RISKS RELATING TO OUR BUSINESSES

We are dependent on the performance of the real estate market in China, particularly in the cities and regions in which we develop our property projects and manage the properties we have developed

Our business and prospects depend on the performance of the PRC property market. Any property market downturn in China generally or in the cities and regions in which we have property projects could adversely affect our business, results of operations and financial position. We currently have three completed projects in Fujian Province and one completed project in Henan Province. Of the projects under development or held for future development, six are located in Jiangsu Province, four in Shandong Province, two in Henan Province and one in Anhui Province. The completed properties have an aggregate site area of approximately 260,288 square meters and an aggregate total GFA of approximately 660,302 square meters. The properties under development and held for future development have an aggregate site area of approximately 3,312,359 square meters and an estimated aggregate total GFA of approximately 7,217,331 square meters. Of the properties under development as of June 30, 2009, we had sold or pre-sold an aggregate GFA of approximately 875,584 square meters. As consumer spending changes due to changing economic conditions, we cannot assure you that the demand for new commercial or residential properties in the regions where we have operations will continue to grow. In addition, we cannot assure you that there will not be any over-supply of properties or economic downturn in the cities and regions where we have property projects. Any such over-supply or economic downturn may result in a decline in property sales or property prices regionally and/or nationally, which would have a material adverse effect on our business, results of operations and financial position.

The appraisal value of our properties may be different from the actual realizable value and is subject to change

The appraisal value of our properties as contained in the Property Valuation Report prepared by Savills contained in Appendix IV to this document is based on multiple assumptions that include elements of subjectivity and uncertainty, and may be subject to substantial fluctuations. Therefore, the appraised values of our properties should not be taken as their actual realizable value or a forecast of their realizable value. Unforeseeable changes to the development of the property projects as well as national and local economic conditions may affect the value of our property holdings. In particular, the fair value of our investment properties could remain stable or decrease in the event that the market for comparable properties in the PRC experiences a downturn as a result of the PRC government policies aimed at "cooling-off" the PRC property market, the continued effect of the recent economic downturn, or otherwise.

As noted above, the appraised value of our property development projects and our land reserves are based on many assumptions. These assumptions include that:

- we will complete development projects on time;
- we have obtained or will obtain, on a timely basis, all approvals from regulators necessary for the development of the projects; and
- we have paid all the land premium and obtained all land use rights certificates and transferable land use rights.

As for properties that we do not wholly own, their appraised values are allocated according to our pro rata ownership of the relevant project companies.

The Property Valuation Report contained in Appendix IV to this document also made reference to six parcels of land that we, as of June 30, 2009, had entered into land grant contracts but had not made full payment of the land premium or satisfied other conditions for obtaining the relevant land use rights certificates. As a result, we are not in possession of the land use rights certificates with respect to the entire parcels of land for these properties as of the date of this document. In accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors, PRC properties without proper land use rights certificates may not be assigned any commercial value for the purposes of issuing any property valuation report.

If any of the assumptions proves to be incorrect and/or the actual realizable value of any of our properties is significantly lower than its appraised value, our business, results of operations and financial position may be materially adversely affected.

Our profitability and results of operations are impacted by the development and profitability of our commercial property leasing segment

In addition to property development, leasing out of our investment properties constitutes an integral part of our business. As of the Latest Practicable Date, we had leased out approximately 113,348 square meters of GFA of our commercial properties located in Fuzhou Powerlong City Plaza and Zhengzhou Powerlong City Plaza. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, revenue generated from our leasing segment constituted approximately 0.1%, 3.1%, 3.4% and 2.2%, respectively, of our total revenue. As of June 30, 2009, we had an aggregate of approximately 238,760 square meters of completed commercial properties available for lease, accounting for approximately 57.7% of the total GFA of our completed commercial properties and 36.2% of the total GFA of our completed properties. If there is a significant downturn in the commercial property leasing markets in the cities and regions where we have investment properties, we may not be able to maintain our current levels of rental income. In addition, we may not be able to renew leases with our tenants on terms acceptable to us, or at all, upon the expiration of the existing terms. As some of our leases are long-term leases ranging from 10 to 20 years, we may not be able to increase rent levels during the lease terms. Most of our rental income during 2007 and 2008 was derived from these long-term leases. As we seek to increase our portfolio of commercial investment properties, the leasing out of properties will become an increasingly major contributor to our revenue going forward. We may not, however, be able to identify or secure suitable tenants for our commercial properties. Our inability to expand our portfolio of commercial properties for lease and operations, secure suitable tenants or otherwise to enhance the profitability of our leasing segment or to maintain our current levels of rental income would have a material adverse effect on our business, results of operations and financial position.

The recent global economic slowdown, crisis in the global financial markets and volatility of the property prices have negatively impacted, and may continue to negatively impact, our business and our ability to obtain necessary financing for our operations

The recent global economic slowdown and turmoil in the global financial markets that started in the second half of 2008 have resulted in a general credit crunch, an increased level of commercial and consumer delinquencies, lack of consumer confidence and increased market volatility. The slowdown of the worldwide economy, including that of China, has caused a rapid slide in property prices. The market volatility and uncertainty caused by the global financial crisis have also contributed to a lower demand for our properties and a decline in their selling prices. The global economic slowdown and financial market turmoil have adversely impacted, and may continue to adversely impact, home owners and potential property purchasers, which may lead to a further decrease in the general demand for our products, an erosion of their selling prices and a decrease in our gross profit margin.

The negative impact of the recent global economic slowdown has contributed to the deterioration of our results of operations and financial position in 2008. For example:

- the lack of liquidity in the global financial markets has negatively impacted our liquidity and our ability to obtain additional financing for property development, which in turn adversely impacted our property construction schedules;

- the delays in our property construction schedules have resulted in fewer completed properties being delivered in 2008 than we originally planned, which adversely affected our results of operations; and

- the uncertain economic outlook has contributed to a lower demand for our properties and a drop in our pre-sale volume, as well as a decline in the average selling prices of our residential properties in most of our properties under development, particularly Suzhou Taicang Powerlong City Plaza, Tai'an Powerlong City Plaza and Bengbu Powerlong City Plaza.

As a result, we scaled back our original property development and business expansion plans, postponed the completion schedules of most of our properties, as well as reduced our investment property portfolio to mitigate the impact of the global economic downturn to us on our industry. For example, we slowed down the property completion and delivery schedules of all our properties under development by six to 12 months, or even longer for certain phases of our projects. In addition, we sold a portion of our investment properties which we originally intended to hold for long term investment to generate additional cash flow and ensure sufficient liquidity during the economic downturn.

As a result of the postponement of delivery of completed properties, we became liable to approximately Rmb 3.3 million and Rmb 11.3 million in late delivery penalty for the year ended December 31, 2008 and the period from January 1, 2009 to the Latest Practicable Date, respectively, under the underlying sale and purchase agreements. As of the Latest Practicable

Date, approximately Rmb 7.3 million of the total amount of penalties incurred since the beginning of 2008 had been paid to our customers (including the full settlement of the amount incurred in 2008).

The recent global financial market crisis have adversely impacted, and will continue to adversely impact, our liquidity, capital expenditure financing and working capital. You may find additional information on our liquidity and financial position in the section entitled "Financial Information — Liquidity and Capital Resources" in this document.

While the PRC government and governments around the world have taken remedial actions to address the financial crisis, we cannot assure you that these actions will be effective. If the recent global economic slowdown and financial market crisis continues, the demand for our products and our ability to obtain necessary financing for our operations could be materially adversely affected, which in turn will negatively impact our business, results of operations and financial position.

We maintain a certain level of indebtedness and a deterioration of our cash flow position could adversely affect our ability to service our indebtedness and to continue our operations

We maintain a certain level of indebtedness to finance our operations. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our aggregate outstanding bank borrowings was Rmb 129.0 million, Rmb 760.3 million, Rmb 1,111.0 million and Rmb 988.2 million, respectively. In addition to our total indebtedness described above, we had outstanding guarantees in respect of our customers' mortgage loans amounting to approximately Rmb 280.3 million, Rmb 912.4 million, Rmb 1,029.3 million and Rmb 1,229.8 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. Of our total outstanding bank borrowings of Rmb 988.2 million as of June 30, 2009, approximately Rmb 683.0 million was repayable within 12 months, approximately Rmb 269.4 million was repayable within five years and approximately Rmb 35.8 million was repayable after five years.

