

## FINANCIAL INFORMATION

**You should read this section in conjunction with our audited consolidated financial information, together with the accompanying notes, in the Accountants’ Report contained in Appendix I to this document. Our consolidated financial information as of and for each of the three financial years ended December 31, 2006, 2007 and 2008 and as of and for the six months ended June 30, 2009 were audited by PricewaterhouseCoopers, Certified Public Accountants. We have prepared our consolidated financial information in accordance with HKFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions. The following discussion contains forward-looking statements that involve risks and uncertainties. Accordingly, you should not place undue reliance on any such statements. Our future results could differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth under the section entitled “Risk Factors” in this document.**

### BASIS OF PREPARATION OF OUR FINANCIAL INFORMATION

We underwent the Reorganization which involved companies under common control, and our company and consolidated subsidiaries resulting from the Reorganization are regarded as a continuing group. Accordingly, we have accounted for the Reorganization on the basis of merger accounting, under which our consolidated financial information presents our results of operations, cash flows and financial position as if our current group structure had been in existence since January 1, 2006 or since the respective dates of incorporation/establishment or acquisition, whichever is later. All intra-group transactions and balances have been eliminated on consolidation. Our consolidated financial information has been prepared under the historical cost convention, as modified by the revaluation of investment properties and embedded financial derivatives at their fair values pursuant to HKFRS.

The consolidated statements of comprehensive income for the six months ended June 30, 2008 and the consolidated statements of financial position as of June 30, 2008 have been derived from our unaudited consolidated financial statements included elsewhere in the document. We have prepared the unaudited interim consolidated financial statements on the same basis as our audited consolidated financial statements. The unaudited interim consolidated financial statements include all adjustments, consisting only of normal and recurring adjustments that we consider necessary to fairly present our financial positions for the periods indicated.

### OVERVIEW

We believe we are a leading commercial property developer in China specializing in the development and operation of high-quality, large-scale, multi-functional commercial complexes. Our existing property projects are generally located in prime positions close to the city center of fast-growing, emerging cities in Fujian Province, Jiangsu Province, Shandong Province, Henan Province and Anhui Province. We intend to expand our commercial property development operations predominantly to other second or third-tier cities in China with high growth potential. In 2006, 2007 and 2008, we were recognized as a top brand, among commercial and tourism related real estate brands, by China Real Estate Top 10 Research Group, based on a combination of factors, including our market position, brand recognition and customer

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satisfaction. We were named as one of the top 100 real estate enterprises in China in 2006, 2007, 2008 and 2009, by the same organization based on a range of factors such as total assets, total revenue, net profit and GFA completed and under development.

During our Track Record Period, we have evolved from a regional property developer and operator into a national player in the commercial property markets and have expanded into many strategically selected emerging cities across China. For 2006, 2007 and 2008, our revenue amounted to Rmb 402.8 million, Rmb 1,025.8 million and Rmb 1,583.8 million, respectively. We had profits attributable to our equity holders of Rmb 117.4 million, Rmb 603.3 million and Rmb 932.7 million for 2006, 2007 and 2008, respectively. For the six months ended June 30, 2008 and 2009, our revenue was Rmb 675.1 million and Rmb 1,294.3 million, respectively. Our profit attributable to our equity holders for the six months ended June 30, 2008 and 2009 was Rmb 55.7 million and Rmb 330.1 million, respectively.

As of June 30, 2009, we had a total of 17 property development projects at various stages of development in 14 cities in China as follows:

- *Completed properties.* We had completed four projects, of which three are located in Fujian Province and one is located in Henan Province, with a total GFA of 660,302 square meters, of which we currently hold a total GFA of 238,760 square meters available for lease.
- *Properties under development.* We had seven projects under development with a total GFA of 3,316,611 square meters, of which three are located in Jiangsu Province, two are located in Shandong Province, one is located in Henan Province and one is located in Anhui Province. We had completed construction of an aggregate of 538,675 square meters of GFA in various projects under development, with respect to which we are currently applying for the certificates of completion.
- *Properties held for future development.* We had six projects held for future development with a total GFA of 3,900,720 square meters, of which three are located in Jiangsu Province, two are located in Shandong Province and one is located in Henan Province.

We hold a 100% equity interest in all the above projects except for Wuxi Powerlong City Plaza, in which we hold an 80% interest. Of the 7,217,331 square meters of GFA under development and held for future development as of June 30, 2009, an estimated total GFA of approximately 3,861,621 square meters related to residential properties, and an estimated total GFA of 3,355,710 square meters related to commercial properties.

