by the Debtors to the Primary Creditors.

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- (b) This Agreement does not purport to rank any of the Intra-Group Liabilities as between or among themselves.

3. SENIOR LENDERS AND SENIOR LENDER LIABILITIES

3.1 Payment of Senior Lender Liabilities

The Debtors may make Payments of the Senior Lender Liabilities at any time in accordance with the Credit Documents.

3.2 Amendments and Waivers: Senior Lenders

- (a) Subject to paragraph (b) below, the Senior Lenders may amend, change, revise, supplement, restate, waive or otherwise modify the terms of the Credit Documents (other than this Agreement) in accordance with the terms thereunder (subject to any consent required thereunder) at any time and from time to time at their discretion.
- (b) The Senior Lenders may not, without the prior consent of the Senior Hedge Counterparties, amend or waive the terms of the Credit Documents if the amendment or waiver would have the effect of excluding the Senior Hedging Liabilities from the guarantee granted under Section 7 of the Credit Agreement or limiting the scope of such guarantee as it applies to the Senior Hedging Liabilities.

3.3 Security: Senior Lenders

The Senior Lenders may take, accept or receive the benefit of:

- (a) any Lien in respect of the Senior Lender Liabilities in addition to the Common Transaction Security if (but subject to the Agreed Security Principles) at the same time such Lien is also offered either:
- (i) to the Security Agent for the benefit of the Secured Parties in respect of their Liabilities; or
 - (ii) in the case of any jurisdiction in which an effective Lien cannot be granted in favor of the Security Agent for the benefit of all of the Secured Parties, to (A) the other Secured Parties in respect of their Liabilities; or (B) the Security Agent under a parallel debt structure for the benefit of the other Secured Parties;
- and in each case ranks in the same order of priority as that contemplated in Section 2.2; and
- (b) any guarantee, indemnity or other assurance against loss in respect of the Senior Lender Liabilities in addition to those in:
- (i) the original form of Credit Agreement;
 - (ii) this Agreement; or

(iii) any Common Assurance,

if (but subject to the Agreed Security Principles) at the same time it is also offered to the other Secured Parties in respect of their Liabilities and ranks in the same order of priority as that contemplated in Section 2.

4. HEDGE COUNTERPARTIES AND HEDGING LIABILITIES

4.1 Identity of Senior Hedge Counterparties

- (a) No Person providing hedging arrangements to any Debtor shall be entitled to share in any of the Transaction Security or in the benefit of any guarantee or indemnity in respect of any of the liabilities arising in relation to its hedging arrangements, nor shall those liabilities be treated as Senior Hedging Liabilities, unless such Person (i) is or becomes a party to this Agreement in its capacity as a Senior Hedge Counterparty; and (ii) is (or is an Affiliate of) a Senior Lender on the date such Person so becomes a party to this Agreement.
- (b) Once a Person becomes party to this Agreement as a Senior Hedge Counterparty, the rights and obligations of such Senior Hedge Counterparty hereunder shall not be diminished or affected due to such Person ceasing to be a Senior Lender under the Credit Documents.
- (c) For the avoidance of doubt, any Junior Hedging Liabilities shall be and at all times remain unsecured.

4.2 Restriction on Payment: Hedging Liabilities

The Debtors shall not, and the Borrower shall procure that no other Group Member will, make any Payment of the Hedging Liabilities at any time unless:

- (a) such Payment is permitted under Section 4.3; or
- (b) the taking or receipt of such Payment is permitted under paragraph (c) of Section 4.10.

4.3 Permitted Payments: Hedging Liabilities

- (a) Subject to paragraph (b) below, the Debtors may make Payments to any Hedge Counterparty in respect of the Hedging Liabilities then due to such Hedge Counterparty under any Hedging Agreement in accordance with the terms of such Hedging Agreement:
 - (i) if the Payment is a scheduled Payment arising under the relevant Hedging Agreement;
 - (ii) to the extent that the relevant Debtor's obligation to make the Payment arises as a result of the operation of:
 - (A) any of sections 2(d), 2(e), 8(a), 8(b) and 11 of the 1992 ISDA Master Agreement (if the Hedging Agreement is based on a 1992 ISDA Master Agreement);

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- (B) any of sections 2(d), 8(a), 8(b), 9(h)(i) and 11 of the 2002 ISDA Master Agreement of such Hedging Agreement (if the Hedging Agreement is based on a 2002 ISDA Master Agreement or any other ISDA Master Agreement); or
 - (C) in respect of a Hedging Agreement based on any other ISDA Master Agreement, any provision of such Hedging Agreement similar in meaning and effect to any provision referenced in paragraphs (A) or (B) above;
- (iii) to the extent that the relevant Debtor's obligation to make such Payment arises from a Non-Credit Related Close-Out;
 - (iv) to the extent that:
 - (A) the relevant Debtor's obligation to make such Payment arises from a Credit Related Close-Out in relation to such Hedging Agreement; and
 - (B) no Event of Default is continuing at the time of such Payment; or
 - (v) if prior to the Senior Lender Discharge Date, the Majority Primary Creditors have given prior written consent to the Payment being made.
- (b) Subject to paragraph (d) below, no Payment may be made to a Hedge Counterparty under paragraph (a) above if any scheduled Payment due from such Hedge Counterparty to a Debtor under a Hedging Agreement to which they are both party is due and unpaid.
 - (c) Failure by a Debtor to make a Payment to a Hedge Counterparty that results solely from the operation of paragraph (b) above shall, without prejudice to Section 4.4, not result in a default (however described) in respect of such Debtor under such Hedging Agreement.
 - (d) Unless an Event of Default is continuing and subject to Section 7, if a Hedge Counterparty is an Impaired Hedge Counterparty and the relevant Debtor has terminated the Hedging Agreements with such Impaired Hedge Counterparty pursuant to Section 4.15, the relevant Debtor may pay, and the Hedge Counterparty may receive and retain, including by way of set-off or payment netting, all amounts outstanding to such Hedge Counterparty in respect of Hedging Liabilities arising under the original form of the terminated Hedging Agreement (subject to any amendments permitted by this Agreement).

4.4 Payment Obligations Continue

No Debtor shall be released from the liability to make any Payment (including of default interest, which shall continue to accrue) under any Debt Document by the operation of Sections 4.2 and 4.3 even if its obligation to make such Payment is restricted at any time by the terms of any of those Sections.

4.5 No Acquisition of Hedging Liabilities

The Debtors shall not, and shall procure that no other Group Member will:

- (a) enter into any Liabilities Acquisition; or
- (b) beneficially own all or any part of the share capital of a company that is party to a Liabilities Acquisition,

in respect of any of the Hedging Liabilities unless (i) in accordance with Section 5.22 of the Credit Agreement; or (ii) the prior written consent of the Majority Primary Creditors is obtained.

4.6 Amendments and Waivers: Hedging Agreements

- (a) Subject to paragraph (b) below, the Senior Hedge Counterparties may not, at any time, amend or waive any term of the Senior Hedging Agreements.
- (b) A Senior Hedge Counterparty may amend or waive any term of a Senior Hedging Agreement in accordance with the terms of such Senior Hedging Agreement if:
 - (i) the prior written consent of the Majority Senior Lenders is obtained; or
 - (ii) the amendment or waiver:
 - (A) does not breach any other term of this Agreement; and
 - (B) would not result in a breach of Section 5.22 of the Credit Agreement.
- (c) Subject to paragraph (d) below, the Debtors may not, at any time, agree to amend or waive any term of the Junior Hedging Agreements.
- (d) A Debtor may amend or waive any term of a Junior Hedging Agreement in accordance with the terms of such Junior Hedging Agreement if:
 - (i) the prior written consent of the Majority Senior Lenders is obtained; or
 - (ii) the amendment or waiver:
 - (A) does not breach any other term of this Agreement; and
 - (B) would not result in a breach of Section 5.22 of the Credit Agreement.

4.7 Security: Senior Hedge Counterparties

The Senior Hedge Counterparties may not take, accept or receive the benefit of any Lien, guarantee, indemnity or other assurance against loss from any Group Member in respect of the Senior Hedging Liabilities other than:

- (a) the Common Transaction Security;
- (b) any guarantee, indemnity or other assurance against loss contained in:
 - (i) the original form of Credit Agreement;
 - (ii) this Agreement;
 - (iii) any Common Assurance; or

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- (iv) the relevant Senior Hedging Agreement no greater in extent than any of those referred to in paragraphs (i) to (iii) above;
 - (c) as otherwise contemplated by Section 3.3; and
 - (d) the indemnities contained in the ISDA Master Agreements.

4.8 No Security: Junior Hedge Counterparties

The Debtors may not provide or give the benefit of any Lien, guarantee, indemnity or other assurance against loss from any Group Member in respect of the Junior Hedging Liabilities other than:

- (a) any indemnity or other assurance against loss (but not any Lien or other security or any guaranty) contained in the relevant Junior Hedging Agreement, but no greater in extent than any of those contained in the original form of Senior Hedging Agreements; or
- (b) the indemnities contained in the ISDA Master Agreements.

4.9 Restriction on Enforcement: Senior Hedge Counterparties

Subject to Section 4.10 and Section 4.11 and without prejudice to each Senior Hedge Counterparty's rights under Sections 10.1 and 10.2, the Senior Hedge Counterparties shall not take any Enforcement Action in respect of any of the Senior Hedging Liabilities or any of the hedging transactions under any of the Senior Hedging Agreements at any time.

4.10 Permitted Enforcement: Senior Hedge Counterparties

- (a) To the extent it is able to do so under the relevant Senior Hedging Agreement, a Senior Hedge Counterparty may terminate or close-out in whole or in part any hedging transaction under such Senior Hedging Agreement prior to its stated maturity:
 - (i) if, prior to a Distress Event, the Borrower has certified to such Senior Hedge Counterparty that such termination or close-out would not result in a breach of Section 5.22 of the Credit Agreement;
 - (ii) if a Distress Event has occurred;
 - (iii) if:
 - (A) in relation to a Senior Hedging Agreement that is based on the 1992 ISDA Master Agreement:
 - (1) an Illegality or Tax Event or Tax Event Upon Merger (each as defined in the 1992 ISDA Master Agreement); or
 - (2) an event similar in meaning and effect to a "Force Majeure Event" (as defined in paragraph (B) below), has occurred in respect of such Senior Hedging Agreement;

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- (B) in relation to a Senior Hedging Agreement that is based on the 2002 ISDA Master Agreement, an Illegality or Tax Event, Tax Event Upon Merger or a Force Majeure Event (each as defined in the 2002 ISDA Master Agreement) has occurred in respect of such Senior Hedging Agreement; or
 - (C) in relation to a Senior Hedging Agreement that is based on any other ISDA Master Agreement, any event similar in meaning and effect to an event described in paragraphs (A) or (B) above has occurred under and in respect of such Senior Hedging Agreement;
- (iv) if a Bankruptcy Event occurs in relation to a Debtor that is party to such Senior Hedging Agreement;
 - (v) if prior to the Senior Lender Discharge Date, the Majority Primary Creditors have given prior written consent to such termination or close-out being made;
 - (vi) following a Senior Lender Refinancing;
 - (vii) any Lien securing a Debtor's obligations under such Senior Hedging Agreement is released in violation of the terms thereunder; or
 - (viii) to the extent such termination or close out is necessary to comply with paragraph (c) of Section 4.14.
- (b) If a Debtor has defaulted under any of Sections 5(a)(i) to 5(a)(vi) of the 2002 ISDA Master Agreement (or any equivalent section of the 1992 ISDA Master Agreement), then the Hedge Counterparty:
 - (i) may, to the extent it is able to do so under the relevant Senior Hedging Agreement, terminate or close out in whole or in part any hedging transaction under such Senior Hedging Agreement; and
 - (ii) until such time as the Security Agent has given notice to such Senior Hedge Counterparty that the Transaction Security is being enforced (or that any formal steps are being taken to enforce the Transaction Security), shall be entitled to exercise any right it might otherwise have to sue for, commence or join legal or arbitration proceedings against any Debtor to recover any Senior Hedging Liabilities due under such Senior Hedging Agreement.
- (c) After the occurrence of a Bankruptcy Event in relation to any Material Group Member, each Senior Hedge Counterparty shall be entitled to exercise any right it may otherwise have in respect of such Material Group Member to:
 - (i) prematurely close-out or terminate any Senior Hedging Liabilities of such Material Group Member;
 - (ii) make a demand under any guarantee, indemnity or other assurance against loss given by such Material Group Member in respect of any Senior Hedging Liabilities;

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- (iii) exercise any right of set-off or take or receive any Payment in respect of any Senior Hedging Liabilities of such Material Group Member; or
 - (iv) claim and prove in the liquidation of such Material Group Member for the Senior Hedging Liabilities owing to it.