In addition to bank borrowings, we also issued Convertible Bonds and Secured Notes in December 2007 to finance our acquisition of new land reserves and to pay outstanding construction costs for our existing property development projects. We refinanced the Convertible Bonds and Secured Notes through a series of restructuring efforts between September 2008 and July 2009. As a result of such restructuring, the Convertible Bonds were converted into the Secured Bonds. For more information, see the section entitled "History, Reorganization and Corporate Structure — Convertible Bonds and Secured Notes" in this document. We had total outstanding Secured Bonds and Secured Notes of Rmb 415.0 million as of June 30, 2009. The interest payable of the Secured Bonds and Secured Notes expected to be accrued up to the Latest Practicable Date is approximately Rmb 43.7 million. We incurred a substantial amount of interest expenses in relation to our bank borrowings, Convertible Bonds and Secured Notes, as well as Secured Bonds and Secured Notes during the Track Record Period and we capitalized a large portion of these interest expenses. In particular, we incurred a total interest expenses of Rmb 329.6 million in relation to our Convertible Bonds and Secured Notes, Secured Bonds and Secured Notes during the Track Record Period, of which Rmb 294.6 million had been capitalized. These capitalized interest expenses were recorded as part the development costs of the properties held for development in Suqian, Yantai, Xinxiang, Yancheng, Licang and Changzhou which we acquired using the proceeds from the issuance of the Convertible Bonds and Secured Notes.

Our gearing ratio, calculated as total borrowings (including bank borrowings and Convertible Bonds and Secured Notes, Secured Bonds and Secured Notes) divided by total assets, was 3.8%, 24.6%, 22.7% and 15.4%, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009.

During the Track Record Period, our net cash flow from operating activities was Rmb 490.9 million, Rmb 1,047.4 million, Rmb 131.3 million and Rmb 335.0 million, respectively. Our cash flow and results of operations of our operating subsidiaries will affect our liquidity and our ability to service our indebtedness. We cannot assure you that we will be able to continue to generate and maintain sufficient cash flow to service our indebtedness. If we are unable to make scheduled payments in connection with our debts and other fixed payment obligations as they become due, we may need to refinance such obligations or obtain additional financing. We cannot assure you that our refinancing efforts would be successful or timely or that we could secure additional financing on acceptable terms, or at all. If we fail to maintain sufficient cash flow to service our indebtedness or if our refinancing efforts are otherwise unsuccessful, our liquidity, business, results of operations and financial position will be materially adversely affected.

In addition to bank borrowings, we rely on pre-sale proceeds of properties as a major source of funding for our operations, including servicing our debt. Should our pre-sale activities be significantly limited or otherwise materially adversely affected as a result of changes in relevant PRC rules and regulations, the recent global economic downturn, or significant economic slowdown in China or in the cities and regions where we have property projects, our cash flow position and our ability to service debt may be adversely affected. In addition, if banks decline to provide additional loans to us or to re-finance our existing loans when they mature as a result of our perceived credit risk, and we fail to raise financing through other channels, our business, cash flow position, results of operations and our financial position may be materially adversely affected.

We may not have adequate capital resources to fund our land acquisitions and existing and future property developments

Property development is capital intensive. We finance our property projects primarily through a combination of pre-sale and sale proceeds, borrowings from financial institutions and internal funds. We may also access the capital markets to raise further financing. As of June 30, 2009, our total bank borrowings and debt incurred as a result of our issue of the Secured Bonds and Secured Notes amounted to approximately Rmb 415.0 million. Our ability to procure adequate financing for land acquisition and property developments depends on a number of factors that are beyond our control. In June 2003, PBOC adopted measures to strengthen enforcement on lending regulations in the property industry. These measures:

- prohibit PRC commercial banks from financing the payment of land premium;
- restrict PRC commercial banks from financing the development of luxury residential properties and villas; and
- restrict property developers from financing property developments with loans obtained from banks in regions outside the locations of the relevant property developments.

In May 2006, the Ministry of Construction and other PRC government authorities jointly issued the Opinions on Housing Supply Structure and Stabilization of Property Prices《關於調整住房供應結構穩定住房價格的意見》, which, among others:

- restrict the extension of loans and the grant of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties; and

- prohibit commercial banks from taking commodity properties that have been vacant for more than three years as security for their loans.

Under PRC law, banks must hold a certain amount of funds in reserve against deposits made by their customers. PBOC had increased this reserve ratio requirement for commercial banks 18 times between July 2006 and May 2008, from 7.5% in the first half of 2006 to 17.5% in June 2008. Since June 2008, in order to stimulate the PRC economy, PBOC has decreased the required reserve ratio for commercial banks four times, from 17.5% to 14.5% in December 2008. PBOC's decision to adjust this ratio has a material effect on the amount of funds available to commercial banks in China to lend to businesses, including us.

These government actions and policy initiatives may limit our ability and flexibility to use bank loans to finance our property projects and therefore may require us to maintain a relatively high level of internally sourced cash. We cannot assure you that we will be able to secure adequate financing or renew our existing credit facilities prior to their expiration or that our business, results of operations and financial position will not be materially adversely affected as a result of such and other government actions and policy initiatives.

Our results of operations for each of the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 included unrealized revaluation increases on investment properties

For the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we had revaluation increases on our investment properties, net of related corporate income tax representing 66.0%, 65.9%, 68.5% and 0.5% of our net profit for the respective years. Upward revaluation adjustments, which reflected unrealized capital gains on our investment properties during the relevant years, were not profit generated from the sales or leasing of our investment properties, and did not generate any actual cash inflow to us. Unless such investment properties are disposed of at similarly revalued amounts, we will not realize actual cash flow for purposes such as dividend distribution to our shareholders. The amount of revaluation adjustments have been, and will continue to be, significantly affected by the prevailing property markets and will be subject to market fluctuations. We cannot assure you that we will continue to record similar levels of revaluation increases in the future. In the event that there is material downward adjustments in the revaluation amount of our investment properties in the future, our business, results of operations and financial position may be materially adversely affected.

We may not be able to continue to attract and maintain key tenants for our commercial complexes

Our commercial properties compete for tenants with a number of other commercial properties in the surrounding areas on the basis of a wide range of factors, including location, appearance, age, construction quality, maintenance and design. We also compete for tenants on the basis of rent levels and other lease terms. We seek to maintain the quality and attractiveness of our commercial complexes by securing long-term partnerships with domestic and foreign brands across a wide spectrum of industries. Many of these brands, such as Carrefour, Gome Electronics (國美電器), Fujian Xinhuadu Department Stores (福建新華都百貨) and Jinyi Cinema (金逸影城) have become our anchor tenants. For information on our anchor tenants' respective revenue contribution during the Track Record Period, see the section entitled "Business — Investment Properties — Tenants and Leases" in this document. For a brief description of the terms of the leases, please also see the section entitled "Business — Investment Properties — Tenants and Leases." Based on a letter of intent, we also expect that Suning Electronics (蘇寧電器) could become our tenant when some of our other commercial properties are completed.

However, we cannot assure you that existing and prospective tenants will not consider our competitors to have superior properties. Also, because our leases may include short-term leases, our properties are sensitive to market fluctuations. As a result, we may lose current and potential tenants to our competitors and have difficulty renewing leases or entering into new leases. An increase in the number of competing properties, particularly in close proximity to our properties, could increase competition for tenants, reduce the relative attractiveness of our properties and force us to reduce rent or incur additional costs in order to make our properties more attractive. As of June 30, 2009, our occupancy rate (computed by dividing the leased area by the area held for lease, excluding car parking spaces) in our completed property projects was approximately 73.3%. If we are not able to consistently compete effectively for commercial tenants with other property developers or operators, our occupancy rates may decline. If we fail to attract well-known brands as our tenants or maintain our existing anchor tenants, the attractiveness and competitiveness of our commercial complexes may be adversely affected. This in turn could have a material adverse effect on our business, reputation, results of operations and financial position.

A default by an anchor tenant could result in a significant loss of rental income, a reduction in asset value and increased bad debts

We derive a significant portion of our revenue directly or indirectly from rent received from our anchor tenants. Anchor tenants generally pay a significant portion of the total rents in respect of a commercial complex and, in some cases, contribute to the success of securing other tenants by attracting significant numbers of customers to the property. As of June 30, 2009, our top five tenants account for approximately 59.2% of our rental income. A downturn in business, bankruptcy or insolvency could force an anchor tenant to default on its rental obligations and/or vacate the premises. Such a default, in particular by one of our top five tenants, could result in a loss of rental income and an increase in bad debts, and decrease the value of the property. Moreover, such a default may prevent us from increasing rents or result in lease terminations by, or reductions in rents for, other tenants under the conditions of their leases. Any of the above effects of a default by an anchor tenant could have a material adverse effect on our business, results of operations and financial position.