We focus on the development and operation of large-scale commercial complexes and therefore, the acquisition of land at competitive prices and in the right locations is critical to our overall development strategy. As of June 30, 2009, we had properties under development with a total site area of 1,525,474 square meters in Suzhou City and Wuxi City in Jiangsu Province, Qingdao City and Tai'an City in Shandong Province, Luoyang City in Henan Province as well as Bengbu City in Anhui Province. As of the same date, we also had properties held for future development with a total site area of 1,786,885 square meters in Suqian City, Yancheng City and Changzhou City in Jiangsu Province, Qingdao City and Yantai City in Shandong Province as well as Xinxiang City in Henan Province. We continually search for development sites that meet our selection criteria and plan to maintain our land reserves at levels sufficient to support our operations for three years on a rolling basis. We typically finance our land acquisition costs

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with cash generated internally from our operations and bank borrowings. However, as we grow larger and gain more access to capital markets, we may also finance our land acquisition costs with other debt or equity instruments.

We believe our products are competitive in the PRC real estate market. Our property development projects typically comprise large-scale commercial complexes and residential properties in second or third tier cities. Our property developments are among the largest integrated commercial projects in the cities where they are located and typically have a total GFA ranging between 200,000 to 500,000 square meters each. Our “Powerlong City Plazas” are integrated commercial-residential complexes and typically include the following categories of properties:

- large-scale commercial premises that contain supermarkets, department stores, retail shops, cinemas, food courts and other recreational facilities; and
- quality residential properties with low- and/or high-rise apartment buildings, residential suites and villas.

Depending on the location of our projects and market demand, our future commercial complex projects may also include the following categories of properties:

- high-quality hotels managed by internationally recognized hotel management companies; and
- large-scale indoor amusement parks.

We are currently developing three high-quality hotels as part of our project developments in Suzhou City, Qingdao City and Tai’an City and have engaged a subsidiary of Starwood Hotels Resorts Worldwide Inc. to manage these hotels.

## RECENT DEVELOPMENT

On September 17, 2009, we issued the New Secured Notes to Superb Miles Limited, a fellow subsidiary of ICBCI, in a principal amount of HK\$350 million due and payable on the earlier of December 16, 2009 or the listing of the Shares on the Stock Exchange. The New Secured Notes bear interest at an annual rate of 5.22%, accrued and calculated on a daily basis. Our obligations under the New Secured Notes are secured by charges over shares of our Company, BVI Powerlong, Powerlong (BVI) I, HK Powerlong and Powerlong (HK) 1, fixed and floating charges over assets of our Company and personal guarantees provided by Hoi King Hong and Hoi Wa Fong, the Controlling Shareholders. The amount of commission paid to the arranger in connection with the loan arrangement was approximately HK\$3.85 million. We used the proceeds from the New Secured Notes to redeem a portion of the outstanding Secured Bonds and Secured Notes. For more information, please see the section entitled “History, Reorganization and Corporate Structure — Convertible Bonds and Secured Notes” in this document.

In September 2009, we also secured the New Loan from the Industrial and Commercial Bank of China (Asia) Limited. We had used HK\$120 million to redeem a portion of the Secured Bonds and Secured Notes as of the Latest Practicable Date. Our obligations under the New

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Loan are secured by a pledged deposit of an amount in Renminbi equivalent to the amount of the loan in Hong Kong dollars drawn down by us. The New Loan bears interest at an annual rate of HIBOR plus 0.75% and will become due and payable in September 2010.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

#### Economic Growth, Speed of Urbanization and Demand for Properties in China

The economic growth, urbanization and rising standard of living in China have been the main driving forces behind the increasing market demand for properties. Currently, the real estate industry is regarded by the PRC government as one of China’s pillar industries. It is significantly dependent, however, on the overall economic growth and the resultant consumer demand for properties. Because we target residential property buyers and commercial property tenants and buyers primarily in second and third-tier emerging cities in China, we believe that the rate of urbanization and the overall economic growth in China are especially important to our operations. In addition, urbanization and overall economic growth in China will also impact the consumer demand for our commercial rental properties and our occupancy rate, which will in turn affect our rental income and results of operations. The recent slowdown of the worldwide economy, including that of China, resulted in the decline in real estate market sentiment, a lower property demand and a decline in property selling prices and rental prices in many areas of China in 2008 and the first quarter of 2009. Any economic downturn in China generally or, in particular, in the cities where we operate, could adversely affect our business, results of operations and financial position. Please also see the section entitled “Risk Factors — Risks Relating to Our Businesses — 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” in this document.