4.11 Required Enforcement: Senior Hedge Counterparties

- (a) Subject to paragraph (b) below, a Senior Hedge Counterparty shall promptly terminate or close out in full any hedging transaction under all or any of the Senior Hedging Agreements to which it is party prior to their stated maturity, following:
 - (i) the occurrence of an Acceleration Event and delivery to it of a notice from the Security Agent that such Acceleration Event has occurred; and
 - (ii) delivery to it of a subsequent notice from the Security Agent (acting on the instructions of the Majority Primary Creditors) instructing it to do so.
- (b) Paragraph (a) above shall not apply to the extent that such Acceleration Event occurred as a result of an arrangement made between any Debtor and any Primary Creditor with the express purpose of bringing about such Acceleration Event.
- (c) If a Senior Hedge Counterparty is entitled to terminate or close-out any hedging transaction under all or any of the Senior Hedging Agreements to which it is a party as a result of a Debtor's default under Section 5(a)(i) or Section 5(a)(vi) (as a result of any Event Default under Section 8.1(a) of the Credit Agreement) of the 2002 ISDA Master Agreement (or any equivalent section of the 1992 ISDA Master Agreement) (or would have been able to if such Senior Hedge Counterparty had given the notice referred to in such paragraph) but has not terminated or closed out each such hedging transaction, such Senior Hedge Counterparty shall promptly terminate or close-out in full each such hedging transaction following a request to do so by the Security Agent (acting on the instructions of the Majority Primary Creditors).

4.12 Payments due to Debtors on Termination of Senior Hedging Transactions

- (a) If, on termination of any hedging transaction under any Senior Hedging Agreement occurring after a Distress Event, a settlement amount or other amount (following the application of any Close-Out Netting, Payment Netting or Inter-Hedging Agreement Netting in respect of such Senior Hedging Agreement) falls due from a Senior Hedge Counterparty to the relevant Debtor then such amount shall be paid by such Senior Hedge Counterparty to the Security Agent, treated as the proceeds of enforcement of the Transaction Security and applied in accordance with the terms of this Agreement.
- (b) The payment of such amount by any Senior Hedge Counterparty to the Security Agent in accordance with paragraph (a) above shall discharge such Senior Hedge Counterparty's obligation to pay such amount to such Debtor.

4.13 Terms of Hedging Agreements

The Senior Hedge Counterparties (to the extent party to any Hedging Agreement in question) and the Debtors party to the Hedging Agreements shall ensure that, at all times:

- (a) each Hedging Agreement documents only hedging arrangements entered into for the purpose of hedging the types of liabilities permitted by the Credit Agreement and that no other hedging arrangements are carried out under or pursuant to a Hedging Agreement;
- (b) each Hedging Agreement is based on an ISDA Master Agreement;
- (c) in the event of a termination of the hedging transaction entered into under a Hedging Agreement as a result of a Termination Event or an Event of Default, each as defined in the relevant Hedging Agreement, such Hedging Agreement shall:
 - (i) if it is based on a 1992 ISDA Master Agreement, provide for payments under the "Second Method" and shall make no material amendment to section 6(e) (Payments on Early Termination) of the ISDA Master Agreement;
 - (ii) if it is based on a 2002 ISDA Master Agreement, make no material amendment to the provisions of section 6(e) (Payments on Early Termination) of the ISDA Master Agreement; or
 - (iii) if based on any other ISDA Master Agreement, provide for any other method the effect of which is that the party to which such event is referable shall be entitled to receive payment under the relevant termination provisions if the net replacement value of all terminated transactions entered into under such Hedging Agreement is in its favor;
- (d) each Hedging Agreement shall provide that the relevant Hedge Counterparty will be entitled to designate an Early Termination Date (as defined in the relevant ISDA Master Agreement) or otherwise be able to terminate each transaction under such Hedging Agreement if so required pursuant to Section 4.11;
- (e) each Hedging Agreement shall permit the relevant Hedge Counterparty and each relevant Debtor to take such action as may be necessary to comply with Section 4.14; and
- (f) each Hedging Agreement specifies that if there is a conflict between the provisions of such Hedging Agreement and this Agreement, this Agreement will prevail.

4.14 Total Hedged Amount

- (a) The Borrower shall ensure that at all times neither the (i) Total Interest Rate Hedged Amount nor (ii) Total Currency Hedged Amount exceeds the Permitted Maximum Hedged Amount.
- (b) The Borrower shall ensure that (i) the Total Interest Rate Hedged Amount is not less than the amount required pursuant to Section 5.27(a) of the Credit Agreement and (ii) the Total Currency Hedged Amount is not less than the amount required pursuant to Section 5.27(b) of the Credit Agreement.

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- (c) If any reduction in the Term Loan Exposure results in a Hedge Excess (whether interest rate, foreign currency, or both) then, within thirty (30) days of such reduction becoming effective in accordance with the terms of the Credit Agreement, the relevant Debtors shall (and the Borrower shall procure that the relevant Debtors will) reduce each Hedge Counterparty's Aggregate Hedged Amount by such Hedge Counterparty's Hedge Proportion of such Hedge Excess by terminating or closing out any relevant hedging transactions in full or in part, as may be necessary.
 - (d) The relevant Debtors shall, and the Borrower shall procure that the relevant Debtors will, pay to such Hedge Counterparty (in accordance with the relevant Hedging Agreement) an amount equal to the sum of all payments (if any) that become due from each relevant Debtor to a Hedge Counterparty under the relevant Hedging Agreements as a result of any action described in paragraph (c) above.
 - (e) Each Senior Hedge Counterparty shall cooperate in any process described in paragraph (d) above and shall pay (in accordance with the relevant Senior Hedging Agreements) any amount that becomes due from it under the relevant Senior Hedging Agreements to a Debtor as a result of any action described in paragraph (c) above.
 - (f) Subject to the other provisions of this Agreement, nothing in this Agreement shall restrict the ability of a Debtor (to the extent it is able to do so under the relevant Hedging Agreement) to terminate or close-out any relevant hedging transactions in full or in part if and to the extent such termination or close-out does not result in a breach of Section 5.27 of the Credit Agreement.

4.15 Impaired Hedge Counterparties

At any time after a Hedge Counterparty is and continues to be an Impaired Hedge Counterparty, the relevant Debtor may, unless an Acceleration Event has occurred and subject to Section 7, terminate the Hedging Agreements with such Impaired Hedge Counterparty and shall, within ninety (90) days of such termination and to the extent required to comply with the Credit Agreement, enter into replacement hedging arrangements in accordance with the Credit Agreement. No Event of Default shall arise under the Credit Agreement as a result of such termination (and the resulting amount of the Term Loans that are hedged); **provided that** such replacement hedging arrangements (to the extent required to comply with the Credit Agreement) are put in place within the above-referred time frame.

5. INTRA GROUP LENDERS AND INTRA GROUP LIABILITIES

5.1 Restriction on Payment: Intra-Group Liabilities

Prior to the Final Discharge Date, the Debtors shall not, and shall procure that no other Group Member will, make any Payments of the Intra-Group Liabilities at any time unless:

- (a) such Payment is permitted under Section 5.2; or
- (b) the taking or receipt of such Payment is permitted under paragraph (c) of Section 5.7.

5.2 Permitted Payments: Intra-Group Liabilities

- (a) Subject to paragraph (b) below, the Debtors may make Payments in respect of the Intra-Group Liabilities (whether of principal, interest or otherwise) from time to time when due.
- (b) Payments in respect of the Intra-Group Liabilities may not be made pursuant to paragraph (a) above if, at the time of such Payment, an Event of Default has occurred unless:
 - (i) the Majority Primary Creditors consent to such Payment being made; or
 - (ii) such Payment is made to facilitate Payment of the Primary Creditor Liabilities or to facilitate the cash sweep requirements set forth in the Credit Agreement.

5.3 Payment Obligations Continue

No Debtor shall be released from the liability to make any Payment (including of default interest, which shall continue to accrue) under any Debt Document by the operation of Sections 5.1 and 5.2 even if its obligation to make such Payment is restricted at any time by the terms of any of those Sections.

5.4 Acquisition of Intra-Group Liabilities

- (a) Subject to paragraph (b) below, each Debtor may, and may permit any other Group Member to:
 - (i) enter into any Liabilities Acquisition; or
 - (ii) beneficially own all or any part of the share capital or other equity interest of a Person that is party to a Liabilities Acquisition, in respect of any Intra-Group Liabilities at any time.
- (b) Subject to paragraph (c) below, no action described in paragraph (a) above may take place in respect of any Intra-Group Liabilities if:
 - (i) such action would result in a breach of the Credit Agreement; or
 - (ii) at the time of such action, an Acceleration Event has occurred.
- (c) The restrictions in paragraph (b) above shall not apply if:
 - (i) the Majority Primary Creditors consent to such action; or
 - (ii) such action is taken to facilitate Payment of the Primary Creditor Liabilities or to comply with the cash sweep provisions of the Credit Agreement.

5.5 Security: Intra-Group Lenders

Prior to the Final Discharge Date, the Intra-Group Lenders may not take, accept or receive the benefit of any Lien, guarantee, indemnity or other assurance against loss in respect of the Intra-Group Liabilities unless the prior written consent of the Majority Primary Creditors is obtained.

5.6 Restriction on Enforcement: Intra-Group Lenders

Subject to Section 5.7, none of the Intra-Group Lenders shall be entitled to take any Enforcement Action in respect of any of the Intra-Group Liabilities at any time prior to the Final Discharge Date.

5.7 Permitted Enforcement: Intra-Group Lenders

After the occurrence of a Bankruptcy Event in relation to any Credit Party, each Intra-Group Lender, upon at least five (5) Business Day prior notice to the Security Agent, may (unless otherwise directed by the Security Agent or unless the Security Agent has taken, or has given notice that it intends to take, action on behalf of such Intra-Group Lender in accordance with Section 7.4) exercise any right it may otherwise have against such Credit Party to:

- (a) accelerate any of such Credit Party's Intra-Group Liabilities or declare them prematurely due and payable or payable on demand;
- (b) make a demand under any guarantee, indemnity or other assurance against loss given by such Credit Party in respect of any Intra-Group Liabilities;
- (c) exercise any right of set-off or take or receive any Payment in respect of any Intra- Group Liabilities of such Credit Party; or
- (d) claim and prove in the liquidation of such Credit Party for the Intra-Group Liabilities owing to it.

And the foregoing actions may also be taken by any Credit Party that is a creditor in respect of any Intra-Group Liabilities where the debtor thereof is not a Credit Party.

5.8 Representations: Intra-Group Lenders

Each Intra-Group Lender that is not a Debtor represents and warrants to the Primary Creditors, the Security Agent and the Facility Agent that:

- (a) it is a limited liability corporation, a limited liability company, stock corporation or limited partnership duly incorporated and validly existing under the laws of its jurisdiction of incorporation;
- (b) subject to the Legal Reservations, the obligations expressed to be assumed by it in this Agreement are legal, valid, binding and enforceable obligations;
- (c) the entry into and performance by it of this Agreement does not and will not:
 - (i) conflict with its Organizational Documents;
 - (ii) conflict with any law that is applicable to it or any agreement or instrument binding upon it or any of its assets or constitute a default or termination event (howsoever described) under any agreement or instrument, in each case to the extent such conflict, default or termination event has or is likely to have a Material Adverse Effect; and

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- (d) it is the sole legal and beneficial owner of the Intra-Group Liabilities free from any security interest, option or subordination in favor of any Person other than the Security Agent, or other than as permitted by the terms of the Credit Agreement.

6. [INTENTIONALLY OMITTED]

7. EFFECT OF BANKRUPTCY EVENT

7.1 Payment of Distributions

- (a) After the occurrence of a Bankruptcy Event in relation to any Group Member, any Party entitled to receive a distribution out of the assets of such Group Member in respect of Liabilities owed to such Party shall, to the maximum extent it is able to do so under applicable law, direct the Person responsible for the distribution of the assets of such Group Member to pay such distribution to the Security Agent until the Liabilities owing to the Secured Parties have been paid in full.
- (b) The Security Agent shall apply distributions paid to it under paragraph (a) above in accordance with Section 12.

7.2 Set-Off

- (a) Subject to paragraph (b) below, to the extent that any Liabilities of a Group Member are discharged by way of set-off (mandatory or otherwise) that is not otherwise expressly permitted by a Debt Document, each Creditor that benefited from such set-off shall pay an amount equal to the amount of the Liabilities owed to it that are discharged by such set-off to the Security Agent for application in accordance with Section 12.
- (b) Paragraph (a) above shall not apply to:
- (i) any Close-Out Netting by a Hedge Counterparty;
 - (ii) any Payment Netting by a Hedge Counterparty; and
 - (iii) any Inter-Hedging Agreement Netting by a Hedge Counterparty.

