RISK FACTORS

You should consider carefully all the information set out in this document and, in particular, the risks and uncertainties described below. The occurrence of any of the following events could harm us.

Risks Relating to Our Business

We rely on the performance of external contractors and suppliers, including Shanghai Ditong, a connected person, to deliver our projects on time and up to our specified quality standards

Because we do not perform our own construction work on our projects, we engage external construction contractors, certified engineering supervisory companies, service providers and suppliers to provide us with construction and related services and various types of construction materials as well as other services such as design and interior decoration which we monitor through our project management department in each project company.

We generally select our general contractors through tender by invitation. As of the Latest Practicable Date, 7 of our 9 principal properties under development are being constructed by Shanghai Ditong. For the financial years ended 31 December 2006, 2007, 2008 and the four months ended 30 April 2009, the total construction costs incurred in respect of the construction services provided by Shanghai Ditong amounted to approximately RMB1,033.1 million, RMB1,019.7 million, RMB1,185.5 million and RMB195.3 million, respectively, representing approximately 86.8%, 96.1%, 90.6% and 91.3% of our total construction and installation costs during the Track Record Period.

We cannot assure you that the services rendered or materials supplied by any of these external contractors and suppliers, including Shanghai Ditong or any of the other existing or new construction contractors to be engaged by our Group, will always be satisfactory or meet our quality requirements. In the event that the performance of our external contractors, including Shanghai Ditong or any of our other existing or new construction contractors to be engaged by our Group, falls short of the standards, or encounters financial, operational or managerial difficulties or/and any actual or potential dispute, it may disrupt the construction progress of our property developments and we may incur additional costs in respect of remedial actions to be taken (including the replacement of such contractors) as well as potential compensation payable to our customers in the event of any delay in completion of our property developments. Moreover, we may suffer reputational loss and additional financial costs as a result of such delay of our property developments.

Any of the above factors could have a material adverse effect on our business, financial condition and results of operations.

We have engaged Shanghai Ditong, a connected person, to provide construction services for substantially all our projects during the Track Record Period and, going forward, our use of Shanghai Ditong will be subject to limitations, and we cannot assure you that Shanghai Ditong or other construction companies will perform construction services for us on comparable terms

Shanghai Ditong, which is one of our connected persons for the purpose of the Listing Rules, is effectively owned 98.67% by the parents of the Founder and 1.33% by the Founder, who is also our Controlling Shareholder. During the Track Record Period, Shanghai Ditong provided substantially all our construction services, and such services constituted substantially all the overall construction services performed by Shanghai Ditong for its customers. In addition, the Company has undertaken that, going forward, the annual construction fees payable to Shanghai Ditong for the three years ending 31 December 2011 will not exceed more than 40%, 30% and 20%, respectively, of the construction fees payable by our Group for future development projects. As a result of these factors, our business relationship with Shanghai Ditong may be affected, and there can be no assurance that, going forward, Shanghai Ditong will provide us with construction services on comparable terms.

Because our fees payable to Shanghai Ditong for construction services will be subject to the annual capped amounts described above, we will be required to find and engage the services of other construction companies with which we have not worked before. There can be no assurance that the terms offered to us by such other construction companies will be comparable to those provided to us by Shanghai Ditong.

We have not in the past worked with multiple external construction contractors and may not be able to maintain the same level of efficiency and could experience other difficulties working with multiple external construction contractors going forward. In addition, going forward, we may not be able to obtain construction services on comparable terms to those provided in the past either from Shanghai Ditong or other construction contractors. Any of the above factors could have a material adverse effect on our results of operations, financial performance and business.

We are dependent on the performance of the PRC property sector

Our business is subject to the conditions of the real estate market in the PRC. Any adverse development in national and local economic conditions as measured by factors such as employment levels, consumer confidence, interest rates, or other monetary and economic factors may significantly reduce the demand in the PRC property market and affect property prices in the PRC. As a result, our financial condition and results of operations would be materially adversely affected. The PRC Government adjusts its monetary and economic policies from time to time to manage the rate of growth of the PRC economy and the economies of local areas within the PRC. Such economic adjustments may affect the real estate market in the parts of China where our projects are located. In the past two years, the PRC Government announced a series of measures designed to stabilise the rapid growth of the PRC economy and to stabilise the growth of specific sectors, including the property market, to a more sustainable level.

The property sector in the PRC is still considered to be a volatile market and there can be no assurance that our property development and investment activities will continue to grow at a rate similar to past levels or that we will always be able to capitalise on the future growth, if any, of the property market of the PRC. If we cannot adapt timely to future changes in market conditions or customer preferences, our results of operations may be materially and adversely affected.

Increasing competition among property developers, particularly in first-tier PRC cities, may adversely affect our business and financial condition

Over the past few years a large number of property developers have undertaken property development and investment projects in first-tier cities and elsewhere in the PRC, intensifying the competition in the domestic property development market. Our major competitors include large national and regional property developers and overseas developers (including a number of leading Hong Kong and Singapore property developers), some of whom may have a longer track record and greater financial and other resources. In addition, we also compete with small local property developers in certain markets. The intense competition among property developers in Shanghai, Tianjin and Beijing and other parts of the PRC for land, financing, raw materials and skilled management and labour may result in increased cost of land acquisition, a decrease in development margins and a slowdown in the rate at which new property developments are approved and/or reviewed by the relevant government authorities. An oversupply of properties available for sale could also depress the prices of the properties we sell. Any of the above outcomes may materially and adversely affect our business and financial position.

We are party to long-term master agreements and land grant contracts with PRC Government entities, which may not be implemented as agreed

As of the Latest Practicable Date, we had entered into master agreements for projects with a total planned GFA of 6,051,874 sq.m. After signing such master agreements, we are still required by the relevant PRC laws and regulations to go through the public tender, auction or listing for bidding process, enter into a land grant contract and pay the relevant land premium before we are able to obtain the land use rights certificate. We cannot assure you that these master agreements may be implemented and that we will be successful in securing the land grant contracts and obtaining the relevant land use rights certificates in respect of such projects.

We enter into a significant number of contracts in connection with our land acquisitions, including various land grant contracts and master agreements. Once we enter into a contract in connection with our land acquisitions, we may be required to pay substantial amounts of money, although there may be a period of time before formal title to the land is transferred to us or land use rights certificates are delivered to us. There are risks with respect to the enforcement of these agreements, particularly in light of their relatively long execution periods, in some cases, and potential changes in PRC Government policies. We cannot assure you that PRC Government policies related to our projects will not change in the future or there will not be changes in the manner of implementation of these agreements. Further, we cannot assure you there will not be any modifications to these agreements as to terms that are favourable to us, including changes in the price of the land use rights to the land parcel concerned. In addition, the law and practice relating to enforcement of contracts and master agreement against PRC Government entities involves uncertainty, and we cannot assure you that title to the land parcels subject to these land grant contracts and master agreements can be eventually obtained. If any of these land grant contracts or master agreements is not implemented as agreed, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We may not be able to obtain adequate funding for our property developments or funding may not be available on attractive terms

The property development business is capital intensive. We generally fund our development projects through bank borrowings, capital contributions from our shareholders, internal cash flows and Financing, including proceeds from the pre-sale and sale of our properties. There is no guarantee that we will always have sufficient funds available to fund all our future property developments or that the funding available will be on attractive terms.