#### Regulatory Measures in the Real Estate Industry in China

Policies and measures on property development and related industries implemented by the PRC government have a direct impact on our business and results of operations. From time to time, the PRC government adjusts its macroeconomic control policies to encourage or restrict development in the private property sector through regulating, among others, land supply, pre-sales of properties, permitted land usage, foreign investment, bank financing and taxation. For example, we are required to pay LAT on our property developments with respect to the appreciated value of the related land and improvements on such land. Currently, we prepay LAT in accordance with our pre-sale proceeds in the jurisdictions in which we have operations. In addition, we make provisions for any shortfall in our anticipated actual LAT liabilities. We cannot assure you that the relevant tax authorities will agree that our prepayments and provisions are sufficient to cover all the LAT obligations which PRC tax authorities may ultimately impose on us. Our financial position may be materially adversely affected if our LAT liabilities as calculated by the relevant tax authorities are substantially higher than our prepayments and provisions. Please see the section entitled “Risk Factors — Risks Relating to the Property Development Industry in China — The relevant PRC tax authorities may challenge the basis on which we calculate our LAT obligations.”

In the past several years, the PRC government has also implemented a series of measures with a view to controlling the growth of the economy, including the property markets. For example, PBOC increased the required reserve ratio of funds that a commercial bank must hold on deposit 18 times, during the period between July 2006 and May 2008, from 7.5% in the first

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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. In November 2004, MOFCOM and NDRC promulgated the Catalog of Guidance on Industries for Foreign Investment 《外商投資產業指導目錄》 to further regulate foreign investments in China. While it encouraged foreign investments in the development and construction of ordinary residential units in China, it restricted foreign investments in the development and operation of high-end hotels, villas, premium office buildings, international conference centers and large theme parks in China. In November 2007, the PRC government revised its Catalog of Guidance on Industries for Foreign Investment by, among other things, removing the development of ordinary residences from the foreign-investment-encouraged category and adding the secondary market residential property trading and brokering into the foreign-investment-restricted category.

In response to the recent global financial crisis and in an effort to expand domestic demand, the State Council issued a notice on Adjusting the Capital Ratio of Fix Asset Investment Projects 《國務院關於調整固定資產投資項目資本金比例的通知》 in May 2009. Pursuant to the notice, the capital ratio for government subsidized housing projects and ordinary commodity housing projects is reduced from 35% to 20%, and the capital ratio for other property development projects is reduced from 35% to 30%. 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 adjusted to 20% of the purchase price, with the minimum mortgage loan interest rate adjusted to 70% of the relevant PBOC benchmark interest rate. These and other measures have affected the overall economy in China, with differing effects on various economic sectors. Our financial position and results of operations were affected during the Track Record Period, and may continue to be affected, by these and other changes in the PRC regulatory measures, including the potential tightening of lending policies. Please also see “Summary of PRC Laws Relating to the Property Sector” in Appendix VI to this document.

### **Ability to Acquire Suitable Land at Relatively Low Costs**

Our continuing growth will depend in large part on our ability to acquire quality land at prices that can yield reasonable returns. The fluctuation of land acquisition costs during the Track Record Period mainly resulted from the different locations of the parcels of land we acquired. Based on our current development plans, we believe we have sufficient land reserves for property developments for the next three years. We expect competition among developers for land reserves that are suitable for property development to remain intense. In addition, the statutory means of public tender, auction and listing-for-sale practice in respect of the grant of state-owned land use rights may further increase competition for undeveloped land and land acquisition costs.

### **Pre-sale**

Pre-sale constitutes the most important source of our operating cash inflow during project development. During 2006, 2007 and 2008 and the six months ended June 30, 2009, our pre-sale cash inflow amounted to Rmb 907.7 million, Rmb 1,969.2 million, Rmb 1,707.1 million and Rmb 1,045.6 million, respectively. PRC law allows us to pre-sell properties before their completion upon satisfaction of certain requirements and requires us to use the pre-sale proceeds to develop the property projects that are pre-sold. The amount and timing of cash inflows from pre-sale are affected by a number of factors, including timing and other restrictions



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on pre-sale imposed by the PRC government, market demand for our properties subject to pre-sale and the number of properties we have available for pre-sale. Reduced cash flow from pre-sales of our properties will increase our reliance on external financing and will impact our ability to finance our continuing property developments.