7.3 Non-Cash Distributions

If the Security Agent or any other Secured Party receives a Distribution in a form other than in cash in respect of any of the Liabilities, such Liabilities will not be reduced by such Distribution until and except to the extent that the realization proceeds are actually applied towards the relevant Liabilities.

7.4 Filing of Claims

After the occurrence of a Bankruptcy Event in relation to any Group Member, each Creditor irrevocably authorizes the Security Agent (acting in accordance with Section 7.6), on its behalf, to:

- (a) take any Enforcement Action (in accordance with the terms of this Agreement) against such Group Member or any other Group Member;

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- (b) demand, sue, prove and give receipt for any or all of such Group Member's Liabilities (and each other Group Member's liabilities to the extent of any Bankruptcy Event in relation to it);
 - (c) collect and receive all Distributions on, or on account of, any or all of each Group Member's and each other Group Member's Liabilities; and
 - (d) file claims, take proceedings and do all other things the Security Agent considers reasonably necessary to recover each Group Member's and each other Group Member's Liabilities.

7.5 Creditors' Actions

Each Creditor shall, at the sole costs and expenses of the Borrower:

- (a) do all things that the Security Agent (acting in accordance with Section 7.6) requests in order to give effect to this Section; and
- (b) if the Security Agent is not entitled to take any of the actions contemplated by this Section or if the Security Agent (acting in accordance with Section 7.6) requests that a Creditor take such action, undertake such action itself in accordance with the instructions of the Security Agent (acting in accordance with Section 7.6) or grant a power of attorney to the Security Agent (on such terms as the Security Agent (acting in accordance with Section 7.6) may reasonably require) to enable the Security Agent to take such action.

7.6 Security Agent Instructions

For the purposes of Section 7.4 and Section 7.5 the Security Agent shall act:

- (a) on the instructions of the group of Primary Creditors entitled, at such time, to give instructions under Section 10.1 or Section 10.2; or
- (b) in the absence of any such instructions, as the Security Agent determines is in the best interests of the Secured Parties.

8. TURNOVER OF RECEIPTS

8.1 Turnover by the Creditors

Subject to Section 8.2 and to Section 8.3, if at any time prior to the Final Discharge Date, any Creditor receives or recovers:

- (a) any Payment or distribution of, or on account of or in relation to, any of the Liabilities that is not either:
 - (i) a Permitted Payment; or
 - (ii) made in accordance with Section 12;
- (b) other than where paragraph (a) of Section 7.2 applies, any amount by way of set-off in respect of any of the Liabilities owed to it that does not give effect to a Permitted Payment;

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- (c) notwithstanding paragraphs (a) and (b) above, and other than where paragraph (a) of Section 7.2 applies, any amount:
- (i) on account of, or in relation to, any of the Liabilities:
 - (A) after the occurrence of a Distress Event; or
 - (B) as a result of any other litigation or proceedings against a Debtor (other than after the occurrence of a Bankruptcy Event in respect of such Debtor); or
 - (ii) by way of set-off in respect of any of the Liabilities owed to it after the occurrence of a Distress Event, other than, in each case, any amount received or recovered in accordance with Section 12;
- (d) the proceeds of any enforcement of any Transaction Security except in accordance with Section 12; or
- (e) other than where paragraph (a) of Section 7.2 applies, any Distribution in cash or in kind or Payment of, or on account of or in relation to, any of the Liabilities owed by any Debtor that is not in accordance with Section 12 and that is made as a result of, or after, the occurrence of a Bankruptcy Event in respect of such Debtor,
- such Creditor shall:
- (i) in relation to receipts and recoveries not received or recovered by way of set-off:
 - (A) hold an amount of such receipt or recovery equal to the Relevant Liabilities (or if less, the amount received or recovered) on trust for the Security Agent and promptly pay such amount to the Security Agent for application in accordance with the terms of this Agreement; and
 - (B) promptly pay an amount equal to the amount (if any) by which the receipt or recovery exceeds the Relevant Liabilities to the Security Agent for application in accordance with the terms of this Agreement;
 - (ii) in relation to receipts and recoveries received or recovered by way of set-off, promptly pay an amount equal to such recovery to the Security Agent for application in accordance with the terms of this Agreement; and
 - (iii) notwithstanding the above, at the option of the Security Agent, such Creditor shall apply the relevant proceeds in accordance with the provisions of Section 2.13 of the Credit Agreement.

8.2 Exclusions

Section 8.1 shall not apply to any receipt or recovery by way of:

- (a) Close-Out Netting by a Hedge Counterparty;
- (b) Payment Netting by a Hedge Counterparty; or
- (c) Inter-Hedging Agreement Netting by a Hedge Counterparty.

8.3 Permitted Assurance and Receipts

Nothing in this Agreement shall restrict the ability of any Creditor to:

- (a) arrange with any Person that is not a Group Member any assurance against loss in respect of, or reduction of its credit exposure to, a Debtor (including assurance by way of credit based derivative or sub participation); or
- (b) make any assignment or transfer permitted by Section 15, that:
 - (i) is not prohibited by the Credit Agreement; and
 - (ii) is not in breach of:
 - (A) Section 4.5; or
 - (B) Section 5.4,

and such Creditor shall not be obliged to account to any other Party for any sum received by it as a result of such action.

8.4 Sums Received by Debtors

If any of the Debtors receives or recovers any sum that, under the terms of any of the Debt Documents, should have been paid to the Facility Agent or Security Agent, such Debtor shall:

- (a) hold an amount of such receipt or recovery equal to the Relevant Liabilities (or if less, the amount received or recovered) on trust for the Facility Agent or Security Agent and promptly pay such amount to the Facility Agent or Security Agent for application in accordance with the terms of this Agreement; and
- (b) promptly pay an amount equal to the amount (if any) by which the receipt or recovery exceeds the Relevant Liabilities to the Facility Agent or Security Agent for application in accordance with the terms of this Agreement.

9. REDISTRIBUTION

9.1 Recovering Creditor's Rights

- (a) Any amount paid by a Creditor (a "**Recovering Creditor**") to the Security Agent under Section 7 or Section 8 shall be treated as having been paid by the relevant Debtor and distributed to the Security Agent, Facility Agent, Mandated Lead Arrangers, Lead Arranger and Primary Creditors (each a "**Sharing Creditor**") in accordance with the terms of this Agreement.

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- (b) On a distribution to the Security Agent under paragraph (a) above of a Payment received by a Recovering Creditor from a Debtor (the "**Shared Amount**"), either (at the option of the Security Agent) (i) the Recovering Creditor shall be entitled to receive by way of assignment the rights of the Sharing Creditors to the extent that they have shared in the redistribution; or (ii) as between the relevant Debtor and the Recovering Creditor, an amount equal to the Shared Amount shall be treated as not having been paid by such Debtor.
 - (c) Notwithstanding the above, at the option of the Security Agent, the provisions of Section 2.13 of the Credit Agreement shall control.

9.2 Reversal of Redistribution

- (a) If any part of the Shared Amount received or recovered by a Recovering Creditor becomes repayable to a Debtor and is repaid by such Recovering Creditor to such Debtor, then:
 - (i) each Sharing Creditor shall, upon request of the Security Agent, pay to the Security Agent for the account of such Recovering Creditor an amount equal to the appropriate part of its share of the Shared Amount (together with an amount as is necessary to reimburse such Recovering Creditor for its proportion of any interest on the Shared Amount that such Recovering Creditor is required to pay) (the "**Redistributed Amount**"); and
 - (ii) such Recovering Creditor's (i) (if by assignment of rights) rights of assignment in respect of any reimbursement shall be cancelled and the relevant Debtor shall be liable to each Sharing Creditor for the amount so reimbursed and the Recovering Creditor shall re-assign any claims assigned to it pursuant to Section 9.1(b); or (ii) (if by way of deemed non-payment) as between the relevant Debtor and each relevant Sharing Creditor, an amount equal to the relevant Redistributed Amount shall be treated as not having been paid by such Debtor.
- (b) The Security Agent shall not be obliged to pay any Redistributed Amount to a Recovering Creditor under paragraph (a)(i) above until it has been able to establish to its satisfaction that it has actually received such Redistributed Amount from the relevant Sharing Creditor.
- (c) Notwithstanding the above, at the option of the Security Agent, the provisions of Section 2.13 of the Credit Agreement shall control.

9.3 Deferral of Subrogation

No Creditor or Debtor shall exercise any rights that it may have by reason of the performance by it of its obligations under the Debt Documents to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights under the Debt Documents of any Creditor that ranks ahead of it in accordance with the priorities set forth in Section 2 until such time as all of the Liabilities owing to each prior ranking Creditor (or, in the case of any Debtor, owing to each Creditor) have been indefeasibly paid in full in cash.

10. ENFORCEMENT OF TRANSACTION SECURITY

10.1 Enforcement Directions

- (a) The Security Agent may refrain from enforcing the Transaction Security unless directed otherwise by the Majority Primary Creditors.
- (b) Subject to the Transaction Security having become enforceable in accordance with its terms, the Majority Primary Creditors may give or refrain from giving directions to the Security Agent to enforce or refrain from enforcing the Transaction Security, in their discretion.
- (c) The Security Agent is entitled to rely on and comply with directions given in accordance with this Section.

10.2 Manner of Enforcement

If the Transaction Security is being enforced pursuant to Section 10.1, the Security Agent shall enforce the Transaction Security in such manner (including the selection of any administrator of any Debtor to be appointed by the Security Agent) as the Majority Primary Creditors shall direct, or, in the absence of any such directions, as the Security Agent shall determine is in the best interests of the Secured Parties.

10.3 Exercise of Voting Rights

- (a) Each Creditor agrees with the Security Agent to cast its vote in any proposal put to the vote by or under the supervision of any judicial or supervisory authority in respect of any Bankruptcy Event or similar proceedings relating to any Group Member solely as directed by the Security Agent.
- (b) The Security Agent shall give directions for the purposes of paragraph (a) of this Section as directed by the Majority Primary Creditors.

10.4 Waiver of Rights

To the extent permitted under applicable law and subject to Section 10.1, Section 10.2, paragraph (c) of Section 11.2 and Section 12, each of the Secured Parties and the Debtors irrevocably waives all rights it may otherwise have to require that (a) the Transaction Security be enforced in any particular order or manner or at any particular time; or (b) any amount received or recovered from any Person, or by virtue of the enforcement of any of the Transaction Security or of any other Lien, to the extent it is capable of being applied in or towards discharge of any of the Secured Obligations, is so applied.

11. PROCEEDS OF DISPOSALS, RECOVERIES FROM REPORT PROVIDERS AND ADJUSTMENT OF MANDATORY PREPAYMENTS

11.1 Non-Distressed Disposals

- (a) In this Section, "**Disposal Proceeds**" means the proceeds of a Non-Distressed Disposal (as defined in paragraph (b) below).

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- (b) Without prejudice to the rights of the Secured Parties under the Credit Agreement, if, in respect of a Disposal expressly permitted under the Credit Agreement of an asset that is subject to the Transaction Security,
- (i) (prior to the Senior Lender Discharge Date) the Facility Agent notifies the Security Agent that such Disposal is permitted under terms of the Credit Documents (and the Facility Agent hereby agrees to promptly provide such notice upon the request of the Borrower);
 - (ii) (following the Senior Lender Discharge Date but prior to the Final Discharge Date) the Senior Hedge Counterparties notify the Security Agent that such Disposal is permitted under the Senior Hedging Agreements (and the Senior Hedge Counterparties hereby agree to promptly provide such notice upon the request of the Borrower); and
 - (iii) such Disposal is not a Distressed Disposal, (collectively, a "**Non-Distressed Disposal**"),

then the Security Agent is irrevocably authorized (at the cost of the relevant Debtor or the Borrower and without any consent, sanction, authority or further confirmation from any Creditor or Debtor and without any recourse, representation or warranty) but subject to paragraph (c) below:

- (1) to release the Transaction Security or any other claim (relating to a Debt Document) over such asset;
- (2) to execute and deliver or enter into any release of the Transaction Security or any claim described in paragraph (1) above that may, in the discretion of the Security Agent (acting reasonably), be considered necessary or desirable;
- (3) if the asset that is Disposed of consists of shares or other Equity Interests in the capital of a Group Member, to release:
 - (A) such Group Member and any Subsidiary of such Group Member from all or any part of:
 - (I) its Borrowing Liabilities;
 - (II) its Guarantee Liabilities; and
 - (III) its Other Liabilities;
 - (B) any Transaction Security granted by such Group Member or any Subsidiary of such Group Member over any of its assets;
 - (C) any other claim of an Intra-Group Lender, or another Group Member over such Group Member's assets or over the assets of any Subsidiary of such Group Member, on behalf of the relevant Creditors and Debtors and Group Members;
 - (D) any Transaction Security granted by any Subsidiary of such Group Member over any of its assets; and

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- (E) any other claim of an Intra-Group Lender or another Group Member over the assets of any Subsidiary of such Group Member, on behalf of the relevant Creditors and Group Members.
 - (c) If such Non-Distressed Disposal is not made, each release of Transaction Security or any claim described in paragraph (b) above shall have no effect and the Transaction Security or claim subject to such release shall continue in such force and effect as if such release had not been effected.
 - (d) If any Disposal Proceeds are required to be applied in accordance with the terms of the Credit Agreement, then the Disposal Proceeds shall be so applied and the consent of any other Party shall not be required for such application.