Our profitability and results of operations are affected by changes in interest rates

Changes in interest rates have affected and will continue to affect our financing costs and, ultimately, our results of operations. In April 2006, PBOC raised the benchmark one-year lending rate from 5.58% to 5.85% and in August 2006 further increased such rate to 6.12%. PBOC again increased the one-year lending rate six times in 2007 from 6.12% to 7.47% in December 2007. Beginning in 2008, PBOC decreased the benchmark one-year lending rate five times, from 7.47% to 5.31% in December 2008. As of December 31, 2008 and June 30, 2009, the average annualized interest rate on our outstanding bank borrowings was 7.12% and 6.42%. Interest expenses of our bank borrowings incurred in 2006, 2007 and 2008 and the six months ended June 30, 2009 were Rmb 9.3 million, Rmb 22.6 million, Rmb 68.8 million and Rmb 35.9 million, respectively. In addition, increases in interest rates may affect our customers' ability to secure mortgages on acceptable terms, which in turn may affect their ability to purchase our properties. We cannot assure you that PBOC will not raise lending rates further or otherwise discourage bank lendings or that our business, results of operations and financial position will not be materially adversely affected as a result.

Our net current liabilities position as of June 30, 2009 may further deteriorate

Our net current liabilities as of June 30, 2009 were approximately Rmb 691.8 million, comprising current assets of approximately Rmb 5,368.7 million and current liabilities of approximately Rmb 6,060.5 million. Our current liabilities consisted of advances from customers for pre-sold properties of Rmb 2,044.6 million, trade and other payables of Rmb 2,344.4 million, Secured Bonds and Secured Notes of Rmb 415.0 million, dividend payable of Rmb 32.9 million, current tax liabilities of Rmb 540.5 million and current borrowings of Rmb 683.0 million. The deposits received from the pre-sale of properties constitute cash inflow for us, but are accounted for as liabilities prior to delivery of the properties. Such pre-sale proceeds will be recognized as revenue upon delivery of completed properties. However, we cannot assure you that our internally generated resources will be sufficient to finance all of our capital expenditures in the long run. In that event, it may be necessary for us to resort to additional external financing such as additional bank borrowings. Should we fail to obtain sufficient long-term financing in this respect, our capital structure, business, results of operations and financial position may be materially adversely affected.

Our profit level and margin are affected by our turnover mix and we may not be able to sustain our existing level of profit

We recorded gross profit margins of approximately 51.2%, 59.8%, 45.1% and 52.9% for each of the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. Factors including the change of the mix of our revenue sources, such as the proportion of properties sold and properties held for investment and the proportion of our residential and commercial properties sold, intensified market competition, failure to achieve sales targets and failure to negotiate volume discount with suppliers on favorable terms, may reduce our gross profit margin. Our gross profit margin in 2008 decreased by 14.7% as compared to that in 2007 and it increased by 7.8% in the six months ended June 30, 2009 compared to that in 2008. We cannot assure you that we can always maintain or increase our gross profit margin. In the event that we are unable to maintain or increase our gross profit margin, our profitability may be materially adversely affected. Please also see "— We may not always be able to obtain land reserves that are suitable for our model of project development" and "— We may be affected by the performance of third party contractors and prices of construction materials" below.

We may not always be able to obtain land reserves that are suitable for our model of project development

We derive our revenue principally from the sale of properties that we have developed. Therefore we must maintain or increase our land reserves, each with sufficient size and appropriate scope of usage for our project model, in strategic locations at an appropriate pace in order to ensure sustainable business growth.

The PRC government controls the availability of land in China. The PRC government's land supply policies have a direct impact on our ability to acquire land use rights and our costs of acquisition. In recent years, the PRC central and local governments have implemented various measures to regulate the means by which property developers may obtain land. The PRC government also controls land supply through zoning, land usage regulations and other measures. All these measures further intensify the competition for land in China among property developers.

In May 2002, the PRC government introduced a nationwide system of mandatory public tender, auction or listing-for-sale for the grant of land use rights for commercial use, tourism use, entertainment use and commodity housing development. On September 28, 2007, the Ministry of Land and Resources issued the revised Rules on the Grant of State-owned Land Use Rights through Public Tender, Auction and Listing-for-sale《招標拍賣掛牌出讓國有建設用地使用權規定》, which further stipulated the legal and procedural requirements on public tender, auction or listing-for-sale of state-owned land use rights. The notice states that the PRC government may only grant state-owned land use rights for land to be used for industrial, commercial, tourism, entertainment and commodity property development purposes by means of public tender, auction or listing-for sale. The notice also requires that the land premium must be paid in full to the local land administration bureau pursuant to the underlying land grant contract before the land use rights certificate can be issued to the land user. The PRC government's policy to grant state-owned land use rights at competitive market prices is likely to increase the acquisition cost of land reserves. Our business, results of operations and financial position may be materially adversely affected to the extent that we are unable to acquire suitable sites for our model of project development in strategic locations on a timely basis or at prices which will enable us to achieve reasonable returns.

We guarantee mortgage loans of our customers and may become liable to mortgagee banks if customers default on their mortgage loans

As we pre-sell properties before their actual completion of construction, in accordance with industry practice, domestic banks require us to guarantee our customers' mortgage loans. According to market practice, domestic banks require us to guarantee these mortgage loans until the issuance of the relevant property ownership certificates. As a result, such guarantees generally last between six months to one year before we deliver possession of the relevant properties to the purchasers, at which time such guarantees are released. If a purchaser defaults on a mortgage loan, we may have to repurchase the underlying property by paying off the mortgage. If we fail to do so, the mortgagee bank may auction the underlying property and recover any additional amount outstanding from us as the guarantor of the mortgage loan. In line with industry practice, we do not conduct any independent credit checks on our customers but rely on the credit evaluation conducted by the mortgagee banks.

As of December 31, 2006, 2007 and 2008 and June 30, 2009, our outstanding guarantees in respect of our customers' mortgage loans amounted to Rmb 280.3 million, Rmb 912.4 million, Rmb 1,029.3 million and Rmb 1,229.8 million, respectively. Should any material defaults occur and we are required to honor our guarantees, our business, results of operations and financial position may be materially adversely affected.

Our profitability and results of operations are impacted by the success of our business model

We focus primarily on the development of large-scale, multi-functional commercial complexes in second or third-tier cities in China with growth potential in accordance with urban planning by the local governments. Due to the nature of our business model, we are often one of the first property developers to enter into such markets. In particular, the success of our business model is dependent on, and could be directly affected by, the accuracy of our prediction of the local demand and economic growth of the cities where we have, or will have projects. Our success is also dependent on our managerial and operational resources, and capital contributions, as well as our knowledge of the spending habits of local consumers and their acceptance of large-scale, multi-functional commercial complexes. We cannot assure you that our business model will be successful in each of the cities that we enter. In the event that we fail to establish or expand our business model as much as anticipated, our business, reputation, results of operations and financial position may be materially adversely affected.

We cannot assure you that we will be able to successfully expand our business into other cities in China

We have historically focused on developing commercial and residential properties in Fujian Province. We intend to further expand into selected emerging cities in China with good growth potential through acquisitions of businesses and assets including equity interests in companies with suitable land reserves. Expansion may place substantial strain on our managerial, operational and financial resources. In addition, we have limited knowledge of the local conditions of these new property markets, less experience in property development in cities or regions where we did not have property developments as of the Latest Practicable Date. Furthermore, we may not have the same level of familiarity with contractors, business practices, regulations, customer preferences, behavior and spending patterns, which may put us in a less competitive position as compared to the local and more experienced national property developers. Any failure to leverage our experience or failure to understand the property market in any other PRC city which we target our expansion may have a material adverse affect on our business, reputation, results of operations and financial position.