### Access to and Cost of Financing

Bank borrowings and borrowing from non-bank financing institutions are other important sources of funding for our property developments. As of December 31, 2006, 2007 and 2008 and June 30, 2009 our outstanding bank borrowings amounted to Rmb 129.0 million, Rmb 760.3 million, Rmb 1,111.0 million and Rmb 988.2 million, respectively. In addition, as of June 30, 2009, we had Secured Bonds and Secured Notes outstanding amounting to Rmb 415.0 million. The effective interest rate of the Secured Bonds and Secured Notes for the year ended December 31, 2008 and for the six months ended June 30, 2009 was 27.6%. During each of 2006, 2007 and 2008 and the six months ended June 30, 2009, the average interest rate on our bank borrowings, computed as our total interest expenses for each year divided by our monthly average outstanding bank borrowings in 2006, 2007 and 2008 and the six months ended June 30, 2009, amounted to 6.03%, 7.40%, 7.12% and 6.42%, respectively, and our aggregate interest expenses on bank borrowings during the same periods amounted to Rmb 9.3 million, Rmb 22.6 million, Rmb 68.8 million and Rmb 35.9 million, respectively. As commercial banks in China link the interest rates on their loans to benchmark lending rates published by PBOC, any increase in such benchmark lending rates will increase the interest costs for our developments. Our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC government on bank lending for property developments. Please see the section entitled “Risk Factors — Risks Relating to Our Businesses — We may not have adequate capital resources to fund our land acquisitions and existing and future property developments” in this document.

When needs arise, we may also seek financing in the international capital market similar to our issue of the Convertible Bonds and Secured Notes, which may give us a longer maturity term but we may have to bear higher interest rates than bank or other commercial borrowings.

### Fair Value of Investment Properties

Our investment properties include retail spaces in our commercial complexes held for rental income and/or for capital appreciation. We measure investment properties initially at cost. Our investment properties under construction continue to be measured at cost until the constructions are completed because we have concluded that the fair value of our investment properties under construction cannot be determined at a reasonably accurate level prior to their completion. Our completed investment properties are stated at their fair value on our consolidated balance sheets as non-current assets as of each balance sheet date on the basis of valuation by an independent property valuer. Gains or losses arising from changes in the fair value of our investment properties are accounted for as gains or losses upon revaluation in our consolidated statement of comprehensive income, which may have a substantial effect on our results. Please see “— Critical Accounting Policies — Investment Properties.” We started to hold investment properties for rental purposes in December 2006. During 2006, 2007 and 2008 and the six months ended June 30, 2009, we recognized fair value gains on our investment properties in the amount of Rmb 121.1 million, Rmb 533.0 million, Rmb 856.0 million and Rmb 2.4 million, respectively, and the average rental per square meter was Rmb 62.0, Rmb 43.1,

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Rmb 46.5 and Rmb 44.7, respectively. As of December 31, 2006, 2007 and 2008 and June 30, 2009, we held a total GFA for lease of 6,436 square meters, 95,585 square meters, 104,875 square meters and 113,348 square meters, respectively.

During the Track Record Period, we aimed to sell all our residential properties and approximately half of our commercial properties while retaining the remaining half of our commercial properties for investment purposes. Our policy going forward is to generally continue our current practice with respect to properties for sale and properties for investment although we expect to retain a greater portion of our properties for investment in the future. Our policy on investment properties is, however, subject to our determination from time to time with respect to our overall financial position, results of operations and cash flow requirements at the relevant time. We will also take into account the integrity and efficiency in the operation and management of the commercial project, the attractiveness of the properties to the market and overall market conditions when we decide whether and how much to keep as investment properties. Property valuation involves the exercise of professional judgment and requires the use of certain bases and assumptions. The fair value of our investment properties may have been higher or lower if the valuer used a different set of bases or assumptions or if the valuation was conducted by other qualified independent professional valuers using the same or a different set of bases and assumptions. In addition, upward revaluation adjustments reflect unrealized capital gains on our investment properties in the relevant period and do not generate any cash inflow for our operations or potential dividend distribution to our equity holders. The amount of fair value adjustments have been, and may continue to be, significantly affected by the prevailing property market conditions in China and may go down as well as up. We cannot assure you that similar levels of fair value gains can be sustained in the future.