11.2 Distressed Disposals

- (a) If a Distressed Disposal is being effected, the Security Agent is irrevocably authorized (at the cost of the relevant Debtor or the Borrower and without any consent, sanction, authority or further confirmation from any Creditor or Debtor and without any recourse, representation or warranty):
 - (i) to release the Transaction Security or any other claim over such asset and execute and deliver or enter into any release of such Transaction Security or claim that may, in the discretion of the Security Agent, be considered necessary or desirable;
 - (ii) if the asset that is Disposed of consists of shares or other Equity Interests in the capital of a Group Member, to release:
 - (A) such Group Member and any Subsidiary of such Group Member from all or any part of:
 - (1) its Borrowing Liabilities;
 - (2) its Guarantee Liabilities; and
 - (3) its Other Liabilities;
 - (B) any Transaction Security granted by such Group Member or any Subsidiary of such Group Member over any of its assets;
 - (C) any other claim of an Intra-Group Lender, or another Group Member over such Group Member's assets or over the assets of any Subsidiary of such Group Member, on behalf of the relevant Creditors and Debtors and Group Members;
 - (D) any Transaction Security granted by any Subsidiary of such Group Member over any of its assets; and
 - (E) any other claim of an Intra-Group Lender or another Group Member over the assets of any Subsidiary of such Group Member, on behalf of the relevant Creditors and Group Members;

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- (iii) if the asset that is Disposed of consists of shares or other Equity Interests in the capital of a Debtor or the Holding Company of a Debtor and the Security Agent (acting in accordance with paragraph (d) below) decides to dispose of all or any part of:
- (A) the Liabilities; or
 - (B) the Debtor Liabilities,
- owed by such Debtor or Holding Company or any Subsidiary of such Debtor or Holding Company:
- (C) (if the Security Agent (acting in accordance with paragraph (d) below) does not intend that any transferee of those Liabilities or Debtor Liabilities (the "**Transferee**") will be treated as a Primary Creditor or a Secured Party for the purposes of this Agreement) to execute and deliver or enter into any agreement to dispose of all or part of those Liabilities or Debtor Liabilities; provided that notwithstanding any other provision of any Debt Document the Transferee shall not be treated as a Primary Creditor or a Secured Party for the purposes of this Agreement; and
 - (D) (if the Security Agent (acting in accordance with paragraph (d) below) does intend that any Transferee will be treated as a Primary Creditor or a Secured Party for the purposes of this Agreement) to execute and deliver or enter into any agreement to Dispose of:
 - (1) all (and not part only) of the Liabilities owed to the Primary Creditors; and
 - (2) all or part of any other Liabilities and the Debtor Liabilities,on behalf of, in each case, the relevant Creditors and Debtors;
- (iv) if the asset that is Disposed of consists of shares or other Equity Interests in the capital of a Debtor or the Holding Company of a Debtor (the "**Disposed Entity**"), and the Security Agent (acting in accordance with paragraph (d) below) decides to transfer to another Debtor (the "**Receiving Entity**") all or any part of the Disposed Entity's obligations or any of the obligations of any Subsidiary of such Disposed Entity in respect of:
- (A) the Intra-Group Liabilities; or
 - (B) the Debtor Liabilities,
- to execute and deliver or enter into any agreement to:
- (C) agree to the transfer of all or part of the obligations in respect of those Intra-Group Liabilities or Debtor Liabilities on behalf of the relevant Intra-Group Lenders and Debtors to which those obligations are owed and on behalf of the Debtors that owe those obligations; and

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- (D) to accept the transfer of all or part of the obligations in respect of those Intra-Group Liabilities or Debtor Liabilities on behalf of the Receiving Entity or Receiving Entities to which the obligations in respect of those Intra-Group Liabilities or Debtor Liabilities are to be transferred.
- (b) The net proceeds of each Distressed Disposal (and the net proceeds of any Disposal of Liabilities or Debtor Liabilities pursuant to paragraph (a)(iv) above) shall be paid to the Security Agent for application in accordance with Section 12 as if those proceeds were the proceeds of an enforcement of the Transaction Security and, to the extent that any disposal of Liabilities or Debtor Liabilities has occurred pursuant to paragraph (a)(iv)(D) above, as if such disposal of Liabilities or Debtor Liabilities had not occurred.
- (c) In the case of a Distressed Disposal (or a disposal of Liabilities pursuant to paragraph (a)(iv)(D) above) effected by or at the request of the Security Agent (acting in accordance with paragraph (d) below), the Security Agent shall take reasonable care to obtain a fair market price in the prevailing market conditions (though the Security Agent shall have no obligation to postpone any such Distressed Disposal or Disposal of Liabilities in order to achieve a higher price).
- (d) For the purposes of paragraphs (a)(ii), (a)(iii), (a)(iv) and (c) above, the Security Agent shall act:
- (i) if the relevant Distressed Disposal is being effected by way of enforcement of the Transaction Security, in accordance with Section 10.2; and
- (ii) in any other case:
- (A) on the directions of the Majority Primary Creditors; or
- (B) in the absence of any such directions, as the Security Agent determines is in the best interests of the Secured Parties.

11.3 Acquisition Proceeds and Net Insurance/Condemnation Proceeds

- (a) In this Section:

"**Share Purchase Agreement**" has the meaning given to such term in the Credit Agreement.

"**Acquisition Proceeds**" means any cash proceeds from the settlement of any claims against, or collection of any judgments rendered in respect of or from, the Sellers under the Share Purchase Agreement or the providers of any Report (in each case excluding amounts received by the Borrower reflecting an adjustment for working capital, third party claims or replacement or reinstatement for relevant assets that are committed within ninety (90) days and actually made within one (1) year from the date of receipt of the proceeds thereof).

"**Net Insurance/Condemnation Proceeds**" has the meaning given to such term in the Credit Agreement.

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- (b) So long as the requirements of paragraph (c) below and, in the case of a claim against the Sellers or the provider of any Report, the requirements of Section 11.4 are met, if any insurance claim is to be made, or is made, by a Debtor prior to a Distress Event and such insurance claim (or the Acquisition Proceeds, or the Net Insurance/Condemnation Proceeds of such insurance claim) is or are expressed to be subject to the Transaction Security, the Security Agent is irrevocably authorized (at the cost of the relevant Debtor or the Borrower and without need of any letter of authority or further confirmation from any Creditor or Debtor and without any recourse, representation or warranty and without any recourse, representation or warranty) to:
- (i) give a consent under or release the Transaction Security, or any other claim, over the Share Purchase Agreement or insurance policy solely to the extent necessary to allow such Debtor to make such insurance claim and to comply with such Debtor's obligations in respect of such Acquisition Proceeds or such insurance claim and those Net Insurance/Condemnation Proceeds permitted under of the Credit Agreement; and
 - (ii) execute and deliver or enter into any such consent under or release of such Transaction Security, or claim, that may, in the discretion of the Security Agent, be considered necessary or desirable.
- (c) If no Distress Event has occurred at the time of receipt of any Acquisition Proceeds or Net Insurance/Condemnation Proceeds and any such Acquisition Proceeds or Net Insurance/Condemnation Proceeds are required to be applied in mandatory prepayment of the Senior Lender Liabilities, then those Acquisition Proceeds or Net Insurance/Condemnation Proceeds shall be applied in or towards Payment of the Senior Lender Liabilities in accordance with the terms of the Credit Agreement and the consent of any other Party shall not be required for such application. If a Distress Event has occurred at the time of receipt of any Acquisition Proceeds or Net Insurance/Condemnation Proceeds, the recipient of such Acquisition Proceeds or Net Insurance/Condemnation Proceeds shall pay all of such proceeds to the Security Agent and the Security Agent shall apply those Acquisition Proceeds or Net Insurance/Condemnation Proceeds in accordance with the terms of Section 12.

11.4 Certain Recoveries

- (a) In this Section:
- "**Proceedings**" means any litigation, proceedings or other claim against a Seller or Report Provider with a view to obtaining a recovery from such Seller or Report Provider; and
- "**Report Provider**" means any professional adviser or other Person who has provided a Report.
- (b) If any Party decides to commence Proceedings in relation to, or resulting from, any Report or any of the transactions contemplated by the Share Purchase Agreement, it shall:
- (i) give the other Parties reasonable prior notice (through the Security Agent) of its intention to do so;

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- (ii) give each other Party and, if applicable, any insolvency representative appointed under, or pursuant to the terms of, any Credit Document or Hedging Agreement a reasonable opportunity to be joined into such Proceedings or initiate similar proceedings; and
 - (iii) co-operate with any such Persons who are joined in as regards the efficient and effective conduct of such Proceedings.
- (c) The provisions of this Section shall apply until the Final Discharge Date.

11.5 Creditors' and Debtors' Actions

Each Creditor and Debtor shall, at the sole costs and expenses of the Borrower:

- (a) do all things that the Security Agent requests in order to give effect to this Section (which shall include the execution of any assignments, transfers, releases or other documents that the Security Agent may consider to be necessary to give effect to the releases or Disposals contemplated by this Section); and
- (b) if the Security Agent is not entitled to take any of the actions contemplated by this Section or if the Security Agent requests that any Creditor or Debtor take any such action, take such action itself in accordance with the instructions of the Security Agent,

provided that the proceeds of those Disposals, the Acquisition Proceeds and the Net Insurance/Condemnation Proceeds are applied in accordance with Section 11.1, Section 11.2 or Section 11.3, as the case may be.

12. APPLICATION OF PROCEEDS

12.1 Order of Application

Subject to Section 12.2, all proceeds and amounts from time to time received or recovered by the Security Agent pursuant to the terms of any Debt Document after a Distress Event or in connection with the realization or enforcement of all or any part of the Transaction Security (for the purposes of this Section, the "**Recoveries**") shall be held by the Security Agent and applied at any time, to the extent permitted by applicable law (and subject to the provisions of this Section), in the following order of priority:

- (a) *first*, in discharging any amounts due and payable to the Security Agent, or any Receiver or any Delegate;
- (b) *second*, in payment of all costs and expenses incurred by the Facility Agent or any Primary Creditor in connection with any realization or enforcement of the Transaction Security taken in accordance with the terms of this Agreement or any action taken at the request of the Security Agent under Section 7.5;

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- (c) *third*, in payment to:
- (i) the Facility Agent on its own behalf and on behalf of the Senior Lenders; and
 - (ii) the Mandated Lead Arrangers and the Lead Arranger; and
 - (iii) the Senior Hedge Counterparties
- for application towards the discharge of:
- (A) the Agent Liabilities, the Arranger Liabilities and the Senior Lender Liabilities (in accordance with the terms of the Credit Documents); and
 - (B) the Senior Hedging Liabilities (on a *pro rata* basis between the Senior Hedging Liabilities of each Senior Hedge Counterparty);
- on a *pro rata* basis between paragraph (A) above and paragraph (B) above;
- (d) *fourth*, if none of the Debtors is under any further actual or contingent liability under any Credit Document or Senior Hedging Agreement, in payment to any Person to whom the Security Agent is obliged to pay in priority to any Debtor; and
- (e) *finally*, the balance, if any, in payment to the relevant Debtor.

12.2 Prospective Liabilities

Following a Distress Event, the Security Agent may, in its discretion, hold any proceeds of the Recoveries in an interest bearing account in the name of the Security Agent with such financial institution (including itself) and for so long as the Security Agent shall determine (the interest being credited to the relevant account) for later application under Section 12.1 in respect of:

- (a) any amount due to any Security Agent, any Receiver or any Delegate; and
- (b) any part of the Liabilities, the Agent Liabilities or the Arranger Liabilities,

that the Security Agent reasonably considers, in each case, might become due and payable at any time in the future.