As of 30 April 2009, our borrowings amounted to RMB6,541.8 million, of which RMB5,932.3 million was due within a period not exceeding one year, and RMB609.6 million was due within a period of more than one year but not exceeding five years. The Company has incurred and will incur a significant amount of interest expense in relation to the Financing and the Shanghai Bay Arrangements. Substantially all of this interest expense has been or will be capitalised as properties under development rather than being expensed in our income statement at the time it is incurred. The amounts of capitalised interest under completed properties held for sale were approximately RMB8.5 million, RMB7.4 million and RMB57.3 million as at 31 December 2006, 2007 and 2008, respectively, and RMB38.5 million as at 30 April 2009. The amounts of capitalised interest under properties under development were approximately RMB266.0 million, RMB608.7 million and RMB1,488.5 million as at 31 December 2006, 2007 and 2008, respectively, and RMB1,868.6 million as at 30 April 2009. Please see Notes 10 and 11 to the Group's consolidated financial information as set out in Appendix I. In future periods, such capitalised and interest expense will be expensed in the consolidated income statements as a portion of cost of sales upon the sale of such properties. As a result, such capitalised interest expense may adversely affect our Group's gross profit margin upon the sales of such properties in 2009 and future periods. Our capitalised interest included in cost of sales for the years ended 31 December 2007 and 2008 and the four months ended 30 April 2009 were RMB34.0 million, RMB74.7 million and RMB13.4 million, respectively. We cannot assure you that we will be able to obtain bank loans or other third party financing, or that we will be able to repay or renew existing credit facilities granted by financial institutions or repay or refinance other third party financings, including the Financing, in the future on reasonable terms or at all, or that any fluctuation in interest rates will not affect our ability to fund our property developments.

In relation to bank and other third party financing, our ability to arrange adequate financing for our property developments on terms that will enable a particular property development to achieve a reasonable return is dependent on a number of factors, including general economic conditions, our financial strength and performance, credit availability from financial institutions, value of the security pledged, and monetary policies in the PRC generally. The PRC Government has implemented a number of austerity measures to prevent the PRC economy from overheating. Among these measures are policy initiatives issued by the PRC Government on 24 May 2006 to use taxation, bank credit and land policies to regulate housing demand. Please refer to the section headed "Business — Financing of Projects" for further details of the austerity measures. The PBOC has announced several increases in the reserve ratio of commercial banks since June 2006 as a result of which the reserve ratio has increased from 7.5% to 8.0% on 5 July 2006, from 8.0% to 8.5% on 15 August 2006, from 8.5% to 9.0% on 15 November 2006, from 9.0% to 9.5% on 15 January 2007, from 9.5% to 10.0% on 25 February 2007, from 10.0% to 10.5% on 16 April 2007, from 10.5% to 11.0% on 15 May 2007, from 11.0% to 11.5% on 5 June 2007, from 11.5% to 12.0% on 15 August 2007, from 12.0% to 12.5% on 6 September 2007, from 12.5% to 13.0% on 13 October 2007, from 13.0% to 13.5% on 26 November 2007, and from 13.5% to 14.5% on 25 December 2007. On 25 January 2008, the PBOC announced a further increase in the reserve ratio from 14.5% to 15.0%. In addition, the reserve ratio was further increased to 17.5%, effective 25 June 2008, which represented an historical high over the past 30 years. The reserve ratio was adjusted down to 16.5% in October 2008 and to 14.5% in December 2008, reflecting the PRC government's policy to stimulate economic growth in the economic downturn. The reserve ratio refers to the amount that banks must set aside when they lend. In addition, according to a notice jointly issued by PBOC and the China Banking Regulatory Commission (CBRC), no loan shall be granted to a project which has not obtained the relevant land use rights certificates, construction land planning permits, construction work planning permits and work commencement permits. Such regulations will limit the amount commercial banks can make available for lending to us, and our ability to obtain financing from commercial banks may thus be adversely affected.

We also utilise proceeds from pre-sales of our properties as an important source of financing for our property developments. There is no assurance that we will be able to continue achieving sufficient pre-sales to fund particular developments. Any restriction on our ability to pre-sell our properties, including any increase in the amount of initial expenditure we must incur prior to obtaining a pre-sale permit and any restriction on our ability to utilise the pre-sale proceeds, including future changes to PRC laws and regulations governing the use of pre-sale proceeds, would extend the time required to recover our capital outlay and could require us to seek alternative means to finance the various stages of our developments, which, in turn, could have a material adverse effect on our cashflow, business and financial position.

Our business depends on the availability of an adequate supply of suitable sites, and our ability to obtain the land use rights and other necessary PRC Government approvals for these sites for our future developments

We derive our revenue principally from the sale of properties that we have developed. As a result, our revenue is not of a recurring nature but is dependent on our ability to obtain prime land sites, to complete construction of, and to sell our property developments. We must replenish and increase our land bank in order to maintain the growth of our business.

The supply of land in the PRC is generally controlled by the PRC Government, and our ability to acquire land use rights for future developments and our land acquisition costs will be affected by government policies governing the supply of land for development. In May 2002, the PRC Government introduced regulations requiring that land use rights for residential and commercial property developments be sold only by public tender, auction or listed for bidding. In addition, the PRC Government may also limit the supply of land available for development in the cities in which we have or intend to have an interest.

As an alternative to acquiring land from the PRC Government, we also secure land use rights through acquisition of equity interests in property project companies or acquisition of land use rights from independent third parties in the market. Our ability to acquire suitable property project companies from other property developers is dependent on a number of uncertainties, including the availability of acquisition targets, our price negotiation with the vendors, the outcome of our due diligence exercises and third party and regulatory consents and approvals. There is no assurance that we will always be able to identify and successfully acquire suitable land use rights through acquisition of equity interests in property project companies.

The PRC Government also regulates the manner in which land can be developed. For example, following announcements by the State Council and other related government bodies in late May 2006 concerning new directives to adjust the structure of the PRC residential housing market, the Ministry of State Land and Resources made a detailed announcement on 30 May 2006 concerning the restriction on overall land supply for up-market residential property developments, including, in particular, the discontinuation of new land supply for villa projects.

In addition, in order to develop and sell real estate in the PRC, property developers are required to obtain land use rights certificates from the relevant PRC Government authorities. There is no assurance that we can successfully obtain all necessary land use rights certificates for our projects in a timely manner, or at all. In order to develop and complete a property development, we must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of our property development projects, including land use rights documents, planning permits, construction permits, pre-sale permits and certificates or confirmation of completion and acceptance. Each approval is dependent on the satisfaction of certain conditions. We cannot assure you that we will not encounter problems in fulfiling the conditions precedent to the receipt of approvals, or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the granting of such approvals. There may also be delays on the part of the administrative bodies in reviewing our applications and granting approvals. We may also be subject to periodic delays in our property development projects due to building moratoria in any of the areas in which we operate or plan to operate.