### Fluctuations in Our Results of Operations

Our results of operations tend to fluctuate from period to period. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue was Rmb 402.8 million, Rmb 1,025.8 million, Rmb 1,583.8 million and Rmb 1,294.3 million, respectively, and the profit attributable to equity holders of our Company for the same period was Rmb 117.4 million, Rmb 603.3 million, Rmb 932.7 million and Rmb 330.1 million, respectively. During the Track Record Period, our revenue was primarily generated from the sales of the properties we developed. The number of properties that we can develop or complete during any particular period is limited due to substantial capital requirements for land acquisition, planning, design and construction, limited land supplies and lengthy development periods before positive cash flows may be generated. We do not recognize revenue until we complete and deliver our properties. The development process is also subject to weather conditions and the coordination of various processes, such as availability of construction materials and the approval process of various government authorities. In addition, as we focus on developing comparatively large commercial complexes, selling prices of properties in such large scale property developments tend to increase as the overall development approaches completion and as construction and completion risk decreases for the purchasers. Seasonal variations have also caused fluctuations in our interim revenues and profits, including quarterly and semi-annual results. As a result, our results of operations fluctuate and our interim results do not proportionally reflect our annual results.

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### Product Mix

We have in the past retained certain portions of our commercial properties for long-term investment purposes, and intend in the future to retain an increasing portion of our commercial properties for recurring rental income and/or for capital appreciation. We have historically sold, and intend to continue to sell, our residential properties to purchasers for immediate cash flow. Accordingly, our results of operations and the source and amount of cash from our operations may vary significantly from period to period depending on the type of properties we sell or lease out. During 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue from sales of properties amounted to Rmb 399.3 million, Rmb 982.7 million, Rmb 1,511.8 million and Rmb 1,255.6 million, respectively, with a gross profit margin, excluding the impact of intra-group transactions, of approximately 51%, 60%, 45% and 53%, respectively, during the Track Record Period.

We started to lease out our investment properties in December 2006 and had leased out a total GFA of 6,436 square meters as of December 31, 2006. As of June 30, 2009, our GFA leased out increased to 113,348 square meters. During 2006, 2007 and 2008 and the six months ended June 30, 2009, our rental income amounted to Rmb 0.2 million, Rmb 32.2 million, Rmb 53.3 million and Rmb 28.4 million, respectively, with a gross margin of approximately 71%, 80%, 68% and 83%, respectively. In addition, commercial properties generally command higher selling prices than residential properties, therefore the proportion of commercial and residential properties sold in any given period may also affect our revenue from period to period. Our results of operations and cash flows will also vary depending on the proportion of our investment properties held for lease and properties held for sale, as investment properties generate steady recurring income while properties for sale produce relatively larger influx of revenue.

### Price Volatility of Construction Materials

Our results of operations are affected by price volatility of construction materials such as steel and cement. Cost of materials constitutes the most important item in our construction costs, and exceeds our construction labor cost and project design cost. Historically, for a substantial part of our purchases of construction materials, we used a centralized procurement process to help increase our negotiating power and lower our unit cost for construction materials. Going forward, as a result of changes to our procurement policy to enhance efficiency and project management, we will centralize our purchases of only steel and key equipment such as escalators, elevators and air conditioning units, and our contractors will be responsible for the procurement of cement under the construction contracts. Despite the efficiencies and pricing advantages of our volume purchases, any rising costs for construction materials will impact our cost of sales and overall project costs. As a result, fluctuations in the prices of our construction materials had, and will continue to have, a significant impact on our results of operations.

### CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial information in accordance with HKFRS. The preparation of financial information in conformity with HKFRS requires us to make judgments, estimates and assumptions that affect:

- the reported amounts of our assets and liabilities at the end of each fiscal period;
- the disclosure of our contingent assets and liabilities at the end of each fiscal period; and



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- the reported amounts of revenue and expenses during each fiscal period.

We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and our best assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates and expectations. Some of our accounting policies require a higher degree of judgment than others in their application.

When reviewing our financial information, you should consider:

- our selection of critical accounting policies;
- the judgment and other uncertainties affecting the application of such policies; and
- the sensitivity of reported results to changes in conditions and assumptions.

We believe the following accounting policies are the most significant or involve a higher degree of judgment and estimates used in the preparation of our consolidated financial information.