12.3 Investment of Proceeds

Prior to the application of the proceeds of the Security Property in accordance with Section 12.1, the Security Agent shall (to the extent practicable) hold all or part of those proceeds in an interest bearing account in the name of the Security Agent with such financial institution (including itself) and for so long as the Security Agent shall determine (the interest being credited to the relevant account) pending the application from time to time of those funds in the Security Agent's discretion in accordance with the provisions of this Section.

12.4 Currency Conversion

- (a) For the purpose of, or pending the discharge of, any of the Secured Obligations the Security Agent may, at any time and from time to time, convert any proceeds received, recovered or held by the Security Agent from one currency to another, at the Security Agent's Spot Rate of Exchange.

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- (b) The obligations of any Debtor to pay in the due currency shall only be satisfied to the extent of the amount of the due currency purchased after deducting the costs of conversion.

12.5 Permitted Deductions

The Security Agent shall be entitled, in its discretion, (a) to set aside by way of reserve amounts required to meet; and (b) to make and pay, any deductions and withholdings (on account of Taxes or otherwise) that it is or may be required by any applicable law to make from any distribution or payment made by it under this Agreement, and to pay all Taxes that may be assessed against it in respect of any of the Security Property, or as a consequence of performing its duties, or by virtue of its capacity as Security Agent under any of the Debt Documents or otherwise (other than in connection with its remuneration for performing its duties under this Agreement).

12.6 Good Discharge

- (a) Any payment to be made in respect of the Secured Obligations by the Security Agent:
- (i) may be made to the Facility Agent on behalf of the Senior Lenders; or
 - (ii) shall be made directly to the Mandated Lead Arrangers and the Lead Arranger; or
 - (iii) shall be made directly to the Senior Hedge Counterparties,
- and any payment made in such way shall be a good discharge, to the extent of such payment, by the Security Agent.
- (b) The Security Agent is under no obligation to make the payments to the Facility Agent, the Mandated Lead Arrangers, the Lead Arranger or the Senior Hedge Counterparties under paragraph (a) of this Section in the same currency as such in which the Liabilities owing to the relevant Secured Party are denominated.

12.7 Calculation of Amounts

For the purpose of calculating any Person's share of any amount payable to or by it, the Security Agent shall be entitled to:

- (a) notionally convert the Liabilities owed to any Person into a common base currency (decided in its discretion by the Security Agent), that notional conversion to be made at the spot rate at which the Security Agent is able to purchase the notional base currency with the actual currency of the Liabilities owed to such Person at the time at which such calculation is to be made; and
- (b) assume that all proceeds received or recovered as a result of the enforcement or realization of the Security Property are applied in discharge of the Liabilities in accordance with the terms of the Debt Documents under which those Liabilities arose.

13. THE SECURITY AGENT

13.1 Agency Role

- (a) The Security Agent shall hold the Security Property for the benefit of the Secured Parties on the terms contained in this Agreement.
- (b) Each of the parties to this Agreement agrees that the Security Agent shall have only those duties, obligations and responsibilities expressly specified in this Agreement or in the Security Documents to which the Security Agent is or is expressed to be a party (and no others shall be implied).

13.2 [Intentionally Omitted]

13.3 No Independent Power

The Secured Parties shall not have any independent power to enforce, or have recourse to, any of the Transaction Security or to exercise any rights or powers arising under the Security Documents (other than the Credit Agreement) in respect of the Transaction Security, except through the Security Agent.

13.4 Instructions to Security Agent and Exercise of Discretion

- (a) Subject to paragraphs (d) and (e) below, the Security Agent shall act in accordance with any directions given to it by the Majority Primary Creditors or, if so directed by the Majority Primary Creditors, refrain from exercising any right, power, authority or discretion vested in it as Security Agent and shall be entitled to assume that (i) any directions received by it from an Agent, the Creditors or a group of Creditors are duly given in accordance with the terms of the Debt Documents; and (ii) unless it has received actual notice of revocation, that those directions have not been revoked.
- (b) The Security Agent shall be entitled to request directions, or clarification of any direction, from the Majority Primary Creditors as to whether, and in what manner, it should exercise or refrain from exercising any rights, powers, authorities and discretions and the Security Agent may refrain from acting unless and until those directions or clarification are received by it.
- (c) Save as provided in Section 10, any directions given to the Security Agent by the Majority Primary Creditors shall override any conflicting directions given by any other Parties.
- (d) Paragraph (a) above shall not apply:
 - (i) where a contrary indication appears in this Agreement;
 - (ii) where this Agreement requires the Security Agent to act in a specified manner or to take a specified action;
 - (iii) in respect of any provision that protects the Security Agent's own position in its personal capacity as opposed to its role of Security Agent for the Secured Parties including the provisions set forth in Sections 13.6 to Section 13.18;

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- (iv) in respect of the exercise of the Security Agent's discretion to exercise a right, power or authority under any of Section 11.1, Section 12.2 and Section 12.5.
 - (e) If giving effect to directions given by the Majority Primary Creditors would (in the Security Agent's opinion) have an effect equivalent to an Intercreditor Amendment, the Security Agent shall not act in accordance with those directions unless consent to it so acting is obtained from each Party (other than the Security Agent) whose consent would have been required in respect of such Intercreditor Amendment.
 - (f) In exercising any discretion to exercise a right, power or authority under this Agreement where either:
 - (i) the Security Agent has not received any direction from the Majority Primary Creditors as to the exercise of such discretion; or
 - (ii) the exercise of such discretion is subject to paragraph (d)(iv) above,the Security Agent shall do so having regard to the interests of all the Secured Parties.

13.5 Security Agent's Actions

Without prejudice to the provisions of Section 10 and Section 13.4, the Security Agent may (but shall not be obliged to), in the absence of any directions to the contrary, take such action in the exercise of any of its powers and duties under the Debt Documents as it considers in its discretion to be appropriate.

13.6 Security Agent's Discretions

The Security Agent may:

- (a) assume (unless it has received actual notice to the contrary from a Hedge Counterparty or from the Facility Agent) that (i) no Default or Event of Default has occurred and no Debtor is in breach of or default under its obligations under any of the Debt Documents; and (ii) any right, power, authority or discretion vested by any Debt Document in any Person has not been exercised;
- (b) if it receives any instructions or directions under Section 10 to take any action in relation to the Transaction Security, assume that all applicable conditions under the Debt Documents for taking such action have been satisfied;
- (c) engage, pay for and rely on the advice or services of any legal advisers, accountants, tax advisers, surveyors or other experts (whether obtained by the Security Agent or by any other Secured Party) whose advice or services may at any time seem necessary, expedient or desirable;
- (d) rely upon any communication or document believed by it to be genuine and, as to any matters of fact that might reasonably be expected to be within the knowledge of a Secured Party, any Creditor or a Debtor, upon a certificate signed by or on behalf of such Person; and

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- (e) refrain from acting in accordance with the instructions of any Party (including bringing any legal action or proceeding arising out of or in connection with the Debt Documents) until it has received any indemnification or security that it may in its discretion require (whether by way of payment in advance or otherwise) for all costs, losses and liabilities that it may incur in so acting.

13.7 Security Agent's Obligations

The Security Agent shall promptly:

- (a) copy to the Facility Agent and each Senior Hedge Counterparty the contents of any notice or document received by it from any Debtor under any Debt Document;
- (b) forward to a Party the original or a copy of any document that is delivered to the Security Agent for such Party by any other Party, and except where a Debt Document expressly provides otherwise, the Security Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party;
- (c) inform the Facility Agent and each Senior Hedge Counterparty of the occurrence of any Default, Event of Default or any default by a Debtor in the due performance of or compliance with its obligations under any Debt Document of which the Security Agent has received notice from any other Party; and
- (d) to the extent that a Party (other than the Security Agent) is required to calculate a Common Currency Amount, and upon a request by such Party, notify such Party of the relevant Security Agent's Spot Rate of Exchange.

13.8 Excluded Obligations

Notwithstanding anything to the contrary expressed or implied in the Debt Documents, the Security Agent shall not:

- (a) be bound to enquire as to (i) whether or not any Default or Event of Default has occurred; or (ii) the performance, default or any breach by a Debtor of its obligations under any of the Debt Documents;
- (b) be bound to account to any other Party for any sum or the profit element of any sum received by it for its own account;
- (c) be bound to disclose to any other Person (including to any Secured Party) (i) any confidential information; or (ii) any other information if disclosure would, or might in its reasonable opinion, constitute a breach of any applicable law or be a breach of contractual obligation or fiduciary duty; or
- (d) have or be deemed to have any relationship of trust or agency with any Debtor.

13.9 Exclusion of Liability

None of the Security Agent, any Mandated Lead Arranger, the Lead Arranger, any Receiver or any Delegate shall accept responsibility or be liable for:

- (a) the adequacy, accuracy or completeness of any information (whether oral or written) supplied by the Security Agent or any other Person in or in connection with any Debt Document or the transactions contemplated in the Debt Documents, or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Debt Document;

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- (b) the legality, validity, effectiveness, adequacy or enforceability of any Debt Document, the Security Property or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Debt Document or the Security Property;
 - (c) any losses to any Person or any liability arising as a result of taking or refraining from taking any action in relation to any of the Debt Documents, the Security Property or otherwise, whether in accordance with an instruction from the Majority Primary Creditors or otherwise unless directly caused by its gross negligence or willful misconduct;
 - (d) the exercise of, or the failure to exercise, any judgment, discretion or power given to it by or in connection with any of the Debt Documents, the Security Property or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with, the Debt Documents or the Security Property; or
 - (e) any shortfall that arises on the enforcement or realization of the Security Property.

13.10 No Proceedings

No Party (other than the Security Agent, such Receiver or such Delegate) may take any proceedings against any officer, employee or agent of the Security Agent, a Receiver or a Delegate in respect of any claim it might have against the Security Agent, a Receiver or a Delegate or in respect of any act or omission of any kind by such officer, employee or agent in relation to any Debt Document or any Security Property and any officer, employee or agent of the Security Agent, a Receiver or a Delegate may rely on this Section.

13.11 Own Responsibility

Without affecting the responsibility of any Debtor for information supplied by it or on its behalf in connection with any Debt Document, each Secured Party confirms to the Security Agent that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Debt Document including:

- (a) the financial condition, status and nature of each Group Member;
- (b) the legality, validity, effectiveness, adequacy and enforceability of any Debt Document, the Security Property and any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Debt Document or the Security Property;

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- (c) whether such Secured Party has recourse, and the nature and extent of such recourse, against any Party or any of its respective assets under or in connection with any Debt Document, the Security Property, the transactions contemplated by the Debt Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Debt Document or the Security Property;
 - (d) the adequacy, accuracy or completeness of any information provided by the Security Agent or by any other Person under or in connection with any Debt Document, the transactions contemplated by any Debt Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Debt Document; and
 - (e) the right or title of any Person in or to, or the value or sufficiency of any part of the Collateral or other Security Property, the priority of any of the Transaction Security or the existence of any Lien affecting the Collateral,

and each Secured Party represents and warrants to each other Secured Party that it has not relied on and will not at any time rely on such Secured Party in respect of any of these matters.

13.12 No Responsibility to Perfect Transaction Security

The Security Agent shall not be liable for any failure to:

- (a) require the deposit with it of any deed or document certifying, representing or constituting the title of any Debtor to any Security Property;
- (b) obtain any license, consent or other authority for the execution, delivery, legality, validity, enforceability or admissibility in evidence of any of the Debt Documents or the Transaction Security;
- (c) register, file or record or otherwise protect any of the Transaction Security (or the priority of any of the Transaction Security) under any applicable laws in any jurisdiction or to give notice to any Person of the execution of any of the Debt Documents or of the Transaction Security;
- (d) take, or to require any of the Debtors to take, any steps to perfect its title to any of the Collateral or to render the Transaction Security effective or to secure the creation of any ancillary Security under the applicable laws of any jurisdiction; or
- (e) require any further assurances in relation to any of the Security Documents;

except to the extent of its own gross negligence or willful misconduct.

13.13 Insurance by Security Agent

- (a) The Security Agent shall not be under any obligation to insure any Security Property, to require any other Person to maintain any insurance or to verify any obligation to arrange or maintain insurance contained in the Debt Documents. The Security Agent shall not be responsible for any loss that may be suffered by any Person as a result of the lack of or inadequacy of any such insurance.

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- (b) Where the Security Agent is named on any insurance policy as an insured party, it shall not be responsible for any loss that may be suffered by reason of, directly or indirectly, its failure to notify the insurers of any material fact relating to the risk assumed by such insurers or any other information of any kind, unless the Majority Primary Creditors shall have requested it to do so in writing and the Security Agent shall have failed to do so within thirty (30) days after receipt of such request.