If changes in government policy lead to a reduction in land supply for our future projects, or we are not successful in acquiring land from the PRC Government or other project companies, or we experience delays or encounter problems in obtaining the land use rights certificates or the other necessary PRC Government approvals for our projects, our future financial condition and results of operations may be materially and adversely affected.

Because we derive our revenues principally from the sale of property, our results of operations may vary significantly from period to period

At present, we derive substantially all of our revenues from the sale of properties that we have developed. Our results of operations may fluctuate in the future due to a combination of factors, including the overall schedules of our property development projects, the level of acceptance of our properties by prospective customers, the timing of the sale of properties that we have developed and any volatility in expenses such as land costs and construction costs.

Furthermore, according to our accounting policy for revenue recognition, we recognise revenue from sale and pre-sale of our properties upon delivery, which normally takes place within 1-2 year after the commencement of pre-sales. As of 31 July 2009, we had completed the construction of the following projects: — Sunglow Xinjing, Shanghai Park Avenue, Phase I and II of Chateau De Paris, Phase I, II and IIIA and IIIB of Sunshine Venice, Phase I and II of Sunshine Holiday, Phase I and II of Sunny Town, Phase I of No.1 City Promotion and Phase I and II of Classical Life with a total sold and delivered GFA of 1,550,070 sq.m.. Please refer to the section headed "Financial Information — Critical Accounting Policies — Revenue recognition" in this document for more details. Because the timing of delivery of our properties varies according to our construction timetable, our results of operations may vary significantly from period to period depending on the GFA and timing of delivery of the properties we sell. Periods in which we deliver more GFA typically generate higher levels of revenue. Periods in which we pre-sell a large aggregate GFA, however, may not generate a correspondingly high level of revenue, if the properties pre-sold are not delivered within the same period. The effect of the timing of project delivery on our operational results is accentuated by the fact that during any particular period of time we can only undertake a limited number of projects due to the substantial capital requirements for land acquisition and construction costs as well as a limited supply of land.

Our business is subject to seasonality. During the Chinese New Year holidays, winter weather conditions can hinder construction of development projects, especially in northern China. Our revenue and profits, recognised upon the delivery of properties, may be affected by such seasonal effects.

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

Property developments typically require substantial capital outlays during construction periods, and it may take months or years before positive cash flows, if any, can be generated by pre-sales of properties to be completed or sales of completed properties. The time and cost required to complete a property development may increase substantially due to many factors beyond our control, including the shortage, or increased cost of material, equipment, technical skills and labour, adverse weather conditions, natural disasters, labour disputes, disputes with contractors, accidents, changes in government priorities and policies, changes in market conditions, delays in obtaining the requisite licenses, permits and approvals from the relevant authorities, delays in relocation which may result in increased relocation compensation, and other unforeseen problems or circumstances. Any of these factors, individually or in the aggregate, may lead to a delay in, or the failure of, the completion of a property development and may result in costs that substantially exceed those costs originally forecasted. Failure to complete a property development according to its original plan, if at all, may have an adverse effect on our reputation and could give rise to potential liabilities. As a result, our returns on investments, if any, may not be recognised in a timely manner or may be lower than originally expected.

The appraisal value of the properties in the Property Valuation Report may be different from the actual realisable value and is subject to change

The Property Valuation Report prepared by Jones Lang LaSalle Sallmanns Limited is included in Appendix IV to this document. The valuations in the report are based upon certain assumptions, which, by their nature, are subjective and uncertain and may be different from actual realisable value.

With respect to properties under development and properties held for future development, the valuations are based on the assumptions that: (i) the properties will be completed or developed as currently proposed; (ii) all regulatory and governmental approvals for the proposals have been or will be obtained; (iii) we are in possession of proper legal title and are entitled to transfer the properties with no extra land premium; and (iv) all premiums in connection with the properties have been paid and the properties are free of encumbrances and other restrictions. These valuations are not a forecast of the actual realisable value of the properties. Unforeseen changes in a particular property development or in national or local economic conditions, for example, could affect the actual realisable value of our properties. We cannot assure you that the valuation of our properties will not decrease in the future. Any such decrease would reduce our profits and could have a material adverse effect on our business, financial condition and results of operations.

Our results of operations include estimated fair value gains on investment properties, which are unrealised

For the year ended 31 December 2008 and the four months ended 30 April 2009, we recorded fair value gains on our investment properties amounting to approximately RMB846.1 million and RMB735.2 million, respectively, in our consolidated income statements, representing 40.6% and 69.4% of our profit before tax for those periods, respectively. Prospective investors should be aware that these upward fair value adjustments reflect primarily unrealised capital gains in the value of our investment properties at the relevant reporting dates, are not profit generated from day-to-day rental income from our investment properties and are largely dependent on the conditions prevailing in the property markets. These fair value gains do not generate cash inflow to our Group and will not unless such investment properties are actually sold at or above such estimated fair values. Moreover, prospective investors should be aware that property values are subject to market fluctuations and we cannot assure you that our Group will be able to continue to record favourable fair value adjustments on investment properties in similar amounts, or at all, in the future or that the fair value of our investment properties will not decrease in the future. Any such decrease in the fair value of our investment properties will reduce our profits and could have a material adverse effect on our results of operations.

We have experienced periods of net cash outflow from operating activities in the past. We cannot assure you that we will not experience periods of net cash outflow from operating activities in the future

We had net cash outflows from operating activities of RMB2,209.6 million in 2006 and RMB2,726.4 million in 2008. Due to the nature of the property development business, we may from time to time experience net operating cash outflow, when imbalances occur between the timing of our cash inflows relating to the pre-sale of properties and our cash outflows relating to the construction of properties and the purchases of land. Our historical net cash outflows from operating activities were primarily due to the increase in properties under development and projects held for future development while other major developments were being prepared for pre-sale.

We cannot assure you that we will not experience periods of net operating cash outflow in the future. If we experience sustained periods of net operating cash outflow in the future, our financial condition may also be materially and adversely affected.

We do not conduct independent credit checks when providing short-term guarantees over mortgages taken out by our customers. If a significant number of such guarantees are called upon, our financial condition could be adversely affected

We enter into arrangements with banks to facilitate the provision of mortgage facilities to purchasers of our properties. In accordance with industry practice, we are required to provide guarantees to these banks in respect of mortgages offered to our customers until completion of construction and submission of the relevant property ownership certificates and certificates of other interests in the property to the relevant banks. If a purchaser defaults under the mortgage loan and the bank calls on the guarantee, we are required to repay all debt owed by the purchaser to the mortgagee bank under the loan, the mortgagee bank will assign its rights under the loan and the mortgage to us, and we will have full recourse to the property.

In accordance with industry practice, we do not conduct independent credit checks on our customers, but rely instead on the credit checks conducted by the mortgagee banks. As at 31 December 2006, 2007, 2008 and 30 April 2009, our outstanding guarantees over the mortgage loans of our customers amounted to approximately RMB528.6 million, RMB1,860.8 million, RMB2,662.1 million and RMB3,112.4 million, respectively.