We have limited insurance to cover our potential losses and claims

We may not carry comprehensive insurance against potential losses or damages with respect to our properties before their delivery to customers. We also do not carry insurance covering construction-related personal injuries. We believe that such liabilities should be borne by construction companies. In addition, we do not carry insurance for any liability arising from tortious acts committed or alleged to have been committed on work sites. We cannot assure you that we will not be sued or held liable for damages due to such tortious acts. Moreover, there are certain losses for which insurance is not available on commercially practicable terms, such as losses suffered due to earthquake, war, civil unrest and certain other events of force majeure.

As of June 30, 2009, we had insurance coverage in respect of our completed properties in Fuzhou Powerlong City Plaza and Zhengzhou Powerlong City Plaza. In addition, we also had insurance coverage in respect of a number of our properties under development as required by our lending banks. For more information, please see the section entitled “Business — Insurance.” We cannot assure you that our commercial properties, upon completion, will be comprehensively insured. If we suffer from any losses, damages or liabilities in the course of our operations and property development arising from events for which we do not have insurance cover, we may not have sufficient funds to cover any such losses, damages or liabilities or to replace any property development that has been destroyed. The occurrence of any of the above events and the resulting payment we make to cover any losses, damages or liabilities may have a material adverse effect on our business, results of operations and financial position.

We may not be able to complete or deliver our development projects on time or at all

Property development projects require substantial capital expenditures prior to and during the construction period, and construction of our property projects typically take at least six months before they may generate positive cash flow through pre-sales or sales. The progress and costs for a development project can be adversely affected by many factors, including:

- delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;
- relocation of existing residents and/or demolition of existing buildings;
- shortages of materials, equipment, contractors and skilled labor;
- labor disputes;
- construction accidents;
- natural catastrophes;
- adverse weather conditions;
- changes in government policies; and
- economic downturn and decrease in consumer sentiment in general.

Construction delays or failure to complete the construction of a project according to its planned specifications, schedule or budget as a result of the above factors may affect our results of operations and financial position and may also adversely affect our reputation in the industry. We cannot assure you that we will not experience any significant delays in the completion or delivery of our projects, or that we will not be subject to any liabilities for any such delays. Liabilities arising from any delays in the completion or delivery of our projects could have a material adverse effect on our business, results of operations and financial position.

Once a property project has passed the requisite completion acceptance inspections, we are required to deliver such completed properties to our customers within the time frame set forth in the sale and purchase agreements. We may become liable for monetary penalty to our customers for delays in property delivery in such circumstances. In addition, according to PRC law, property developers are typically required to deliver to purchasers the relevant individual property ownership certificates within 90 days after delivery of the property or within a time frame set forth in the relevant sale and purchase agreements. Property developers, including us, generally elect to specify the deadline for the delivery of the individual property ownership certificates in the sale and purchase agreements to allow sufficient time for the application and approval process. Under current regulations, we are required to submit requisite governmental approvals in connection with our property developments, including land use rights documents and planning and construction permits, to the local bureau of land resources and housing administration within three months after the receipt of the certificates of completion for the relevant properties and to apply for the general property ownership certificate in respect of these properties. We are then required to submit within regulated periods after delivery of the properties, the relevant sale and purchase agreements, identification documents of the purchasers, proof of payment of deed tax, together with the general property ownership certificate, for the bureau's review and the issuance of the individual property ownership certificates in respect of the properties purchased. Delay by the various administrative authorities in reviewing the relevant applications and granting approval as well as other factors may affect timely delivery of the general as well as individual property ownership certificates. We may become liable for monetary penalty to purchasers for late delivery of the individual property ownership certificates due to delays in the administrative approval process or for any other reason beyond our control. We cannot assure you that such delays will not occur with respect to our property projects in the future, which could have a material adverse effect on our business, results of operations and financial position.

Our Controlling Shareholders have substantial control over our company and their interests may not be aligned with the interests of our other shareholders

Our Controlling Shareholders will remain our controlling shareholders with substantial control over our issued share capital. Accordingly, subject to our memorandum and articles of association and the Cayman Companies Law, Hoi Kin Hong, by virtue of his controlling beneficial ownership of our share capital as well as his position as the Chairman of our Board, will be able to exercise significant control and exert significant influence over our business or otherwise on matters of significance to us and other shareholders by voting at the general meetings of shareholders or at the Board meetings, including:

- election of Directors;
- selection of senior management;
- amount and timing of dividend payments and other distributions;
- acquisition of or merger with another entity;
- overall strategic and investment decisions;
- issuance of securities and adjustment to our capital structure; and
- amendments to our Articles of Association.

The interests of our Controlling Shareholders may differ from the interests of other shareholders and they are free to exercise their votes according to their interests. Our Controlling Shareholders have given an undertaking in the Deed of Non-competition that they and affiliates controlled by them will not engage in property development businesses that may compete with us; provided, however, that they may continue to engage in the property development projects as specified in the Deed of Non-competition. Under such circumstances, to the extent the interests of the Controlling Shareholders conflict with the interests of other shareholders, the interests of other shareholders can be disadvantaged and harmed. For more information on the Deed of Non-competition, please see the section entitled "Relationship with our Controlling Shareholders — Deed of Non-competition" in this document.

We may be affected by the performance of third party contractors and prices of construction materials

We employ third party contractors to carry out various works, including design, construction, equipment installation, internal decoration, landscaping, electro-mechanical engineering, pipeline engineering and lift installation. We select third party contractors mainly through a tender or a privately negotiated selection process. We cannot guarantee that any such third party contractor will provide satisfactory services and at the required quality level. In addition, we may not be able to engage sufficient quality third party contractors in the cities which we plan to expand into. Moreover, completion of our property developments may be delayed and we may incur additional costs due to a contractor's financial or operational difficulties. The contractors may undertake projects from other developers; engage in risky undertakings or otherwise encounter financial or other difficulties, which may cause delay in the completion of our property projects or increase our project development costs. The services rendered by any of these independent contractors may not always be satisfactory or match our requirements for quality. Any of these factors could have a negative impact on our reputation, business, results of operations and financial position.

In addition, substantially all of the costs of construction materials, whether procured by ourselves or by the contractors, were accounted for as part of the contractor fees upon settlement with the relevant contractors. However, if the cost of construction materials increase beyond our expectation, the contractors may request to transfer such increase in costs of construction materials to us and to increase the contractor fees. In the event there is a material increase in construction costs, our business, results of operations and financial position may be materially adversely affected.

The PRC government may impose fines or other penalties on us if we fail to comply with the terms of the land grant contracts

Under PRC laws and regulations, 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 premium, demolition and resettlement costs and other fees, scope of usage of the land and the time for commencement and completion of the property development, the PRC government may issue a warning, impose fines or other penalties. Specifically, under current PRC laws and regulations, if we fail to pay any outstanding land premium by the stipulated deadline, we may be subject to a late payment fine calculated on a per-day basis or other penalties.

As a result of the recent global economic slowdown and turmoil in the global financial markets that started in the second half of 2008, we scaled back our property development plans and postponed the construction schedules of our properties under development and held for future development to mitigate the impact of the global financial crisis, reduce our operating risks and maintain a healthy cash flow. The changes in our property development plans have led to a delay in the payment of land premium in respect of certain of our projects. As of June 30, 2009, we had overdue land premium with respect to Luoyang Powerlong City Plaza, Xinxiang

Project, Licang Project, Yancheng Project and Yantai Project amounting to Rmb 44.8 million, Rmb 133.3 million, Rmb 110.6 million, Rmb 256.6 million and Rmb 45.0 million, respectively, which we had not paid in accordance with the underlying land grant contracts. The total site area with respect to which we had not paid the overdue land premium was 605,793 square meters, or 18.3%, of the total site area of our property projects under development and held for future development as of June 30, 2009.

In August and September 2009, we entered into supplemental agreements with the respective local land resources bureaus of the cities in which these projects are located, under which the parties agreed to extend the payment dates for the overdue land premium. According to the new payment schedule for Luoyang Powerlong City Plaza, the overdue land premium will be settled in two installments by October 2009. As of the Latest Practicable Date, we had paid Rmb 22.0 million of land premium and still had unpaid land premium of Rmb 22.8 million in respect of this project. According to the new payment schedule for Yantai Project, the overdue land premium will be settled in two installments by the end of 2009. As of the Latest Practicable Date, we had paid Rmb 5.0 million of land premium and still had unpaid land premium of Rmb 40.0 million in respect of this project. According to the new payment schedule for Xinxiang Project, the overdue land premium is expected to be fully settled by December 15, 2009. According to the new payment schedules for the other two projects, the overdue land premium is expected to be fully settled by the end of 2009. We intend to finance these payments using a combination of our internal resources, bank borrowings. We cannot assure you that we will not have any overdue land premium in the future in relation to any new parcels of land we purchase, or that we will be able to enter into supplemental agreements with the local government authorities to postpone the payment dates for overdue land premium on terms acceptable to us, or at all. Under PRC laws and regulations, if we fail to reach a supplemental agreement to extend the payment dates for the overdue land premium, we may be required to pay a late payment fine or be subject to other penalties.