13.14 Custodians and Nominees

The Security Agent may appoint and pay any Person to act as a subagent or nominee on any terms in relation to any assets as the Security Agent may determine, and the Security Agent shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any Person appointed by it under this Agreement or be bound to supervise the proceedings or acts of any Person.

13.15 Acceptance of Title

The Security Agent shall be entitled to accept without enquiry, and shall not be obliged to investigate, any right and title that any of the Debtors may have to any of its assets and shall not be liable for or bound to require any Debtor to remedy any defect in its right or title.

13.16 Refrain from Illegality

Notwithstanding anything to the contrary expressed or implied in the Debt Documents, the Security Agent may refrain from doing anything that in its opinion would or may be contrary to any relevant applicable law of any jurisdiction, and the Security Agent may do anything that is, in its opinion, necessary to comply with any such applicable law.

13.17 Business with the Debtors

The Security Agent may accept deposits from, lend money to, and generally engage in any kind of banking or other business with any of the Debtors.

13.18 Final Release of Transaction Security

If the Final Discharge Date has occurred (as confirmed to the Security Agent in writing by the Facility Agent and each Hedge Counterparty, such confirmation to be given by the Facility Agent and each Hedge Counterparty promptly), the Security Agent and, if required, each other Secured Party shall release (at the request and at the sole costs and expenses of the Debtors), without any recourse, representation or warranty, all of the Transaction Security.

14. CHANGE OF SECURITY AGENT AND DELEGATION

14.1 Resignation of the Security Agent

- (a) The Security Agent may resign or be removed, and a successor Security Agent may be appointed, in accordance with Section 9.7 of the Credit Agreement.

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- (b) If the Majority Primary Creditors have not appointed a successor Security Agent within thirty (30) days after the notice of resignation was given, the Security Agent (after consultation with the Facility Agent) may appoint a successor Security Agent.
 - (c) The Security Agent's resignation shall only take effect upon (i) the appointment of a successor and (ii) the transfer (at the cost of the Borrower) of all of the Security Property to such successor.
 - (d) Upon the appointment of a successor, the retiring Security Agent shall be discharged from any further obligation in respect of the Debt Documents (other than its obligations under Section 13.18 and under paragraph (c) above) but shall, in respect of any act or omission by it whilst it was the Security Agent, remain entitled to the benefit of Sections 13, 17.1 and 17.3. Its successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

14.2 Delegation

- (a) Each of the Security Agent, any Receiver and any Delegate may, at any time, delegate by power of attorney or otherwise to any Person for any period, all or any of the rights, powers and discretions vested in it by any of the Debt Documents.
- (b) Such delegation may be made upon any terms and conditions (including the power to sub-delegate) and subject to any restrictions that the Security Agent, such Receiver or such Delegate (as the case may be) may, in its discretion, determine to be in the interests of the Secured Parties, and it shall not be bound to supervise, or be in any way responsible for any loss incurred by reason of any misconduct or default on the part of any delegate or sub-delegate.

14.3 Additional Security Agents

- (a) The Security Agent may at any time appoint (and subsequently remove) any Person to act as a subagent (i) if it considers such appointment to be in the interests of the Secured Parties; or (ii) for the purposes of conforming to any legal requirements, restrictions or conditions that the Security Agent deems to be relevant; or (iii) for obtaining or enforcing any judgment in any jurisdiction, and the Security Agent shall give prior notice to the Borrower and the Facility Agent of such appointment.
- (b) Any Person so appointed shall have the rights, powers and discretions (not exceeding those conferred on the Security Agent by this Agreement) and the duties and obligations that are conferred or imposed by the instrument of appointment.
- (c) Any remuneration that the Security Agent may pay to such Person, and any costs and expenses (together with any applicable VAT) incurred by such Person in performing its functions pursuant to such appointment shall, for the purposes of this Agreement, be treated as costs and expenses incurred by the Security Agent; provided that the Borrower shall only be obligated to pay such remuneration, costs or expenses to the extent it does not result in the Borrower paying any amount in excess of amounts it would be required to pay to the Security Agent under the terms of the Credit Documents.

15. CHANGES TO THE PARTIES

15.1 Assignments and Transfers

No Party may assign any of its rights and benefits or transfer any of its rights, benefits and obligations in respect of any Debt Documents or the Liabilities except as permitted by this Section.

15.2 [Intentionally Omitted]

15.3 Change of Senior Lender

A Senior Lender may assign any of its rights and benefits or transfer any of its rights, benefits and obligations in respect of any Debt Documents or the Liabilities if such assignment or transfer is in accordance with the terms of the Credit Agreement.

15.4 Change of Hedge Counterparty

A Hedge Counterparty may (in accordance with the terms of the relevant Hedging Agreement and subject to any consent required under such Hedging Agreement) transfer any of its rights and benefits or obligations in respect of the Hedging Agreements to which it is a party if any transferee has (if not already party to this Agreement as a Hedge Counterparty) acceded to this Agreement as a Hedge Counterparty pursuant to Section 15.8.

15.5 Change of Agent

No Person shall become an Agent unless at the same time, it accedes to this Agreement as an Agent, pursuant to Section 15.8.

15.6 Change of Intra-Group Lender

Subject to Section 5.4 and to the terms of the other Debt Documents, any Intra-Group Lender may assign any of its rights and benefits or transfer any of its rights, benefits and obligations in respect of the Intra-Group Liabilities to another Group Member if:

- (a) the assignment (or the intercompany debt that would result therefrom) is permitted under the Credit Agreement; or
- (b) the prior written consent of the Majority Primary Creditors is obtained, and,

in each case, such Group Member has (if not already party to this Agreement as an Intra- Group Lender) acceded to this Agreement as an Intra-Group Lender, pursuant to Section 15.8.

15.7 New Intra-Group Lender

The Borrower shall ensure that each Offshore Group Member becomes a party to this Agreement as an Intra-Group Lender pursuant to Section 15.8 within forty-five (45) days (or such longer time as specified in any Credit Document) of the date on which such Person becomes an Offshore Group Member.

15.8 Creditor/Agent Accession Undertaking

No Hedge Counterparty shall be entitled to share in any of the Transaction security or any rights or benefit under this Agreement unless it has acceded to this Agreement as a Hedge Counterparty pursuant to this Section 15.8.

With effect from the date of acceptance by the Security Agent of a Creditor/Agent Accession Undertaking duly executed and delivered to the Security Agent by the relevant acceding party or, if later, the date specified in such Creditor/Agent Accession Undertaking:

- (a) any Party ceasing entirely to be a Creditor or Agent shall be discharged from further obligations towards the other Parties under this Agreement and their respective rights against one another shall be cancelled (except in each case for those rights that arose prior to such date); and
- (b) as from such date, the replacement or new Creditor or Agent shall assume the same obligations, and become entitled to the same rights, as if it had been an original Party to this Agreement in such capacity.

15.9 New Debtor

- (a) The Borrower shall ensure that each Offshore Group Member becomes a party to this Agreement as a Debtor within forty-five (45) days (or such longer time as specified in any Credit Document) of the date on which such Person becomes an Offshore Group Member.
- (b) With effect from the date of acceptance by the Security Agent of a Debtor Accession Letter duly executed and delivered to the Security Agent by the new Debtor or, if later, the date specified in the Debtor Accession Letter, the new Debtor shall assume the same obligations and become entitled to the same rights as if it had been an original Party to this Agreement as a Debtor.

15.10 Additional parties

- (a) Each of the Parties appoints the Security Agent to receive on its behalf each Debtor Accession Letter and Creditor/Agent Accession Undertaking delivered to the Security Agent and the Security Agent shall, subject to paragraph (b) below, as soon as reasonably practicable after receipt by it, sign and accept the same if it appears on its face to have been completed, executed and, where applicable, delivered in the form contemplated by this Agreement or, where applicable, by the Credit Agreement.
- (b) The Security Agent shall only be obliged to sign and accept a Debtor Accession Letter in respect of any Primary Creditor Liabilities received by it once it is satisfied that it has complied with all necessary "know your customer" or similar other checks under all applicable laws in relation to the accession by the prospective party to this Agreement.
- (c) Each Party shall promptly upon the request of the Security Agent supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Security Agent (for itself) from time to time in order for the Security Agent to carry out and be satisfied with the results of all necessary "know your customer" or other similar checks under all applicable laws pursuant to the transactions contemplated in the Credit Documents.

15.11 Resignation of a Guarantor

The Facility Agent shall not release all or any Guarantors from the Guaranty except in accordance with Section 10.5 of the Credit Agreement.

16. COSTS AND EXPENSES

The Borrower shall pay the Security Agent the amounts required pursuant to Section 10.2 of the Credit Agreement.

17. INDEMNITIES

17.1 Borrower's Indemnity

The Borrower shall promptly indemnify the Security Agent and every Receiver and Delegate against any cost, loss or liability (together with any applicable VAT) incurred by any of them in accordance with Section 10.3 of the Credit Agreement.

The Borrower expressly acknowledges and agrees that the continuation of its indemnity obligations under Section 10.3 of the Credit Agreement shall not be prejudiced by any release or Disposal under Section 11.2 taking into account the operation of such Section 11.2.

17.2 Priority of Indemnity

The Security Agent and every Receiver and Delegate may, in priority to any payment to the Secured Parties, indemnify itself out of the Collateral or other Security Property in respect of, and pay and retain, all sums necessary to give effect to the indemnity in Section 17.1 and shall have a Lien on the proceeds of the enforcement of the Transaction Security for all moneys payable to it.

17.3 Primary Creditors' Indemnity

- (a) Each Primary Creditor shall (in the proportion that the Liabilities due to it bears to the aggregate of the Liabilities due to all the Primary Creditors for the time being (or, if the Liabilities due to each of those Primary Creditors is zero, immediately prior to their being reduced to zero)) severally indemnify the Security Agent and every Receiver and every Delegate against any cost, loss or liability incurred by any of them (otherwise than by reason of the relevant Security Agent's, Receiver's or Delegate's gross negligence or willful misconduct) in acting as Security Agent, Receiver or Delegate under the Debt Documents (unless the relevant Security Agent, Receiver or Delegate has been reimbursed by a Debtor pursuant to a Debt Document) and the Debtors shall jointly and severally indemnify each Primary Creditor against any payment made by it under this Section.

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- (b) For the purposes only of paragraph (a) above, to the extent that any hedging transaction under a Senior Hedging Agreement has not been terminated or closed-out, the Senior Hedging Liabilities due to any Senior Hedge Counterparty in respect of such hedging transaction shall be deemed to be the amount, if any, that would be payable to it under such Senior Hedging Agreement in respect of those hedging transactions, if the date on which the calculation is made was deemed to be an Early Termination Date (as defined in the relevant ISDA Master Agreement) for which the relevant Debtor is the Defaulting Party (as defined in the relevant ISDA Master Agreement); that amount to be certified by the relevant Senior Hedge Counterparty and as calculated in accordance with the relevant Senior Hedging Agreement.

18. INFORMATION

18.1 Information and Dealing

- (a) The Creditors shall provide to the Security Agent from time to time (through the Facility Agent in the case of a Senior Lender) any information that the Security Agent may reasonably specify as being necessary or desirable to enable the Security Agent to perform its functions as security agent.
- (b) Each Senior Lender shall deal with the Security Agent exclusively through the Facility Agent and the Hedge Counterparties shall deal directly with the Security Agent and shall not deal through the Facility Agent.
- (c) No Agent shall be under any obligation to act as agent or otherwise on behalf of any Hedge Counterparty except as expressly provided for in, and for the purposes of, this Agreement.

18.2 Disclosure

Subject to the confidentiality provisions under Section 10.17 of the Credit Agreement, each of the Debtors and the Intra-Group Lenders consents to the disclosure by any of the Primary Creditors, the Facility Agent, the Mandated Lead Arrangers, the Lead Arranger and the Security Agent to such other Person (whether or not through the Facility Agent or the Security Agent) of such information concerning the Debtors and the Intra-Group Lenders as any Primary Creditor, the Facility Agent, the Mandated Lead Arrangers, the Lead Arranger or the Security Agent shall determine. By executing a Creditor/Agent Accession Undertaking and becoming a Party hereunder, each Senior Hedge Counterparty agrees to be bound by the confidentiality provisions under Section 10.17 of the Credit Agreement.

18.3 Notification of Prescribed Events

- (a) If an Event of Default either occurs or ceases to be continuing the Facility Agent shall, upon becoming aware of such occurrence or cessation, notify the Security Agent and the Security Agent shall, upon receiving such notification, notify each Senior Hedge Counterparty.
- (b) If an Acceleration Event occurs the Facility Agent shall notify the Security Agent and the Security Agent shall, upon receiving such notification, notify each other Party.
- (c) If the Security Agent enforces, or takes formal steps to enforce, any of the Transaction Security it shall notify each Party of such action.