If a significant number of purchasers default on their mortgages and our guarantees are called upon, our results of operations and financial condition could be adversely affected to the extent that either there is a material depreciation in the value of the relevant properties from the price paid by the purchaser or we cannot sell such properties due to unfavourable market conditions or other reasons.

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

All real estate developers in the PRC must obtain a qualification certificate in order to carry out the business of property development in the PRC. In addition, a real estate developer in the PRC must hold a valid qualification certificate when it applies for a pre-sale permit.

The Provisions on Administration of Qualification Certificates of Real Estate Developers (the "Qualification Certificate Provisions") (房地產開發企業資質管理規定) provides that a newly established developer must first apply for a temporary qualification certificate (暫定資質證書) with an initial one-year term, which can only be renewed for an additional two years. Thereafter, the developer must apply for a formal qualification certificate (資質證書) under one of the four grades set out in the Qualification Certificate Provisions. In reviewing an application to issue or grant a qualification certificate, the relevant government authority considers the real estate developer's registered capital, property development investments, history of property development and quality of property construction, as well as the expertise of the developer's management and whether the developer has any illegal or inappropriate operations.

If any of our project companies is unable to continue to renew their qualification certificates or obtain formal qualification certificates in a timely manner or at all, as and when they expire, those project companies may not be permitted to continue to engage in real estate development or to conduct any pre-sales for that development, which could in turn have material adverse impact on our operational and financial conditions.

The relevant PRC tax authorities may enforce the payment of LAT and may challenge the basis on which we calculate our LAT obligations

Under PRC tax laws and regulations, our properties developed for sale are subject to Land Appreciation Tax (LAT), which is collectible by the local tax authorities. All income from the sale or transfer of state-owned land use rights, buildings and their ancillary facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value as defined by the relevant tax laws. Pursuant to the Provisional Regulations of the People's Republic of China on Land Appreciation Tax (《中華人民共和國土地增值税暫行條例》), LAT shall be exempt for the sale of ordinary standard residences (普通標準住房) if the appreciation does not exceed 20% of the total deductible items. Deductible items include acquisition cost of land use rights, development cost of land, construction cost of new buildings and facilities or assessed value for used properties and buildings, taxes related to the transfer of real estate and other deductible items as stipulated by the Ministry of Finance. Sales of commercial properties are not eligible for such exemption. Pursuant to the Detailed Rules for the Implementation of Provisional Regulations of the People's Republic of China on Land Appreciation Tax (《中華人民共和國土地增值税暫行條例實施細則》) for property developers, an additional 20% of deductible expenses may be deducted in the calculation of the land appreciation amount. On 28 December 2006, the State Administration of Taxation issued a Notice on Issues Relevant to Administration of Settlement of Land Appreciation Tax of Real Estate Development Enterprises (《關於房地產開發企業土地增值税清算管理有關問題的通知》) with the intention of strengthening the collection of LAT. This Notice requires real estate developers to settle the final LAT payable in respect of their development projects that meet certain criteria, such as 85% of a development project having been pre-sold or sold. Local provincial tax authorities are entitled to formulate detailed implementation rules in accordance with this Notice in consideration of local conditions.

We only prepay a portion of such provisions each year as required by the local tax authorities. For the three financial years ended 31 December 2006, 2007, 2008 and the four months ended 30 April 2009, we made provisions for LAT in the amount of RMB0.4 million, RMB114.6 million, RMB363.1 million and RMB9.5 million, respectively. In the event that the LAT we have provided for is actually collected by the PRC tax authorities, our cashflow and financial position will be adversely affected. Furthermore, in the event that LAT eventually collected by the PRC tax authorities (due to changes in local practices and interpretations of related regulations of local tax authorities) exceeds the amount we have provided for, our net profits after tax and financial position will be adversely affected.

We may be deemed a Chinese resident enterprise under the new PRC Enterprise Income Tax Law and be subject to the corresponding PRC taxation on our worldwide income

Under the new PRC Enterprise Income Tax Law that took effect on 1 January 2008, 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 as to their global income. In accordance with the new implementation rules relating to the new PRC

Enterprise Income Tax Law, "de facto management body" is defined as the institution which has substantial overall management and control of the daily operation, personnel, financial accounts and properties of an enterprise. Substantially all of our management is currently based in China, and may remain in China after the effectiveness of the new PRC Enterprise Income Tax Law. Therefore, we may be treated as a Chinese resident enterprise for enterprise income tax purposes. The tax consequences of such treatment are currently unclear, as they will depend on how local tax authorities apply or enforce the new PRC Enterprise Income Tax Law or the implementation regulations.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business

We are a holding company and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur. If any of our subsidiaries incurs debt in its own name in the future, the instruments governing the debt may restrict dividends or other distributions by such subsidiaries to us.

Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC entities only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Our PRC entities are required to set aside a certain percentage of their after-tax profit based on PRC accounting standards each year to their reserve fund in accordance with the requirements of relevant laws and provisions in their respective articles of association, As a result, our PRC entities are restricted in their ability to transfer a portion of their net income to us, whether in the form of dividends, loans or advances. Any limitation on the ability of our subsidiaries to pay dividends 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. Under the new PRC Enterprise Income Tax Law and its implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends paid by Chinese enterprises to "non-resident enterprises" (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) subject to the application of any relevant income tax treaty that the PRC has entered into. If we or our non-PRC subsidiaries are considered "non-resident enterprises," any dividend that we or any such subsidiary receive from our PRC subsidiaries may be subject to PRC taxation at the 10% rate (or lower treaty rate).

Our operations may be adversely affected if any key member of our management leaves

We depend on the services provided by our management and other qualified and experienced staff. Competition for such talented employees is intense in the property development sector in the PRC. Our core management teams are comprised of our executive directors and key senior management as disclosed in the "Directors, Senior Management and Employees" section. If any core management team member leaves and we fail to find suitable substitutes, our business may be adversely affected. Moreover, as our business continues to grow and we expand into other regional markets in the PRC, we will need to employ, train and retain employees on a larger geographical scale. If we cannot attract and retain suitable human resources, our business and prospects will be negatively affected.

Potential liability for environmental problems could result in substantial costs

We are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations, which apply to any given project development site, vary greatly according to the site's location, the site's environmental condition, the present and former uses of the site, and the status and use of adjoining properties. Compliance with environmental laws and conditions may result in delays, may cause us to incur substantial compliance and other costs and can prohibit or severely restrict project development activity in environmentally-sensitive regions or areas.

In accordance with the PRC laws and regulations, each project developed by us needs to undergo an environmental impact assessment and we need to submit the relevant environmental impact assessment report to the competent authority for its approval before the construction of these projects commence. We cannot ensure that environmental impact assessments will reveal all environmental liabilities or their extent, and there may be material environmental liabilities of which we are unaware. In the event that we are subject to any regulatory action as a result of our failure to carry out such environmental impact assessments fully or at all, our reputation, business and financial condition may be adversely affected.