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 resources 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 reclamation by the PRC government unless the delay in development is caused by government actions or force majeure. Moreover, not withstanding that the commencement of the land development is in line with the land grant contract, if the developed GFA on the land is less than one-third of the total GFA of the project or if the total capital expenditure is less than one-fourth of the total investment of the project and the development of the land has been suspended for over one year without government approval, the land will be treated as idle land. We cannot assure you that circumstances leading to reclamation or significant delays in development schedule will not arise in the future. If our land is subject to reclamation, we will not only lose the opportunity to develop property projects on such land, but may also lose all our past investments in the land, including land premium paid and development costs incurred.

We may not be able to obtain land use rights certificates with respect to certain parcels of land in which we have acquired an interest

As of June 30, 2009, we had certain parcels of land in Yancheng City and Suqian City in Jiangsu Province, Qingdao City, Yantai City in Shandong Province and Xinxiang City in Henan Province, with a total site area of approximately 1,086,178 square meters, with respect to which we had not obtained the land use rights certificates. In connection with these land acquisitions, we are required to pay land premium in the aggregate of Rmb 1,971.3 million (including taxes).

We expect to fully settle the outstanding land premium for the land parcels in 2011. These land parcels are currently categorized under our properties held for future development and represent approximately 32.8% of the total site area of our property projects under development and held for future development as of June 30, 2009. We had paid deposits (and other related fees) in connection with the acquisition of our land use rights of Rmb 1,066.8 million as of June 30, 2009. If we fail to obtain the land use rights certificates with respect to any of these parcels of land, we will not be able to proceed with our project development on the land. Furthermore, we may not be able to acquire replacement land on terms acceptable to us, or at all, which could have a material adverse effect on our business, results of operations, financial position and expansion prospects going forward.

We may bear demolition and resettlement costs associated with our property developments and such costs may increase

Currently, we do not have any land reserves in relation to which we are responsible for the demolition of existing buildings or resettlement of original residents. However, as we expand our business operations, we may engage in primary development provided that suitable opportunities exist. In such circumstance, it is likely that we will be required to compensate owners and residents of demolished buildings for their relocation and resettlement in accordance with the PRC urban housing demolition and relocation regulations. The compensation we will have to pay is calculated in accordance with formulae published by the relevant local authorities. These formulae take into account the location, type of building subject to demolition, local income level and many other factors. We cannot assure you, however, that these local authorities will not change or adjust their formulae from time to time without sufficient advance notice. If they do so, the land costs may be subject to substantial increases, which can adversely affect our cash flow, results of operations and financial position. In addition, if we fail to reach an agreement over the amount of compensation with any existing owner or resident, either we or such owner or resident may apply to the relevant authorities for a ruling on the amount of compensation. Dissenting owners and residents may also refuse to relocate. This administrative process or such resistance or refusal to relocate may delay the timetable of our development projects or, in extreme cases, prevent their completion, and an unfavorable final ruling may result in us paying more than the amount the formulae call for. Any of these events could have a material adverse effect on our business, results of operations and financial position.

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

We are a Cayman Islands holding company with substantially all of our operations conducted through our operating subsidiaries in China. Under the new PRC Corporate Income Tax Law that took effect on January 1, 2008, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and will generally be subject to the uniform 25% corporate income tax rate as to their global income. Under the implementation regulations issued by the State Council relating to the new PRC Corporate Income Tax Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the PRC State Administration of Taxation promulgated a circular to clarify the definition of "de facto management bodies" for enterprises incorporated overseas with controlling shareholders being PRC enterprises. It, however, remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by PRC individual residents as is in our case. Although we are currently not treated as a PRC resident enterprise by the relevant tax authorities, substantially all of our management is currently based in China and will remain in China in the future. As a result, we may be treated as a PRC resident enterprise for PRC corporate income tax purposes and subject to the uniform 25% corporate income tax as to our global income. You should also read the risk factor entitled "— Dividends payable by us to our foreign investors gains on the sale of our Shares and may become subject to withholding taxes under PRC tax laws" below. If we are treated as such a PRC resident enterprise under PRC tax laws, we could face adverse tax consequences.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under PRC tax laws

Under the new PRC Corporate Income Tax Law and its implementation regulations issued by the State Council, to the extent such dividends for earnings derived since January 1, 2008 are sourced within China, then PRC income tax at the rate of 10% is applicable to dividends payable by us to investors that are "non-resident enterprises" so long as such "non-resident enterprise" investors do not have an establishment or place of business in China or, despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Similarly, any gain realized on the transfer of the Shares by such investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. It is uncertain whether we will be considered a PRC "resident enterprise," so we are not sure whether the dividends payable to our foreign investors, or the gain our foreign investors may realize from the transfer of our Shares, would be treated as income sourced within China and be subject to PRC tax. If we are required under the new tax law to withhold PRC income tax on our dividends payable to our foreign shareholders who are "non-resident enterprises," or if you are required to pay PRC income tax on the transfer of our Shares, the value of your investment in our Shares may be materially adversely affected. It is unclear whether, if we are considered a PRC "resident enterprise," holders of our Shares might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

We rely principally on dividends paid by our subsidiaries to fund our cash and financing requirements, 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 incur and to pay any dividend we declare. 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 on its equity interest to us. Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC entities on a combined basis 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 for their reserve fund in accordance with the requirements of relevant laws and provisions in their respective articles of associations. As a result, our PRC entities combined may be restricted in their ability to transfer any 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 adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, service our debts or otherwise fund and conduct our business. Under the new PRC Corporate Income Tax Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends paid by PRC enterprises from their earnings derived since January 1, 2008 to "non-resident enterprises" (enterprises that do not have an establishment or place of business in China, or that have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business) subject to any lower withholding tax rate as may be contained in any income tax treaty or agreement that China has entered into with the government of the jurisdiction where such "non-resident enterprises" were incorporated. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》agreed between the PRC and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in the PRC to its shareholders in Hong Kong will be subject to a withholding tax at a rate of 5% if such Hong Kong shareholder directly holds a 25% or more interest in the PRC enterprise. If our Hong Kong subsidiaries are considered "non-resident enterprises" under the PRC tax law, any dividend that such Hong Kong subsidiaries receive from our PRC subsidiaries may be subject to PRC taxation at the 5% rate.

Several of our subsidiaries may not continue to enjoy tax benefits

Under the PRC laws and regulations in force before January 1, 2008, a company established in China was typically subject to a national corporate income tax at the rate of 33% on its taxable income. The local preferential enterprise taxation treatment of local income tax is within the jurisdiction of the local provincial authorities as permitted under the PRC tax laws relating to foreign-invested enterprises before January 1, 2008. The local tax authorities may decide whether to grant any tax preferential treatment to foreign-invested enterprises on the basis of local conditions. For the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we paid corporate income tax of Rmb 44.0 million, Rmb 70.4 million, Rmb 77.5 million and Rmb 18.8 million, respectively. Our weighted average applicable PRC corporate income tax rates for the same periods were 32%, 29%, 26% and 25%, respectively. As Xiamen City is designated by the PRC government as a special economic zone in China, our Xiamen Registered Subsidiaries paid corporate income tax at a reduced rate of 15% prior to January 1, 2008. In March 2007, the National People's Congress of China enacted a new PRC Corporate Income Tax Law, which became effective on January 1, 2008. The new tax law imposes an unified income tax rate of 25% on all domestic enterprises and foreign-invested enterprises unless they qualify under certain limited exceptions. According to the new PRC Corporate Income Tax Law, enterprises that are subject to an corporate income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years from January 1, 2008. As there is a five-year transition period to phase in the new 25% corporate income tax rate, the applicable corporate income tax rate applicable to our Xiamen Registered Subsidiaries was 18% in 2008 and will be 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. As our Xiamen Registered Subsidiaries are unable to continue to enjoy their past preferential tax treatment, our net profit may be adversely affected.