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- (d) If any Primary Creditor exercises any right it may have to enforce, or to take formal steps to enforce, any of the Transaction Security it shall notify the Security Agent and the Security Agent shall, upon receiving such notification, notify each Party of such action.
 - (e) If a Debtor defaults on any Payment due under a Hedging Agreement, the Hedge Counterparty that is party to such Hedging Agreement shall, upon becoming aware of such default, notify the Security Agent and the Security Agent shall, upon receiving such notification, notify the Facility Agent and each other Hedge Counterparty.
 - (f) If a Senior Hedge Counterparty terminates or closes out, in whole or in part, any hedging transaction under any Senior Hedging Agreement under Section 4.10 it shall notify the Security Agent and the Security Agent shall, upon receiving such notification, notify the Facility Agent and each other Senior Hedge Counterparty.
 - (g) If a Mandatory Prepayment is waived the Facility Agent shall notify the Security Agent of the amount of the Mandatory Prepayment waived and the Security Agent shall, upon receiving such notification, notify each Senior Hedge Counterparty.
 - (h) If any of the Term Loan Exposure are to be reduced (whether by way of repayment, prepayment, cancellation or otherwise), and such reduction will result in a Hedge Excess, then the Borrower shall notify each Hedge Counterparty of:
 - (i) the date and amount of such proposed reduction; and
 - (ii) any Hedge Excess that would result from such proposed reduction and such Hedge Counterparty's Hedge Proportion (if any) of such Hedge Excess.

19. NOTICES

19.1 Communications in Writing

Any communication to be made under or in connection with this Agreement shall be made in writing and, unless otherwise stated, may be made by fax or letter.

19.2 Security Agent's communications with Senior Lenders and Hedge Counterparties

The Security Agent shall be entitled to carry out all dealings:

- (a) with the Senior Lenders, the Mandated Lead Arrangers and the Lead Arranger through the Facility Agent and may give to the Facility Agent, as applicable, any notice or other communication required to be given by the Security Agent to a Senior Lender, a Mandated Lead Arranger or the Lead Arranger; and
- (b) with each Hedge Counterparty directly with such Hedge Counterparty.

19.3 Addresses

The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with this Agreement shall be as set forth in the Credit Agreement (or in the case of each Hedge Counterparty, as notified in writing to the Security Agent on or prior to the date on which it becomes a Party), or any document delivered in connection therewith, or any substitute address, fax number or department or officer as the Party may notify to the Security Agent (or the Security Agent may notify to the other Parties, if a change is made by the Security Agent) by not less than three (3) Business Days' prior notice.

19.4 Delivery

- (a) Any communication or document made or delivered by one Person to another under or in connection with this Agreement shall only be effective as set forth in Section 10.1 of the Credit Agreement.
- (b) Any communication or document made or delivered to the Debtors may be made or delivered to the Borrower for its own account and for the account of the Debtors. For such purpose each Debtor appoints the Borrower as its agent of receipt.

19.5 Notification of Address and Fax Number

Promptly upon receipt of notification of an address and fax number or change of address or fax number pursuant to Section 19.3 or changing its own address or fax number, the Security Agent shall notify the other Parties.

19.6 Electronic Communication

Any communication to be made between the Security Agent and the Facility Agent, a Mandated Lead Arranger, the Lead Arranger, a Senior Lender or a Hedge Counterparty under or in connection with this Agreement may be made by electronic mail or other electronic means, pursuant to the terms of Section 10.1(b) of the Credit Agreement.

19.7 Language

- (a) Any notice given under or in connection with this Agreement shall be in English.
- (b) All other documents provided under or in connection with this Agreement shall be:
 - (i) in English; or
 - (ii) if not in English, and if so required by the Security Agent, accompanied by a certified English translation and, in this case, the English translation shall prevail unless the document is a constitutional, statutory or other official document.

20. PRESERVATION**20.1 Partial Invalidity**

If, at any time, any provision of this Agreement is or becomes illegal, invalid or unenforceable in any respect under any applicable law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the applicable law of any other jurisdiction shall in any way be affected or impaired.

20.2 No Impairment

If, at any time after its date, any provision of a Debt Document (including this Agreement) is not binding on or enforceable in accordance with its terms against a Person expressed to be a party to such Debt Document, neither the binding nature nor the enforceability of such provision or any other provision of such Debt Document shall be impaired as against the other parties to such Debt Document.

20.3 Remedies and Waivers

No failure to exercise, nor any delay in exercising, on the part of any Secured Party, any right or remedy under this Agreement shall operate as a waiver of any such right or remedy. No single or partial exercise of any right or remedy shall prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by applicable law.

20.4 Waiver of Defenses

The provisions of this Agreement shall not be affected by an act, omission, matter or thing that, but for this Section, would reduce, release or prejudice the subordination and priorities expressed to be created by this Agreement including (whether or not known to any Party):

- (a) any time, waiver or consent granted to, or composition with, any Debtor or other Person;
- (b) the release of any Debtor or any other Person under the terms of any composition or arrangement with any creditor of any Group Member;
- (c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, any Debtor or other Person or any non presentation or non observance of any formality or other requirement in respect of any instrument or any failure to realize the full value of any security;
- (d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of any Debtor or other Person;
- (e) any amendment, novation, supplement, extension (whether of maturity or otherwise) or restatement (in each case, however fundamental and of whatsoever nature, and whether or not more onerous) or replacement of a Debt Document or any other document or security;
- (f) any unenforceability, illegality or invalidity of any obligation of any Person under any Debt Document or any other document or security;
- (g) any intermediate Payment of any of the Liabilities owing to the Primary Creditors in whole or in part; or

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- (h) any Bankruptcy Event or similar proceeding.

20.5 Priorities not Affected

Except as otherwise expressly provided in this Agreement, the priorities referred to in Section 2 shall:

- (a) not be affected by any reduction or increase in the principal amount secured by the Transaction Security in respect of the Liabilities owing to the Primary Creditors or by any intermediate reduction or increase in, amendment or variation to any of the Debt Documents, or by any variation or satisfaction of, any of the Liabilities or any other circumstances;
- (b) apply regardless of the order in which or dates upon which this Agreement and the other Debt Documents are executed or registered or notice of them is given to any Person; and
- (c) secure the Liabilities owing to the Primary Creditors in the order specified, regardless of the date upon which any of the Liabilities arise or of any fluctuations in the amount of any of the Liabilities outstanding.

21. CONSENTS, AMENDMENTS AND OVERRIDE

21.1 Required Consents

- (a) Subject to paragraph (b) below, to Section 21.4 and to Section 21.5, this Agreement may be amended, waived or modified (a "**proposed change**") only with the consent of the Facility Agent, the Security Agent and the Majority Primary Creditors.
- (b) A proposed change that has the effect of changing or that relates to:
 - (i) Section 9, Section 12 or this Section;
 - (ii) paragraphs (d)(iii), (e) and (f) of Section 13.4;
 - (iii) the order of priority or subordination under this Agreement; or
 - (iv) the definition of "Majority Primary Creditors,"shall not be made without the consent of:
 - (A) the Facility Agent;
 - (B) the Senior Lenders;
 - (C) each Hedge Counterparty (to the extent that the proposed change would adversely affect the Hedge Counterparty); and
 - (D) the Security Agent.

21.2 Amendments and Waivers: Collateral Documents

Subject to Section 21.4 and Section 3.2 and unless the provisions of any Debt Document expressly provide otherwise, the Security Agent may, if authorized by the Majority Primary Creditors, and if the Borrower (including in its capacity as Obligors' Agent) consents, amend the terms of, waive any of the requirements of or grant consents under, any of the Security Documents (other than each guaranty) that shall be binding on each Party.

21.3 Effectiveness

Any proposed change made in accordance with this Section shall be binding on all Parties, and the Facility Agent may effect, on behalf of the Security Agent, Mandated Lead Arrangers, Lead Arranger or Creditors, any proposed change permitted by this Section.

21.4 Exceptions

- (a) Subject to paragraphs (c) and (d) below, if a proposed change would impose new or additional obligations on or withdraw or reduce the rights of any Party other than:
 - (i) in the case of a Primary Creditor, in a way that affects or would affect Primary Creditors of such Party's class generally; or
 - (ii) in the case of a Debtor, to the extent consented to by the Borrower under Section 21.2,the consent of such Party shall be required to effect such proposed change.
- (b) Subject to paragraphs (c) and (d) below, a proposed change that relates to the rights or obligations of the Facility Agent, a Mandated Lead Arranger, the Lead Arranger, the Security Agent (including any ability of the Security Agent to act in its discretion under this Agreement) or a Hedge Counterparty may not be effected without the consent of the Facility Agent or, as the case may be, such Mandated Lead Arranger, the Lead Arranger, the Security Agent or such Hedge Counterparty.
- (c) Neither paragraph (a) nor (b) above shall apply:
 - (i) to any release of Transaction Security, claim or Liabilities; or
 - (ii) to any consentthat, in each case, the Security Agent gives in accordance with Section 11.
- (d) Paragraphs (a) and (b) above shall apply to a Mandated Lead Arranger and the Lead Arranger only to the extent such Arranger Liabilities are then owed to such Mandated Lead Arranger or the Lead Arranger.

21.5 Snooze/Lose

If in relation to:

- (a) a request for a proposed change in relation to any of the terms of this Agreement;
- (b) a request to participate in any other vote of Primary Creditors under the terms of this Agreement;
- (c) a request to approve any other action under this Agreement; or

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- (d) a request to provide any confirmation or notification under this Agreement (each of the foregoing, a "**proposed action**"), any Primary Creditor does not deliver to the Facility Agent an acceptance or rejection of the proposed action within twenty (20) Business Days (or such longer period as is agreed by the Borrower and the Facility Agent in relation to any proposed action) after the date the Borrower or any Party delivers a written request for a proposed action to the Facility Agent (or if any additional information that would reasonably be expected to be material to a Primary Creditor's decision concerning a proposed action is requested from the Borrower by the Facility Agent during such twenty (20) Business Day period, then such period shall instead end twenty (20) Business Days from the date on which the Facility Agent has received all such material information so requested from the Borrower); then such Primary Creditor's Credit Participation shall not be included for the purpose of calculating whether a certain percentage of Credit Participation has been obtained to approve an proposed action; provided that for the foregoing to be effective, the proposed action shall contain a reference to this Section and note that the Credit Participation of any Primary Creditor that does not deliver to the Facility Agent an acceptance or rejection of the proposed action within twenty (20) Business Days will not be included for the purpose of calculating whether a certain percentage of Credit Participation has been obtained to approve the applicable proposed action.

21.6 Disenfranchisement of Defaulting Lenders and Impaired Hedge Counterparties

Any Defaulting Lender (during any Default Period with respect to such Defaulting Lender) or Impaired Hedge Counterparty (during any period in which a Hedge Counterparty is a Impaired Hedge Counterparty), shall be deemed not to be a Primary Creditor in ascertaining:

- (a) the Majority Primary Creditors; or
- (b) whether:
 - (i) any relevant percentage (including, for the avoidance of doubt, unanimity) of Credit Participations; or
 - (ii) the agreement of any specified group of Primary Creditors

has been obtained to approve any request for a proposed action or to carry any other vote or approve any action under this Agreement.

21.7 Calculation of Credit Participations and Amounts as between Primary Creditors

- (a) For the purpose of ascertaining whether any relevant percentage of Credit Participations has been obtained under this Agreement, the Facility Agent shall notionally convert the Credit Participations into their Common Currency Amounts.
- (b) For the purpose of the Security Agent applying amounts between Primary Creditors on a *pro rata* basis pursuant to Section 12.1 or otherwise, the Facility Agent shall notionally convert the amounts owing to such Primary Creditors into their Common Currency Amounts.

21.8 Deemed Consent

If, at any time prior to the Senior Lender Discharge Date, the Senior Lenders give a Consent in respect of the Credit Documents then, if such action was permitted by the terms of this Agreement, the Intra-Group Lenders and the Borrower shall (or shall be deemed to):

- (a) give a corresponding Consent in equivalent terms in relation to each of the Debt Documents to which they are a party; and
- (b) do all such acts (including executing any document) that the Senior Lenders may reasonably require to give effect to paragraph (a) of this Section.

21.9 Excluded Consents

Section 21.8 does not apply to any Consent that has the effect of:

- (a) increasing or decreasing the Liabilities;
- (b) changing the basis upon which any Permitted Payments are calculated (including the timing, currency or amount of such Payments); or
- (c) changing the terms of this Agreement or of any Security Document.