We may encounter delays in delivering title documents after sale

Property developers in the PRC are typically required to deliver to each purchaser the relevant state-owned land use rights certificate and property ownership certificate within 90 days after delivery of the relevant property or such other time period provided in the sales contract. Under our sales contracts, we are required to compensate our customers for delays in completing our deliverables. Pursuant to a typical sales and purchase agreement, if we fail to deliver the property on the delivery day stipulated in the sale and purchase agreement, we will, depending on the length of delay, be liable to pay a monetary penalty ranging from 0.005% to 0.02% of the property price on a daily basis until the delivery of the property. If our delay exceeds a certain number of days, which, depending on the particular contract ranges from 30 days to 180 days, the relevant purchaser may have the right to repudiate the contract in addition to claiming the penalty fee. There may also be factors beyond our control that cause delay in the delivery of property ownership certificates, such as examination and approval processes conducted by various government agencies. In the case of serious delays on one or more property projects, our business and reputation may be materially and adversely affected.

Our business may be adversely affected by future increases in interest rates

Interest rates in China were relatively stable from July 1995 to October 2004. However, on 28 October 2004, the PBOC raised both its benchmark lending and deposit interest rates by 0.27% to 5.58% for one-year Renminbi loans and 2.25% for one-year deposits with effect from 29 October 2004. This was the first time lending and deposit interest rates had been raised since July 1995 and July 1993, respectively. The PBOC also abolished the upper limit on Renminbi lending rates and permitted banks to offer deposit rates below the PBOC benchmark rate. In March 2005, the PBOC canceled the preferential mortgage loan rate for individuals and restricted the minimum mortgage loan rate to 0.9 times of the benchmark-lending rate. The PBOC further raised its benchmark lending interest rates on 27 April 2006 by 0.27% to 5.85% for one-year Renminbi loans with effect from 28

April 2006. On 18 August 2006, it raised its benchmark interest rates by 0.27% to 6.12% for one-year Renminbi loans with effect from 19 August 2006. On 17 March 2007, it raised its benchmark interest rates by 0.27% to 6.39% for one-year Renminbi loans with effect from 18 March 2007. On 18 May 2007, it raised its benchmark interest rates by 0.18% to 6.57% for one-year Renminbi loans with effect from 19 May 2007, and on 21 July 2007, it raised its benchmark interest rates by 0.27% to 6.84% for one-year Renminbi loans with effect from 22 July 2007. On 21 August 2007, the PBOC again raised its benchmark interest rates by 0.18% to 7.02% for one-year Renminbi loans with effect from 22 August 2007. The PBOC further increased its benchmark interest rates to 7.47% on 21 December 2007. The lending rates for other various terms were also raised accordingly. The PBOC then maintained interest rates unchanged until September 2008, when it took action to reduce interest rates in the wake of the global financial crisis. The PBOC cut rates five times during the last quarter of 2008 reducing the one-year benchmark lending rate by a total of 189 basis points. By the end of 2008, the one-year benchmark lending rate was 5.31%, which has remained unchanged as at the Latest Practicable Date.

The Company has incurred a significant amount of interest expense in relation to the Financing. A substantial portion of the interest expense has been capitalised as properties under development, which will then be recognised in the consolidated income statements as cost of sales upon the sales of properties. As a result, such capitalised interest expense may adversely affect our Group's gross profit margin upon the sales of properties in 2009 and future periods.

Increases in interest rates, introduced by the PBOC will make mortgage financing more expensive for potential purchasers of our properties. Our cost of borrowing also increases as a result of interest rate increases, which in turn adversely affects our results of operations.

We cannot assure you that we will be successful when expanding our commercial and residential property development and operation businesses into other high growth cities in China

We are currently developing most of our projects in Shanghai, Tianjin and Beijing, while also actively expanding into other high growth areas in China, such as Wuxi, Suzhou, Nantong, Hefei, Shenyang and Harbin. Our active expansion into other areas in China may place a strain on our managerial, operational and financial resources, and will further contribute to an increase in our financing requirements. There is no assurance that we will be successful in expanding into other areas in China and that our revenue from residential and commercial developments in other areas of China will grow at the rate we anticipate or at all. In addition, we could face considerable reputational and financial risks if our development projects outside of Shanghai are mismanaged or do not meet the expectations of customers. If we fail to generate revenue from developments in other areas of China in line with our expectations or suffer loss of reputation or significant financial losses in connection with our planned expansion into other areas of China, it could have a material adverse effect on our business, financial condition or results of operations.

We do not have insurance to cover potential losses and claims in our operations

We do not maintain insurance coverage on our properties developed for sale except for those developments over which our lending banks have security interests, or for which we are required to maintain insurance coverage under the relevant loan agreements. In addition, we generally do not carry insurance against personal injuries that may occur during the construction of our properties except for our own employees. The general contractors and construction companies are responsible for safety control during the course of construction and are required to maintain accident insurance for their construction workers pursuant to PRC laws and regulations.

We do not take out insurance coverage for non-performance of contracts during construction and other risks associated with construction and installation work during the construction period. Moreover, there are certain contingent liabilities for which insurance is not available on commercially practicable terms, such as losses caused by earthquake, typhoon, flooding, war and civil disorder. There may be instances when we will have to incur losses, damages and liabilities because of our lack of insurance coverage, which could have a material adverse effect on our business, financial condition, or results of operations.

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

We may be involved in disputes with various parties involved in the development and the sale of our properties, including contractors, suppliers, construction workers, partners and purchasers. These disputes may lead to legal or other proceedings and may result in substantial costs, diversion of resources and management's attention, which could have a material adverse impact on our business, financial condition or results of operations. As most of our projects consist of multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the projects are perceived to be inconsistent with our representations and warranties made to such earlier purchasers. In addition, we may have disagreements with regulatory bodies in the course of our operations that may subject us to administrative proceedings. Unfavourable decrees could result in pecuniary liabilities and cause delays to our property developments. Please see the section headed "Business — Legal Proceedings" in this document for more details.

Any non-compliant GFA of our current uncompleted and future property developments may be subject to governmental approval and additional payments

The local government authorities inspect property developments after their completion and issue Construction of Properties and Municipal Infrastructure Completed Construction Works Certified Reports (驗收備案表) if the developments are in compliance with the relevant laws and regulations. If the total constructed GFA of a property development exceeds the GFA originally authorised in the relevant land grant contracts or construction permit, or if the completed property contains built-up areas that do not conform with the plan authorised by the construction works planning permit, the property developer may be required to pay additional amounts or take corrective actions with respect to such non-compliant GFA before a Construction of Properties and Municipal Infrastructure Completed Construction Works Certified Report can be issued for the property development.

We cannot ensure that local government authorities will not find the total constructed GFA of our existing projects under development or any future property developments to exceed the relevant authorised GFA upon completion of their construction. Any finding that a substantial portion of such GFA does not comply with the relevant contracts or permits could have a material adverse affect on our business, financial condition, results of operations and/or prospects.