A deterioration in our brand image could adversely affect our business

We rely to a significant extent on our brand name and image as well as the brand name and image of our corporate partners, including our anchor tenants, to attract potential customers to our commercial complexes. Any negative incident or negative publicity concerning us or our properties or any of our anchor tenants at our commercial complexes could adversely affect our reputation and business prospects. Brand value is based largely on consumer perceptions with a variety of subjective qualities and can be damaged even by isolated business incidents that degrade consumer trust. Consumer demand for our products and our brand value could diminish significantly if we fail to preserve the quality of our products, or fail to deliver a consistently positive consumer experience in each of our commercial complexes, or if we are perceived to act in an unethical or socially irresponsible manner. As we are less well known in certain regions in China where we do not have property projects, any negative publicity and resulting decrease in brand value, and/or failure to establish our brand in these regions could have a material adverse effect on our business, results of operations and financial position.

We have relatively less experience in the high-quality hotel development business, which may adversely affect our results in that segment

We are developing three high-quality hotels in Suzhou City in Jiangsu Province, Qingdao City and Tai'an City in Shandong Province, to be operated by Sheraton Overseas Management Corporation (“Sheraton”). We may face considerable reputational and financial risks if the hotels are mismanaged or do not meet the expectations of hotel visitors. In addition, we cannot assure you that there will be sufficient demand for additional high-quality hotel facilities in these locations. As we will rely on hotel management companies to manage our hotels, we may not be in a position to identify or resolve potential issues that may arise in relation to the hotels. If we fail in our efforts in the high-quality hotel development business, it may have a material adverse effect on our business, results of operations and financial position.

Our success depends on the continued services of our senior management team and other key personnel

Our success depends on the continued services provided by our executive Directors and members of our senior management team. Competition for such talented employees is intense in the PRC property development sector. We are very dependent on the Chairman of our Board, Hoi Kin Hong and our senior management members, including Hoi Wa Fong, Shih Sze Ni, Xiao Qing Ping, Au-Yeung Po Fung and Liu Xiao Lan. All of them have an average of 10 years of experience in the PRC property industry, with in-depth knowledge of various aspects of property development. If any core management team member leaves and we fail to find a suitable substitute, our business will be adversely impacted. Moreover, along with our steady growth and expansion into other regional markets in China, we will need to employ, train and retain employees on a much larger geographical scale. If we cannot attract and retain suitable human resources, our business and future growth will be materially adversely affected.

Property owners may terminate our engagement as the provider of property management services which could materially adversely affect our business, results of operations and financial position

We provide after-sales property management services to the owners of our residential and commercial properties through our wholly owned property management subsidiaries, Hualong Property and Hualong Commercial and their respective subsidiaries. We believe that property management is an important part of our business and critical to the successful marketing and promotion of our property developments. Under PRC laws and regulations, the home owners of a residential community of certain scale have the right to change the property management service provider upon the consent of a certain percentage of home owners. If home owners of the projects that we have developed choose to terminate our property management services, our reputation, business, results of operation and financial position if could have a material adverse effect on.

We may be involved in disputes, 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, tenants original residents, residents of surrounding areas, partners and purchasers. These disputes may lead to protests, legal or other proceedings and may result in damage to our reputation, substantial costs and diversion of resources and management's attention. As most of our projects are comprised 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, which may subject us to administrative proceedings and unfavorable decrees that may result in liabilities and cause delays to our properly developments. We may also be involved in disputes or legal proceedings in relation to delays in the completion and delivery of our projects. Any of the above could have a material adverse effect on our business, results of operations and financial position. During the Track Record Period, we were involved in certain legal or other disputes in the ordinary course of our business, including claims relating to our guarantees for mortgage loans provided to purchasers of our properties and contract disputes with purchasers and tenants of our properties.

The total GFA of some of our property developments may have exceeded the original authorized area and the excess GFA is subject to governmental approval and payment of additional land premium

When the PRC government grants land use rights for a piece of land, it will specify in the land grant contract the permitted use of the land and the total GFA that the developer may develop on the land. The actual GFA constructed, however, may exceed the total GFA authorized in the land grant contract due to factors such as subsequent planning and design adjustments. The amount of GFA in excess of the authorized amount is subject to approval when the relevant government authorities inspect the properties after their completion and the developer may be required to pay additional land premium in respect of such excess GFA. If we fail to obtain the required certificate of completion due to any such excess, we will not be allowed to deliver the relevant properties or to recognize the revenue from the relevant pre-sold properties and may also be subject to liabilities under the sale and purchase agreements. We cannot assure you that the total constructed GFA of our existing projects under development or any future property developments will not exceed the relevant authorized GFA upon completion or that we will be able to pay the additional land premium and obtain the certificate of completion on a timely basis. Under relevant PRC laws and regulations, we may be required to pay additional amounts or take corrective actions with respect to any such non-compliant GFA before a certificate of completion can be issued in respect of the property development or before the general property ownership certificate can be issued. Any of the above could have a material adverse effect on our business, results of operations and financial position.

RISKS RELATING TO THE PROPERTY DEVELOPMENT INDUSTRY IN CHINA

Our operations are subject to extensive governmental regulations, and in particular, we are susceptible to changes in policies related to the real estate industry in China

Our business is subject to extensive governmental regulations. As with other PRC property developers, 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 particular, the PRC government exerts considerable direct and indirect influence on the development of the PRC property sector by imposing industry policies and other economic measures, such as control of foreign exchange, taxation, financing available and foreign investment. These measures include raising benchmark interest rates of commercial banks, placing additional limitations on the ability of commercial banks to make loans to property developers, imposing additional taxes and levies on property sales and restricting foreign investment in the PRC property sector. Many of the property industry policies carried out by the PRC government are unprecedented and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of such policies. This refining and adjustment process may not necessarily have a positive effect on our operations and our future business development. We cannot assure you that the PRC government will not adopt additional and more stringent industry policies and regulations in the future. If we fail to adapt our operations to new policies and regulations that may come into effect from time to time with respect to the real property industry, or such policy changes disrupt our business prospects or cause us to incur additional costs, our business, results of operations and financial position may be materially adversely affected.

The PRC government may adopt further measures to slow down growth in the property sector

Along with the economic growth in China, investments in the property sector have increased significantly in the past few years. In May 2006, various PRC government authorities jointly issued the Opinions on Adjustment of Housing Supply Structure and Stabilization of Property Prices《關於調整住房供應結構穩定住房價格的意見》to reiterate existing measures and to introduce new measures to further curb fast increases in property prices in large cities and to promote healthy development of the PRC property market. These measures, among others, include:

- requiring that at least 70% of the land supply approved by a local government for residential property development for any given year must be used for developing low- to medium-cost and small- to medium-size units and low-cost rental properties;
- requiring that at least 70% of the GFA of residential projects approved or constructed on or after June 1, 2006 must consist of units with a unit floor area of less than 90 square meters per unit and that projects which have received project approvals prior to this date but have not obtained construction permits must adjust their planning in order to be in conformity with this new requirement, with the exception that municipalities under direct administration of the PRC central government and provincial capitals and certain cities may deviate from this ratio under special circumstances upon approval from the Ministry of Construction;
- increasing the minimum amount of down payment to 30% of the purchase price of the underlying property unless the underlying property has a unit floor area of 90 square meters or less and the purchaser is buying the property as its own residence; and
- restricting the extension of loans and the grant of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties.

In September 2007, PBOC and CBRC jointly issued the Notice on Strengthening the Administration of Commercial Real Estate Credit Loans《關於加强商業性房地產信貸管理的通知》to regulate further the management of credit loans for commercial real estate. These measures include:

- prohibiting commercial banks from lending to projects with an internal capital ratio (owners' equity) of less than 35%, or without a land use rights certificate, construction land use planning permit, construction planning permit and a construction permit;
- prohibiting commercial banks from lending to property developers solely for the payment of land premium;
- requiring banks to support funding needs of purchaser purchasing their first self-occupied flat, and to grant loans only to purchasers who have purchased flats which have been topped out;
- the minimum down payment for a self-occupied flat with a GFA of less than 90 square meters per unit shall not be less than 20%. The minimum amount of down payment for a self-occupied flat with a GFA of over 90 square meters per unit shall not be less than 30%. The minimum down payment payable by an individual who has obtained a mortgage to purchase the second (or more) flat shall not be less than 40%. The loan interest rate shall not be less than 1.1 times the prevailing basis rate issued by PBOC, and the minimum amount of down payment and interest rate shall significantly increase with the number of flats purchased;
- commercial properties purchased with loans shall have been completed and passed the completion acceptance inspection; and

- for commercial properties, the minimum down payment shall not be less than 50%, the loan term shall not exceed 10 years and the loan interest rate shall not be less than 1.1 times the prevailing basis rate issued by PBOC. For combined commercial and residential properties, the minimum down payment shall not be less than 45% and the term and interest rate shall be determined according to the administrative regulations of commercial property loans.