21.10 No Liability

None of the Finance Parties shall be liable to any other Creditor or to any Debtor for any Consent given or deemed to be given under this Section.

22. COUNTERPARTS

This Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement. Delivery of an executed counterpart of a signature page of this Agreement (and each amendment hereto or waiver granted in respect hereof) by fax or any other electronic means (including e-mail) that reproduces an image of the actual executed signature page shall be effective as delivery of a manually executed counterpart of this Agreement, amendment or waiver.

23. GOVERNING LAW

THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES ARISING HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, U.S.A., WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES THEREOF.

24. ENFORCEMENT

24.1 Jurisdiction

- (a) ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST ANY CREDIT PARTY ARISING OUT OF OR RELATING HERETO OR ANY OTHER CREDIT DOCUMENT, OR ANY OF THE OBLIGATIONS, MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE, COUNTY AND CITY OF NEW YORK, BOROUGH OF MANHATTAN, UNITED STATES OF AMERICA. BY EXECUTING AND DELIVERING THIS AGREEMENT, EACH CREDIT PARTY, FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, IRREVOCABLY (A) ACCEPTS GENERALLY AND UNCONDITIONALLY THE JURISDICTION AND VENUE OF SUCH COURTS; (B) WAIVES ANY DEFENSE OF FORUM NON CONVENIENS; (C) AGREES THAT SERVICE OF ALL PROCESS IN ANY SUCH PROCEEDING IN ANY SUCH COURT MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO THE APPLICABLE CREDIT PARTY AT ITS ADDRESS PROVIDED IN ACCORDANCE WITH SECTION 10.1; (D) AGREES THAT SERVICE AS PROVIDED IN CLAUSE (C) ABOVE IS SUFFICIENT TO CONFER PERSONAL JURISDICTION OVER THE APPLICABLE CREDIT PARTY IN ANY SUCH PROCEEDING IN ANY SUCH COURT, AND OTHERWISE CONSTITUTES EFFECTIVE AND BINDING SERVICE IN EVERY RESPECT; AND (E) AGREES THAT THE AGENTS AND THE LENDERS RETAIN THE RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW OR TO BRING PROCEEDINGS AGAINST ANY CREDIT PARTY IN THE COURTS OF ANY OTHER JURISDICTION.

24.2 Waiver of Jury Trial.

EACH OF THE PARTIES HERETO HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING HEREUNDER OR UNDER ANY OF THE OTHER CREDIT DOCUMENTS OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THE TRANSACTIONS HEREUNDER OR THEREUNDER OR THE LENDER/BORROWER RELATIONSHIP THAT IS BEING ESTABLISHED. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THE TRANSACTION HEREUNDER OR UNDER THE OTHER CREDIT DOCUMENTS, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. EACH PARTY HERETO ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS AGREEMENT, AND THAT EACH WILL CONTINUE TO RELY ON THIS WAIVER IN ITS RELATED FUTURE DEALINGS. EACH PARTY HERETO FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING (OTHER THAN BY A MUTUAL WRITTEN WAIVER SPECIFICALLY REFERRING TO THIS SECTION AND EXECUTED BY EACH OF THE PARTIES HERETO), AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS HERETO OR ANY OF THE OTHER CREDIT DOCUMENTS OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE TERM LOANS MADE THEREUNDER. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

24.3 Third Party Beneficiaries

No Person that is not a party hereto shall have any right to enforce or enjoy any benefit provided hereunder, except for any indemnified party or as otherwise expressly provided herein or in any other Credit Document.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, each of the Parties hereto has caused this Agreement to be duly executed and delivered by its respective Authorized Officer as of the date first written above.

HOME INNS & HOTELS MANAGEMENT INC.

as Borrower

By: /s/ May Yihong Wu

Name: May Yihong Wu

Title: Chief Strategy Officer

HOME INNS & HOTELS MANAGEMENT INC.

as Debtor and Intra-Group Lender

By: /s/ May Yihong Wu

Name: May Yihong Wu

Title: Chief Strategy Officer

HOME INNS & HOTELS MANAGEMENT (HONG KONG) LIMITED

as Debtor and Intra-Group Lender

By: /s/ May Yihong Wu

Name: May Yihong Wu

Title: Director

YITEL HOTEL MANAGEMENT (HONG KONG) LIMITED

as Debtor and Intra-Group Lender

By: /s/ May Yihong Wu

Name: May Yihong Wu

Title: Director

HONG KONG AI HOME HOTEL INVESTMENT LIMITED

as Debtor and Intra-Group Lender

By: /s/ May Yihong Wu

Name: May Yihong Wu

Title: Director

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BNP PARIBAS HONG KONG BRANCH

as Facility Agent

By: /s/ Mary Loo

Name: Mary Loo

Title: Manager

Regional Agency, Hong Kong

By: /s/ Didier Leblanc

Name: Didier Leblanc

Title: Managing Director, Head of Loan

Syndication, Acquisition & Leveraged Finance, Asia Pacific

BNP PARIBAS HONG KONG BRANCH

as Security Agent

By: /s/ Mary Loo

Name: Mary Loo

Title: Manager

Regional Agency, Hong Kong

By: /s/ Didier Leblanc

Name: Didier Leblanc

Title: Managing Director, Head of Loan

Syndication, Acquisition & Leveraged Finance, Asia Pacific

BNP PARIBAS HONG KONG BRANCH

as Mandated Lead Arranger

By: /s/ Pierre Joseph Costa

Name: Pierre Joseph Costa

Title: Regional Head for Asia Pacific & Japan, Structured Finance

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By: /s/ Didier Leblanc
Name: Didier Leblanc
Title: Managing Director, Head of Loan
Syndication, Acquisition & Leveraged Finance, Asia Pacific

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CHINATRUST COMMERCIAL BANK, LTD.

as Mandated Lead Arranger

By: /s/ Charleen Sung

Name: Charleen Sung

Title: Chief Country Officer, Hong Kong Branch

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CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK
as Mandated Lead Arranger

By: /s/ Dominique Fournier

Name: Dominique FOURNIER

Title: Managing Director and Regional Head,
Real Estate & Hotel Group,
Structured Finance Asia

By: /s/ Marlene Lam

Name: Marlene LAM

Title: Managing Director,
Head of Hong Kong Corporate Group

[For Home Inns & Hotels Management Inc. Intercreditor Agreement]

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CREDIT SUISSE AG, SINGAPORE BRANCH
as Mandated Lead Arranger

By: /s/ James Wood

Name: James Wood

Title: Director, General Counsel Division

By: /s/ Lim Soon Jin

Name: Lim Soon Jin

Title: Director

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JPMORGAN CHASE BANK, N.A., ACTING
THROUGH ITS HONG KONG BRANCH

as Mandated Lead Arranger

By: /s/ Sonia Li

Name: Sonia Li

Title: Managing Director

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NATIXIS, HONG KONG BRANCH
as Mandated Lead Arranger

By: /s/ Eva Fung
Name: EVA FUNG
Title: Head of Acquisition & Strategic Finance - Asia

NATIXIS, HONG KONG BRANCH
as Mandated Lead Arranger

By: /s/ Nicolas Farman
Name: NICOLAS FARMAN
Title: Director
Acquisition & Strategic Finance - Asia

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SHINHAN ASIA LIMITED
as Mandated Lead Arranger

By: /s/ Chang-Soo Oh
Name: Chang-Soo OH
Title: CEO

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INDUSTRIAL AND COMMERCIAL BANK OF
CHINA (ASIA) LIMITED

as Lead Arranger

By: /s/ Spark Su

Name: Spark Su

Title: Head of Telecommunication,
Technology and Industrial Section

By: /s/ Wami Ha

Name: Wami Ha

Title: Head of Corporate Finance Section

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List of Subsidiaries

Significant Subsidiaries:

Home Inns & Hotels Management (Hong Kong) Limited — Incorporated in Hong Kong
Hong Kong Ai Home Hotel Investment Limited — Incorporated in Hong Kong
Yitel Hotel Management (Hong Kong) Limited — Incorporated in Hong Kong
Grandmaster Property Management (Hong Kong) Limited — Incorporated in Hong Kong
He Mei Hotel Management (Shanghai) Limited — Incorporated in the PRC
Home Inns & Hotels Management (Beijing) Limited — Incorporated in the PRC
Home Inns Hotels Management (Shanghai) Co., Ltd. — Incorporated in the PRC
Shanghai Chuwen Investment Holding Co., Ltd. — Incorporated in the PRC
Shanghai Top Star Hotel Management Co., Ltd. — Incorporated in the PRC
Yitel Hotel Management (Shanghai) Limited — Incorporated in the PRC
Home Inns & Hotels (China) Co., Ltd. — Incorporated in the PRC
Huichuang Hotel Management (Suzhou) Co., Ltd. — Incorporated in the PRC
Suzhou Hengchuang Software Co., Ltd. — Incorporated in the PRC
Hui Ju Hotel Equipment Leasing (Shanghai) Co., Ltd. — Incorporated in the PRC
Hui Yi Hotel Equipment Leasing (Shanghai) Co., Ltd. — Incorporated in the PRC
Jiangsu Home Inns Hotel Equipment Leasing Co., Ltd. — Incorporated in the PRC
Suzhou Home Trading Co., Ltd. — Incorporated in the PRC
He Mei Hotel Management (Shanghai) Limited — Incorporated in the PRC
Beijing Huidongmilinde Investment Co., Ltd. — Incorporated in the PRC
Shanghai Ban Li Software Technology Co., Ltd. — Incorporated in the PRC
Beijing Huidongmilinde Investment Co., Ltd. — Incorporated in the PRC
Yijiu Daguanjia Property Management (Shanghai) Co., Ltd. — Incorporated in the PRC
Motel 168 International Holdings Limited — Incorporated in the Cayman Islands
Merrylin Hospitality Holdings Limited — Incorporated in Mauritius
Better Wide Holdings Limited — Incorporated in the British Virgin Islands
Motel 168 Holdings Limited — Incorporated in the Cayman Islands
Merrylin Hotel Holdings Limited — Incorporated in Mauritius
Motel 168 International Holdings Limited — Incorporated in Hong Kong
Merrylin Motel Holdings Limited — Incorporated in Mauritius
Champion Merit Investments Limited — Incorporated in Hong Kong
Glory Essence Development Limited — Incorporated in Hong Kong
Shanghai Shenzhou Merrylin Hotel Co., Ltd. — Incorporated in the PRC
Tianjin Jinju Hotel Management Co., Ltd. — Incorporated in the PRC
Hongju Hotel Management (Shanghai) Co., Ltd. — Incorporated in the PRC
Shanghai Yiju Hotel Management Co., Ltd. — Incorporated in the PRC
Beijing Yuetai Hotel Management Co., Ltd. — Incorporated in the PRC
Merrylin Hotel Management (Guangzhou) Co., Ltd. — Incorporated in the PRC
Meiju Hotel Management (Shanghai) Co., Ltd. — Incorporated in the PRC
Shanghai Motel Hotel Management Co., Ltd. — Incorporated in the PRC

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, David Jian Sun, certify that:

1. I have reviewed this annual report on Form 20-F of Home Inns & Hotels Management Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 24, 2012

By: /s/ David Jian Sun
Name: David Jian Sun
Title: Chief Executive Officer

**Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Home Inns & Hotels Management Inc. (the "Company") on Form 20-F for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Jian Sun, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 24, 2012

By: /s/ David Jian Sun
Name: David Jian Sun
Title: Chief Executive Officer

Consent of Maples and Calder

Our ref JPC\620456\5144611v1
Direct tel +852 3690 7432
E-mail jenny.chen@maplesandcalder.com

Home Inns & Hotels Management Inc.
No. 124 Caobao Road
Xuhui District
Shanghai 200235
People's Republic of China

24 April 2012

Dear Sir

Re: Home Inns & Hotels Management Inc.

We have acted as legal advisors as to the laws of the Cayman Islands to Home Inns & Hotels Management Inc., an exempted limited liability company incorporated in the Cayman Islands (the "Company"), in connection with the filing by the Company with the United States Securities and Exchange Commission of an annual report on Form 20-F for the year ended 31 December 2011.

We hereby consent to the reference of our name under the heading "Item 16G Corporate Governance" in the Form 20-F.

Yours faithfully

/s/ Maples and Calder



普华永道

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-163519) and the Registration Statement on Form F-3 (No. 333-174341) of Home Inns & Hotels Management Inc. of our report dated April 24, 2012 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers Zhong Tian CPAs Limited Company
Shanghai, People's Republic of China

April 24, 2012