Our remittance of offshore funds into the PRC is subject to approval by the PRC government

In recent years, in an effort to stabilise the growth of its economy, the PRC government has introduced a series of austerity measures, including those aimed at controlling the inflow of offshore funds into the property development industry or for property speculative activities. In particular, as advised by Commerce and Finance Law Offices, the PRC legal counsel to the Company, the notice issued on 23 May 2007 jointly by MOFCOM and SAFE, often known as Notice 50, requires that foreign invested real estate companies newly approved and established after the date of issuance of the Notice must comply with certain registration requirements with MOFCOM. In addition, Notice 50 also requires that foreign invested real estate companies with property projects or property business newly added must also comply with the relevant approval requirements. As advised by Commerce and Finance Law Offices, none of the foreign invested real estate companies of the Group involved in the Reorganisation was newly approved and established after 23 May 2007, and therefore Commerce and Finance Law Offices is of the view that such requirements stipulated by the Notice 50 does not apply to the Group in this regard. As advised by Commerce and Finance Law Offices, all of the current existing nine foreign invested real estate companies of the Group involved in the Reorganisation have obtained the relevant approvals in respect of their newly added projects and businesses or increase of paid-up capital, and have also obtained the updated Foreign Invested Enterprises Approval Certificates, therefore Commerce and Finance Law Offices is of the view that the Group has also complied with such relevant approval requirement. In light of a further notice issued by SAFE on 10 July 2007, often known as Notice 130, if we propose to establish new foreign-invested real estate enterprises in the PRC going forward, we must complete the requisite filing procedures with MOFCOM before we can apply for foreign exchange registration to allow offshore fund to be remitted into the PRC for such purposes. Furthermore, if we intend to use the offshore funds to provide shareholder loans to such foreign-invested enterprises, local branches of SAFE will no longer be permitted to register such foreign-invested loans or allow the fund to be remitted into the PRC as a foreign loan.

Because of our offshore holding company status, we typically conduct our property development operations in the PRC through project companies established as foreign invested real estate companies. As a result, we are required to file with MOFCOM and wait until such filing is complete before we may transfer the fund into the PRC for use of our development of future projects and potential acquisition of new lands. We cannot assure you whether this process will be long or will not cause delays, or whether the investment approval and the MOFCOM filing will be successful. Failure to obtain such government approvals and filings, or any material delays in the approval or filing process, will adversely affect our development and expansion plans, as a result of which, our results of operations may be adversely affected. In addition, under the new policies pursuant to Notice 130 as stated above, our Directors are also of the view that going forward, it may be difficult for us to obtain funding by way of foreign shareholders' loans.

In addition, any capital contributions made to our PRC operating subsidiaries, are also subject to the foreign investment regulations and foreign exchange regulation in the PRC. For example, in accordance with a circular promulgated by SAFE in August 2008 with respect to the administration of conversion of foreign exchange capital contribution of foreign invested enterprises into Renminbi, unless otherwise permitted by PRC laws or regulations, Renminbi converted from foreign exchange capital contribution can only be applied to the activities within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investment or acquisition. Pursuant to this circular, we may encounter difficulties in increasing the capital contribution to our project companies or equity investee and subsequently converting such capital contribution into Renminbi for equity investment or acquisition in China. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions to our PRC project companies as their general working capital or to fund their operations may be negatively affected, which could materially and adversely affect the Group's operational results.

Risks Relating to Our Industry

Oversupply of real estate could drive down property prices

The property market in the PRC is still at an early stage of development, and social, political, economic, legal and other factors may affect its development. For example, the lack of a mature and active secondary market for private properties and the limited amount of mortgage loans available to individuals in the PRC have been cited as factors that may inhibit demand for residential properties. Many of our development projects are targeted towards residents with high levels of disposable income who demand modern and high-quality living environments. These residents are also the consumers of the products and services provided by the tenants of our retail shops and commercial properties. A significant downturn in the PRC economy could adversely affect such demand, as well as the demand among corporations and other professional firms for our office properties.

In addition, the PRC property market is volatile and may experience under-supply or over-supply resulting in property price fluctuations. The central and local governments frequently adjust monetary and other economic policies to prevent the overheating of the PRC and local economies. Such economic adjustments may affect the real estate market in the PRC. The central and local governments make policy adjustments from time to time and adopt new regulatory measures in a direct effort to control the overdevelopment of the real estate market in the PRC. In the last three years, the central and local governments have taken a variety of measures to discourage speculation in the residential property market and to increase the supply of affordable housing. Such policies may lead to changes in market conditions, including price instability and imbalance of supply and demand in respect of office, residential, retail, entertainment and cultural properties. This may materially adversely affect our business, financial condition and results of operations. We cannot ensure that there will not be over-development in the property sector in the PRC in the future. Any future overdevelopment in the property sector in the PRC may result in an oversupply of properties and a decrease in property prices, as well as an undersupply of available sites for future development and an increase in the cost of acquiring land in our markets. This could materially and adversely affect our business, financial condition and results of operations.

Our operations are subject to extensive governmental regulation and are susceptible to changes in such regulations

As a property developer in the PRC principally engaging in developing projects involving diverse land uses, our operations are subject to extensive governmental regulation. We must comply with various requirements mandated by PRC laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property development, we must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of our property development, including approvals in relation to the injection of capital into our project subsidiaries, land use rights documents, planning permits, construction permits, pre-sale permits and certificates or confirmation of completion and acceptance. Each approval is also dependent on the satisfaction of certain conditions.

For example, as part of the recent PRC Government measures on adjustment of housing supply, in May 2006 the Ministry of Construction and other relevant regulatory bodies jointly issued the Opinions on Housing Supply Structure and Stabilisation of Property Prices (《關於調整住房供應結構穩定住房價格的意見》) (the "Opinions"). The Opinions provide that, among others, in approving housing developments on or after 1 June 2006, the relevant local authority must require units with a floor area of less than 90 sq.m. to account for at least 70% of the total development and construction area of newly approved and developed commercial residential developments, unless the local authorities of municipalities under direct administration of the PRC central government, provincial capitals and certain cities have obtained approval from the Ministry of Construction to depart from this requirement. Such approvals are based on the existence of special circumstances. According to the Opinion, the projects that have received project approvals prior to 1 June 2006 but have not obtained a work commencement permit should adjust their planning in order to conform to this new requirement.

On 2 March 2006, the Ministry of Finance and the State Administration of Taxation promulgated a notice that with effect from 2 March 2006, transfers of housing property by individuals shall be subject to land value-added tax. On 30 May 2006, the State Administration of Taxation issued a notice stating that from 1 June 2006, business tax will be imposed on the full amount of the sale income upon the transfer of a residential house by an individual within five years from the purchase date. On 18 July 2006, the State Administration of Taxation promulgated a notice that with effect from 1 August 2006, any balance of income gained from a transfer of housing property by an individual after deduction of the original value of the property and any reasonable expenses shall be subject to personal income tax as "property transfer income".

On 23 May 2007, the MOFCOM and the SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Direct Investment in Real Estate Sector (《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》), which, among other things, imposes strict control on foreign investment in the real estate sector in the PRC relating to up-market properties and requires foreign invested real property development companies to obtain approvals for expansion of their real estate business operations. On 10 July 2007, the SAFE issued the Notice Regarding the Publication of the First Group of Real Estate Enterprises with Foreign Investment That Have Properly Registered with the MOFCOM (《國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知》), which restricts the ability of foreign invested real estate companies to raise funds offshore and then inject funds into the companies by way of shareholder loans.