On January 3, 2008, the State Council issued a Notice on Promoting Economization of Land Use《關於促進節約集約用地的通知》with respect to the collection of additional land premium, establishment of a land utilization priority planning scheme and the formulation of a system for assessing the optimal use of land and other measures. The notice urges the full and effective use of existing construction land and the preservation of farming land. The notice also emphasizes the enforcement of the current rules on idle land fee for any land left idle for over one year but less than two years, with such idle land fee charged at 20% of the land grant premium. The notice further urges financial institutions to exercise caution when they process loan applications from property developers that have failed to commence construction, to complete development of at least one third of the land area or to invest at least 25% of the total investment within one year of the construction date provided in the land grant contract. The notice states that the relevant government authorities will formulate and issue further rules and regulations on such requirements.

The various restrictive measures taken by the PRC government to curtail the growth of the property sector may limit our access to capital resources, reduce market demand and increase our operating costs in adapting to these measures. On October 22, 2008, PBOC promulgated the Notice on Several Issues Regarding the Expansion of Downward Floating Interest Rate for Individual Commercial Housing Loans《關於擴大商業性個人住房貸款利率下浮幅度有關問題的通知》. In December 2008, the General Office of the State Council issued the Opinion on Promoting the Healthy Development of Real Estate Market《國務院辦公廳關於促進房地產市場健康發展的若干意見》. Although these two regulations encouraged the purchase of individual housing, we cannot assure you that the PRC government will not adopt additional and more stringent measures, which could further slow down property development in China.

Any limitations on our access to capital, increases in our operating costs or decrease in property development growth in China resulting from existing or future measures could have a material adverse effect on our business, results of operations and financial position.

Changes of PRC laws and regulations with respect to pre-sale may adversely affect our cash flow position and business performance

We depend on cash flows from the pre-sale of properties as an important source of funding for our property development. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sale of the relevant properties and may only use pre-sale proceeds to finance their developments. In August 2005, PBOC issued a report entitled "2004 Real Estate Financing Report," in which it recommended the discontinuation of the practice of pre-selling uncompleted properties as it creates significant market risks and generates transactional irregularities. This and other PBOC recommendations have not been adopted by the PRC government. However, we cannot assure you that the PRC government will not adopt such recommendations and abolish the practice of pre-selling uncompleted properties or implement further restrictions on property pre-sale, such as imposing additional conditions for obtaining pre-sale permits or imposing further restrictions on the use of pre-sale proceeds. Any such measures will materially adversely affect our cash flow position and force us to seek alternative sources of funding to finance our project developments.

In addition, we make certain undertakings in our sale and purchase agreements including obtaining the requisite completion acceptance inspection certificates for the properties and delivering completed properties and property ownership certificates to the customers within the period stipulated in the sale and purchase agreements. These sale and purchase agreements and PRC laws and regulations provide for remedies for breach of such undertakings. For example, if we pre-sell a property project and we fail to complete that property project, we will be liable to the purchasers for their losses. Should we fail to complete a pre-sold property project on time, our purchasers may seek compensation for late delivery pursuant to either their contracts with us or relevant PRC laws and regulations. If our delay extends beyond a specified period, our purchasers may terminate the sale and purchase agreements and claim compensation. We cannot assure you that we will not experience significant delays in the completion and delivery of our projects which could have a material adverse effect on our business, results of operations and financial position.

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

In accordance with the provisions of the PRC Provisional Regulations on Land Appreciation Tax and their implementation rules, all persons including companies and individuals that receive income from the sale or transfer of state-owned land use rights, buildings and their attached facilities are subject to LAT at progressive rates ranging from 30% to 60% of the appreciated value of the land and improvements on such land, with certain exemptions available for the sale of ordinary residential properties if the appreciated value does not exceed 20% of the deductible expense items as defined in the relevant LAT regulations. In October 2008, as a part of the PRC governmental measures to mitigate the recent global economic slowdown, the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjustments to Taxation on Real Estate Transactions to temporarily exempt sales of residential properties by individual owners from LAT. Sales of luxury residential properties and commercial properties are not eligible for such exemption.

The State Taxation Bureau clarified the settlement of LAT to some extent in its Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises《關於房地產開發企業土地增值稅清算管理有關問題的通知》effective from February 1, 2007. The notice clarifies that provincial and local tax authorities may formulate their own implementation rules and determine how LAT will be settled in their jurisdictions. During the Track Record Period, our project under development in Fujian Province and Shandong Province were subject to LAT calculated at progressive rates ranging from 30% to 60% of the appreciated value of the land and improvements on such land, while our projects under development in Henan Province, Anhui Province and Jiangsu Province were subject to LAT which was calculated based on a fixed rate (ranging from 0.5% to 3.5%) of the proceeds from sales of the properties, depending on the city where the relevant project company was located and the types of properties under development, in accordance with the taxation methods approved by the local tax authorities. Our PRC legal counsel, Jingtian & Gongcheng, has confirmed that, during the Track Record Period, we were in compliance with the relevant PRC tax laws in using the respective taxation methods to calculate LAT for these projects as such methods were approved by the local tax authorities, which are authorized to adopt and implement the taxation methods in determining LAT liabilities in their jurisdictions pursuant to the above-mentioned notice issued by the State Tax Bureau. For a more detailed description of the PRC regulations on LAT please see the section entitled "Taxation — Mainland China Taxation — Our operations in mainland China — Land appreciation tax" in Appendix V to this document.

We have been prepaying LAT with reference to our pre-sale proceeds according to the relevant regulations of the local PRC government in jurisdictions where we have operations. Such LAT prepayments are recorded as a part of "prepaid taxes" on our consolidated balance sheets. We also made LAT provision of Rmb 73.6 million, Rmb 199.4 million, Rmb 3.9 million and Rmb 144.1 million during the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. In 2008, our project companies in Jiangsu Province and Anhui Province obtained approvals from their respective local tax authorities for the calculation of LAT based on a fixed rate (ranging from 0.5% to 3.5%) of the proceeds from the sales of the properties instead of the progressive rate (ranging from 30% to 60%) of the appreciated land value. Accordingly, LAT provisions for the properties we completed and delivered in 2008 were significantly lower than those in 2007. In addition, certain amount of LAT provisions made in 2007 based on the progressive rate of the appreciated land value were reversed in 2008, which also resulted in much lower LAT provisions in 2008 as compared to 2007. For more information, please see the section entitled "Financial Information — Results of Operations — 2008 compared to 2007 — Income tax." Provisions for unsettled LAT liabilities are recorded as a part of "income tax payables" on our consolidated balance sheets. However, we cannot assure you that our LAT provision will be sufficient to cover our past LAT liabilities. We also cannot assure you that the relevant tax authorities will agree with the basis on which we have calculated our LAT liabilities. Our financial position may be materially adversely affected if our LAT liabilities as finally calculated by the relevant tax authorities are substantially higher than our LAT provisions.

We may not be able to obtain qualification certificates

As a precondition to engage in real property development in China, a company must obtain a qualification certificate and renew it on an annual basis. According to the PRC regulation on qualification of property developers issued in 2000, a newly established property developer must first apply for a provisional qualification certificate with a one-year validity, which can be extended for not more than two years under renewal. If, however, a newly established property developer fails to commence a property development project within the one-year period when the provisional qualification certificate is in effect, it will not be allowed to extend its provisional qualification certificate. Furthermore, established developers must also apply for renewal of their qualification certificates on an annual basis. Government regulations mandate that developers must fulfill all statutory requirements before they may obtain or renew their qualification certificates.

We develop all of our properties through project companies. These project companies must also hold valid qualification certificates to be able to conduct their businesses. We cannot assure you that we and our project companies will continue to be able to extend or renew the qualification certificates. If we or our project companies do not possess valid qualification certificates, the government will refuse to issue pre-sale and other permits necessary for the conduct of our property development business. In addition, the government may impose a penalty on us and our project companies for failure to comply with the relevant licensing requirements. Any of the above could have a material adverse effect on our business, results of operations and financial position.