On 27 September 2007, PBOC and CBRC promulgated a "Circular on Strengthening the Management of Commercial Real Estate Credit Loans" (《關於加強商業性房地產信貸管理的通知》) (the "Circular"), which increases the percentage of down payment for purchasers acquiring a second residential property to at least 40.0% and states that the interest rate of the loan should not be lower than 110.0% of the benchmark interest rate of the same grade and in the same period promulgated by PBOC. The Circular also adopted a series of measures to tighten up control over commercial banks' loans to property developers in order to prevent the granting of excessive credit. For example, commercial banks are banned from offering loans to projects that have less than 35.0% of capital funds (proprietary interests), or that fail to obtain land use rights certificates, construction land planning permits, construction works planning permits and work commencement permits. Commercial banks are also prohibited from accepting commercial properties that have been vacant for more than three years as guarantees for loans. In principle, property development loans provided by commercial banks should only be used for projects in the areas where the commercial banks are located. Otherwise, commercial banks should carry out effective risk control measures and make filings with PRC supervisory authorities before providing the loans. Commercial banks are also prohibited from granting to property developers any loan that is to be used specifically for paying land premiums.

On 28 September 2007, the Ministry of State Land and Resources promulgated the Regulations on Granting State-owned Construction Land Use Right through Tenders, Auction and Listed for Bidding (《招標拍賣掛牌出讓國有建設用地使用權規定》) (the "Regulations"). The Regulations provide, among others, that a land use rights grantee may only apply for the registration of land use rights and be granted the relevant land use rights certificates after it has fully paid the relevant land premium in accordance with the relevant land grant contracts, and that land use rights certificates shall not be issued with respect to part of a land parcel in proportion to part payment of the relevant land premiums.

We cannot ensure that we will not encounter major problems in obtaining the necessary approvals or fulfiling the conditions precedent to the receipt of approvals, or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the property industry in general or the particular processes with respect to the granting of the approvals. There may also be delays on the part of the administrative bodies in reviewing our applications and granting approvals. If we fail to obtain, or experience material delays in obtaining the requisite governmental approvals, the development and sale of our developments could be substantially disrupted, which would result in a material adverse effect on our business, results of operations and financial condition. Further changes in tax laws may also adversely affect demand for properties. Further, we cannot ensure that implementation of the laws and regulations by the relevant authorities, or the interpretation or enforcement of such standards, will not require us to incur additional costs, which could have a material adverse effect on our business, financial condition and results of operations.

The PRC Government may reclaim land from us if we fail to comply with the terms of our land grant contracts

Under PRC law, if we fail to develop a property project according to the terms of the land grant contract, including those relating to the payment of land premiums, demolition and resettlement costs and other fees, specified use of the land and the time for commencement and completion of the property development, the PRC Government may issue a warning, impose a penalty, and/or order us to forfeit the land. Specifically, under current PRC law, if we fail to commence development for more than one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice on us and impose a land idle fee on the land of up to 20% of the land premium. If we fail to commence development for more than two years, the land is subject to forfeiture to the PRC Government without compensation unless the delay in development is caused by PRC Government's actions, preparation work or force majeure. In accordance with the Opinions on Housing Supply Structure and Stabilisation of Property Prices (《關於調整住房供應結構穩定住房價格的意見》) which became effective in May 2006, even though the commencement of the land development is in line with the land use rights grant contract, if the developed GFA on the land is less than one-third of the total GFA of the project or the total capital invested is less than one-fourth of the total investment in the project and the suspension of the development of the land is over one year without government approval, the land will be treated as idle land. During the Track Record Period, we paid a total of approximately RMB5.6 million, on an aggregate basis, as penalties to the relevant local governments in respect of late payments of land premiums. There can be no assurance that circumstances leading to forfeiture or significant delays in the development schedule will not arise in the future. If the land is forfeited to the government, we may not be able to recover the costs incurred for the initial acquisition of the forfeited land or recover part or whole of our development costs incurred up to the date of forfeiture, including the land premiums paid, which could in turn have a material adverse effect on our business, financial condition, results of operations or reputation.

Resettlement negotiations may add costs or cause delays to our development projects

Under PRC laws and regulations, where we are responsible for the demolition of existing properties on a site for development and relocation of existing residents, we will be required to pay resettlement costs to those residents.

On 16 March 2007, the National People's Congress of China adopted the Property Rights Law, which expressly provides legal protection of the private rights of home owners. This may increase the difficulties in effecting demolition and resettlement through administrative intervention, and the cost of demolition and resettlement may increase.

Even if we are not responsible for the demolition and relocation, if the party responsible for the demolition and relocation and the party subject to the demolition and relocation fail to reach an agreement for compensation and resettlement, either of them may apply for a ruling of the relevant governmental authorities and if a party is not satisfied with the ruling, it may initiate proceedings in a people's court within three months from the date of service of such ruling, which may cause delays in the development projects. Such proceedings and delays, if they occur, could adversely affect our reputation. In addition, any such delays to our development projects will lead to an increase in the cost and a delay in the expected cash inflow resulting from pre-sales of the relevant project, which may in turn adversely affect our business, financial position and results of operations and may be material.

Our sales and pre-sales will be affected if mortgage financing becomes more costly or otherwise becomes less attractive

Substantially all purchasers of our residential properties rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing, thus affecting the affordability of residential properties. In addition, the PRC Government and commercial banks may also increase the down payment requirement, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. Under current PRC laws and regulations, purchasers of residential properties generally must pay a minimum of 20% to 30% of the purchase price of the properties before they can finance their purchases through mortgages. In addition, mortgagee banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan exceeds 50% of the individual borrower's monthly income or if the total debt service of the individual borrower would exceed 55% of such individual's monthly income. In addition, pursuant to the Notice on the Further Decrease in the Interest Rates of Commercial Mortgage Loans for Individual Residential Property promulgated by PBOC (《中國人民銀行關於擴大商業性個人住房貸款利率下調幅度等有關問題的通知》) in October 2008, the minimum down payment for individual purchasers of residential property through mortgage financing is 20% of the total purchase price. The monthly payment of the anticipated mortgage loan is still restricted to 50% of the individual borrower's monthly income as a maximum. If the availability or attractiveness of mortgage financing is reduced or limited, many of our prospective customers may not be able to purchase our properties and, as a result, our business, liquidity and results of operations could be materially adversely affected.

In line with industry practice, we provide guarantees to banks for mortgages they offer to our purchasers up until we complete the relevant properties and the property ownership certificates and certificates of other interests with respect to the relevant properties are delivered to the mortgagee banks. If there are changes in laws, regulations, policies and practices that would prohibit property developers from providing guarantees to banks in respect of mortgages offered to property purchasers and these banks would not accept any alternative guarantees by third parties, or if no third party is available or willing in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks and other financial institutions during sales and pre-sales of our properties. Such difficulties in financing could result in a substantially lower rate of sale and pre-sale of our properties, which could materially and adversely affect our cash flow, financial condition and results of operations. There can be no assurance that such changes in laws, regulations, policies or practices will not occur in the PRC in the future.

Changes of laws and regulations with respect to pre-sales may adversely affect our cash flow position and financial performance

We depend on cash flows from pre-sale of properties as an important source of funding for our property projects. Under current PRC laws and regulations, property developers must fulfil certain conditions before they can commence pre-sale of the relevant properties and may only use pre-sale proceeds to finance their developments. On 5 August 2005, the PBOC issued a report entitled "2004 Real Estate Financing Report," in which it recommended the discontinuance of the practice of pre-selling uncompleted properties as it creates significant market risks and generates transactional irregularities. At the "two meetings" (the plenary session of the National People's Congress and that of the Chinese People's Political Consultative Conference) held in March 2006, a total of 33 delegates to the National People's Congress, including Bai Hexiang, head of the Nanning Central Sub-Branch of the People's Bank of China, put forward a motion to abolish the system for sale of forward delivery housing. In May 2006, Cheng Jiansheng, head of the Real Estate Finance Division of the Financial Market Department of China published an article pointing out that the way to perfect the system for China's commodity housing pre-sale is to abolish the financing of pre-sale. On 24 July 2007, the National Development and Reform Commission (NDRC) proposed to change the existing system for sale of forward delivery housing into one for sale of completed housing. There can be no assurance that the PRC Government will not ban the practice of pre-selling uncompleted properties or implement further restrictions on the pre-sale of properties, such as imposing additional conditions for a pre-sale permit or further restrictions on the use of pre-sale proceeds. Any such measure will adversely affect our cash flow position and force us to seek alternative sources of funding for much of our property development business.

Risks Relating to the PRC

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

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

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

The PRC economy has been transitioning from a planned economy to a market-oriented economy. For the past three decades, the PRC Government has implemented economic reform measures emphasizing utilisation of market forces in the development of the PRC economy. We cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

There are uncertainties regarding interpretation and enforcement of PRC laws and regulations

All of our operations are, and will continue to be, conducted in the PRC. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade.

However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws and regulations involves some uncertainty, which may lead to additional restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action taken against us in the PRC.

Changes in foreign exchange regulations and fluctuation in the value of the Renminbi may adversely affect our business and results of operations and our ability to remit dividends

We receive payment for all of our sales in Renminbi, which is not freely convertible into other currencies. Under the existing foreign exchange regulations in China, we may undertake current account foreign exchange transactions without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. The PRC Government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions under certain circumstances. Effective 1 June 2007, the branch offices of the SAFE shall not handle any foreign debt registration or approve any foreign exchange settlement in respect of foreign debts for any foreign-invested real estate enterprises (including those which are newly established or which have a capital increase) even if such enterprises have obtained an approval certificate from a competent department of commerce and have completed recordation procedures at the Ministry of Commerce.

Meanwhile, the branch offices will not handle any foreign exchange registration (or change in such registration) or any foreign exchange settlement in respect of capital projects for any foreign invested real estate enterprises that obtained an approval certificate from local competent departments of commerce after 1 June 2007 but have not completed recordation procedures at the Ministry of Commerce.

Any change to the foreign exchange regulations may adversely affect our ability to pay dividends or satisfy other foreign exchange requirements.

The value of the Renminbi against other foreign currencies is subject to changes in the PRC's policies and international economic and political developments. Effective from 21 July 2005, the Renminbi is no longer pegged solely to the US dollar. Instead, it is pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.3% each day. For example, on 21 July 2005, the Renminbi was revalued against the US dollar to approximately RMB8.11 to the US dollar, representing an upward revaluation of 2.1% of the Renminbi against the US dollar, as compared to the exchange rate of the previous day. On 23 September 2005, the PRC Government widened the daily trading band for Renminbi against non-US dollar currencies from 1.5% to 3% to improve the flexibility of the new foreign exchange system. Effective 21 May 2007, the People's Bank of China expanded the floating range of the trading price of the US Dollar against the Renminbi in the inter-bank spot foreign exchange market. The exchange rate may become volatile, the Renminbi may be revalued further against the US dollar or other currencies or the Renminbi may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the US dollar or other currencies. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars (which are pegged to the US dollar), of our net assets, earnings or any declared dividends. Any unfavourable movement in the exchange rate may lead to an increase in our costs or a decline in sales or increase in our loan liabilities, which could materially affect our operating results. We have not entered into any agreements to hedge our exchange rate exposure.

We rely on the PRC market and if the recent economic downturn and financial crisis in the PRC continue or there is a general economic downturn in the PRC, if will have a material negative impact on our business operations, financial position and our ability to obtain financing necessary for our operations

Almost all of our revenue is derived from sales in the PRC. We are therefore heavily dependent on the general economic conditions in the PRC for our continued growth. The pace of economic growth in the PRC has slowed down since the fourth quarter of 2008. The PRC Government along with a number of economists around the world have expressed their view that they expect the PRC's gross domestic product, or GDP, to continue to slow down in 2009 due to shrinking exports and other external economic factors. The recent economic downturn, both globally and in the PRC, and the general tightening of credit availability which started in the second half of 2008 negatively impacted our cash flow position and our ability to obtain additional financings in the second half of 2008. As a result, we encountered unexpected difficulties in accessing affordable financing for our projects and delayed the construction schedule of a number of our development projects accordingly during the second half of 2008. In addition, given the nature of the property development business, we anticipate that sales to customers based in the PRC will continue to represent a substantial proportion, if not all, of our revenue. The above-mentioned economic downturn and financial crisis resulted in an increased level of commercial and consumer delinquencies, a lack of consumer confidence and an increase in market volatility nationwide, which in turn caused a decrease in the average selling price of, and demand for, real estate properties in the PRC during the second half of 2008. We cannot assure you that the PRC economy will continue to grow or that its growth will occur in geographical regions or economic sectors from which we benefit, nor can we assure you that a financial crisis similar to the financial turmoil that began in the second half of 2008 will not continue or re-occur. If we encounter a similar global economic downturn and financial market crisis in the future on a sustained basis, or any general downturn in the PRC's economic conditions, our business operations, financial position and results of operations will be materially and adversely affected.

Our business may be adversely affected by a renewed outbreak of SARS, H1N1, avian influenza or any other highly contagious disease

In March 2003, there was an outbreak of Severe Acute Respiratory Syndrome ("SARS"), a highly contagious disease, in China and some other countries. A renewed outbreak of SARS in China or other neighboring countries, or an outbreak of another highly contagious disease, will affect China's overall economy. This may in turn significantly affect our business. In addition, if an employee of any of our subsidiaries were to contract SARS or another highly contagious disease, we may need to restrict or even suspend the operations of such company. In addition, an epidemic of highly pathogenic avian influenza has affected humans throughout North Asia and Southeast Asia and is considered to be a public health concern. There have recently been a relatively small number of documented cases of humans that are found to have contracted H1N1 in the PRC. If SARS, H1N1 or avian influenza infections or any other serious contagious disease continue to escalate, their effects on the economies of certain countries in Asia could be similar to or worse than those experienced as a result of the SARS outbreak.