The terms on which mortgage loans are available, if at all, may affect our sales

Most purchasers of our 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 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 with a unit floor area of less than 90 square meters generally must pay at least 20% of the purchase price of the properties before they can finance their purchases through mortgages. Since May 2006, the PRC government has increased the minimum amount of down payment to 30% of the purchase price for first-time home owners if such property has a unit floor area of 90 square meters or more. In September 2007, the PRC government stipulated that for second-time home buyers that use mortgage financing, the PRC government-sanctioned minimum down payment has increased to 40% of the purchase price, with minimum mortgage loan interest rates at 110% of the relevant PBOC benchmark interest rate.

For commercial property buyers, banks are only allowed to finance the purchase of properties which have been completed and passed the completion acceptance inspection. The minimum down payment for commercial property buyers has increased to 50% of the purchase price, with minimum mortgage loan interest rates at 110% of the relevant PBOC benchmark interest rate and maximum maturities of no more than 10 years. In addition, mortgagee banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan would exceed 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 October 2008, PBOC promulgated the Notice on Several Issues Regarding the Expansion of Downward Floating Interest Rate for Individual Commercial Housing Loans《關於擴大商業性個人住房貸款利率下浮幅度有關問題的通知》. Pursuant to the notice, the minimum down payment for home buyers was reduced to 20% of the purchase price, with the minimum mortgage loan interest rate adjusted to 70% of the relevant PBOC benchmark interest rate. 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 cash flow, business, results of operations and financial position could be 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 or 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 adversely affect our cash flow, business, results of operations and financial position. We cannot assure you that changes in laws, regulations, policies or practices which may prohibit or restrict property developers from providing guarantees to banks in respect of mortgages offered to property purchasers will not occur in China in the future.

Intensified competition may adversely affect our business and our financial position

In recent years, many competitors, including overseas property developers and operators, and large-scale commercial facility operators have entered the property development markets in regions of China where we have operations. Many of them may have more financial or other resources than us and may be more sophisticated than we are in terms of engineering and technical skills. Competition among property developers may cause an increase in land premium and raw material costs, shortages in quality construction contractors, surplus in property supply leading to decreasing property prices, further delays in issuance of government approvals, and higher costs to attract or retain talented employees. Moreover, property markets across China are influenced by various other factors, including changes in economic conditions, banking practices and consumer sentiments. If we fail to compete effectively, our business, results of operations and financial position will suffer.

Failure to comply with our environmental and social responsibilities may adversely affect our operations and profitability

We are subject to extensive and increasingly stringent environmental protection laws and regulations that impose fines for violation of such laws, regulations or decrees and provide for the shutdown by the central, provincial or municipal government of any construction sites not in compliance with governmental orders requiring the cessation or cure of certain activities causing environmental damage. In addition, there is a growing awareness of environmental issues and we may sometimes be expected to meet a standard which is higher than the requirement under the prevailing environmental laws and regulations.

We have not adopted additional environmental protection measures other than the measures generally taken in the ordinary course of business by companies in the industry. These measures include conducting environmental assessments on our property construction projects, hiring construction contractors who have good environmental protection and safety track record and requiring them to comply with the relevant laws and regulations on environmental protection and safety. We require them to use construction materials and construction methods that meet the requirements of such laws and regulations, undertake final clean up of the construction site, limit work hours for noisy construction activities and manage quality of residual soil. In addition, there is no assurance that more stringent requirements on environmental protection will not be imposed by the relevant PRC governmental authorities in the future. If we fail to comply with existing or future environmental laws and regulations or fail to meet the expectations of the society, our reputation may be damaged or we may even be required to pay penalties or fines or take remedial actions, any of which could have a material adverse effect on our business, results of operations and financial position.

RISKS RELATING TO CHINA

Changes in PRC political and economic policies and conditions could adversely affect our business and prospects

China has been, and will continue to be, our primary operating base and currently most of our assets are located in China. While the PRC government has been pursuing economic reforms to transform its economy from a planned economy to a market economy since 1978, a substantial part of the PRC economy is still being operated under various controls of the government. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation and foreign investment, the PRC government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. For example, the PRC government has in the past implemented a number of measures intended to slow down certain segments of the economy, including the real estate industry, that the government believed to be overheating, such as raising benchmark interest rates of commercial banks, reducing currency supply and placing additional limitations on the ability of commercial banks to make loans by raising bank reserves against deposits. Our business prospects and results of operations may be materially adversely affected by changes in the PRC economic and social conditions and by changes in the rates or method of taxation and the imposition of additional restrictions on currency conversion.

Changes in foreign exchange and foreign investment regulations in China may adversely affect our ability to invest in China and the ability of our subsidiaries to pay dividends and service debts in foreign currencies

Renminbi is not a freely convertible currency at present. We currently receive substantially all of our revenues in Renminbi. The PRC government regulates the conversion between Renminbi and foreign currencies. Changes in PRC laws and regulations on foreign exchange may result in uncertainties in our financing and operating plans in China. Over the years, the PRC government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade and service related foreign exchange transactions, payment of dividends and service of foreign debts. Under existing PRC foreign exchange regulations, payments of current-account items, including profit distributions, interest payments and operation-related expenditures, may be remitted in foreign currencies without prior approval from the relevant foreign exchange administration authorities by complying with certain procedural requirements. However, we cannot assure you that the PRC government will not take further measures in the future to restrict access to foreign currencies for current account transactions. Strict control applies to capital account transactions. Pre-approval or registration is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay for capital expenses. Changes in PRC foreign exchange policies may have a negative impact on the ability of our PRC subsidiaries to service its foreign currency denominated indebtedness and to distribute dividends to us in foreign currencies.

We have the choice of investing our net proceeds in the form of registered capital or a shareholder loan into our operating foreign-invested subsidiaries for property developments. Our choice of investment is affected, however, by the relevant SAFE regulations with respect to capital-account and current-account foreign exchange transactions in China. In addition, our transfer of funds to our foreign-invested subsidiaries in China is subject to approval by PRC government authorities in case of an increase in registered capital, or subject to registration with PRC government authorities in case of a shareholder loan. These limitations on the cash flow between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions.

PRC laws and regulations involve many uncertainties and the current legal environment in China could have a negative impact on our business and/or limit the legal protections available to you

Our core business is conducted in China and our principal operating subsidiaries are located in China. As such, they are subject to PRC laws and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior cases have little precedent value in deciding subsequent cases in the civil law legal system. Additionally, such PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. When the PRC government started its economic reforms in 1978, it began to build a comprehensive system of laws and regulations to regulate business practices and overall economic orders of the country. China has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving foreign investment, corporate organization and governance, commercial transactions, taxation and trade. However, the promulgation of new laws, changes in existing laws and abrogation of local regulations by national laws may have a negative impact on our business and prospects. Additionally, given the involvement of different enforcement bodies of the relevant rules and regulations and the non-binding nature of prior court decisions and administrative rulings, the interpretation and enforcement of PRC laws and regulations involve significant uncertainties under the current legal environment. All these uncertainties may limit the legal protections available to foreign investors including you.

The national and regional economies in China and our prospects may be adversely affected by a recurrence of SARS or an outbreak of other epidemics, such as influenza A (H1N1) and avian flu (H5N1)

Some regions in China, including the cities where we operate, are susceptible to epidemics such as Severe Acute Respiratory Syndrome, or SARS. Past occurrences of epidemics, depending on their scale of occurrence, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in China, such as influenza A (H1N1) and avian flu (H5N1), especially in the cities where we have operations, may result in material disruptions to our property development and our sales and marketing, which in turn may materially adversely affect our business, results of operations and financial position.

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the PRC economy and the PRC property development industry contained in this document

Facts, forecasts and other statistics in this document relating to China, the PRC economy and the PRC real estate industry have been derived from various official government publications generally believed to be reliable. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, or any of our espective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts, forecasts and statistics in this document may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to China, the PRC economy and the PRC real estate industry contained in this document.

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

Almost all of our executive Directors and executive officers reside within mainland China, and substantially all of our assets and substantially all of the assets of those persons are located within mainland China. Therefore, it may be difficult for investors to effect service of process upon us or those persons inside mainland China or to enforce against us or them in mainland China any judgments obtained from non-PRC courts.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. Therefore, recognition and enforcement in mainland China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.