### Investment Properties

We hold certain of completed properties for long-term rental yields or for capital appreciation or both, but not for our own occupation. These completed properties are classified as completed investment properties. The properties that are being constructed for investment purposes are classified as investment properties under construction. We measure investment properties initially at cost prior to their completion. In respect of investment properties under construction, if the fair values cannot be readily and reliably determined, they will be measured at cost until the fair values can be determined or construction is completed. We have concluded that the fair value of our investment properties under construction cannot be determined at a reasonably accurate level prior to their completion. Therefore, our investment properties under construction continue to be measured at cost until the constructions are completed. Completed investment properties are carried at fair value in our financial statements. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, alternative valuation methods such as recent prices on less active markets or discounted cash flow projections are used. These valuations are performed periodically by independent valuers. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the properties. Changes in fair values of investment properties are recognized as “fair value gains/losses on investment properties” in our consolidated statement of comprehensive income.

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The best evidence of fair value is the current prices in an active market for the properties with similar leases and other contracts. In the absence of such information, we determine the amount within a range of reasonable fair value estimates, which are based on information from a variety of sources including:

- current prices in an active market for properties of different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;
- recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and
- discounted cash flow projections based on estimates of future cash flows, derived from the terms of any existing leases and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

### Revenue Recognition

Our revenue primarily comprises proceeds from sales of properties that we develop, rental income generated from investment properties, income from our property management operations and income from other property related services. We recognize our revenue after the completed properties have been sold and delivered, with all relevant permits and certificates having been obtained and typically at the time when the risks and rewards of the property has been passed to the purchaser. Such revenue recognition is made on a property by property basis as we complete and deliver each property. Deposits received from pre-sales of properties are carried as advances from customers.

### Properties under Development and Completed Properties Held for Sale

For accounting purposes, properties under development include only properties in respect of which we have obtained the relevant land use rights certificates and the relevant construction permits. Properties under development and completed properties for sale are stated at the lower of cost and net realizable value. Development cost of property mainly comprises construction costs, amortization of land use rights during the construction period, capitalized borrowing costs on qualifying assets and professional fees during the development period. Net realizable value for properties under development takes into account the price ultimately expected to be realized, less applicable variable selling expenses and anticipated cost of completion. Net realizable value for completed properties held for sale is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions. Significant estimates and judgment by management are therefore required in such cases to determine net realizable value. Land use rights before their amortization into properties under development are carried as land use rights in our consolidated balance sheets.

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### Borrowing Costs

We capitalize our borrowing costs as part of the cost of sales for a project to the extent that such costs are directly attributable to the acquisition and construction of such project. In general, we capitalize the borrowing costs incurred from the commencement of the construction upon receipt of the construction permit of the relevant project until the relevant project is ready for delivery. Borrowing costs incurred after the completion of the construction or otherwise not directly attributable to the acquisition and construction of such project are recorded on our consolidated statement of comprehensive income as finance costs in the period in which they are incurred.

### Current and Deferred Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries/regions where we and our subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future.

### LAT

LAT is recognized as tax expense to the extent that it is probable that we have the obligation to pay such tax to the PRC tax authorities. When we pre-sell properties under development and receive advances from pre-sales of properties, we prepay LAT on the basis of our pre-sale proceeds in accordance with requirements of PRC tax authorities. The actual LAT liabilities are, however, subject to the determination by the tax authorities upon completion of the property development projects and, because the PRC government has not published clear and comprehensive guidelines in this regard, the tax authorities may disagree that our provision is sufficient to cover all actual LAT obligations as at each balance sheet date in respect of our past LAT liabilities. Our prepaid LAT is recorded as a part of "prepaid taxes" under current assets on our consolidated balance sheets. In 2006, we prepaid LAT at 1.0% to 2.0% of pre-sale of properties as required by the local tax authorities. In 2007, we prepaid LAT at 0.5% to 3.5% of pre-sale of properties as required by the local tax authorities. In 2008, we prepaid LAT

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at 1.0% to 3.5% of pre-sale of properties as required by the local tax authorities. In the six months ended June 30, 2009, we prepaid LAT at 1.0% to 3.5% of pre-sale of properties as required by the local tax authorities. In 2006, 2007 and 2008 and the six months ended June 30, 2009, we made LAT prepayments of Rmb 13.0 million, Rmb 32.5 million, Rmb 57.0 million and Rmb 19.2 million, respectively. 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. Provisions for unsettled LAT liabilities are recorded as a part of “income tax payables” on our consolidated balance sheets. Until the PRC government further clarifies its LAT regulations and enforces them on a uniform basis, our actual LAT liabilities will continue to be subject to a degree of uncertainty. We endeavor to make full provision for our LAT liability despite the current uncertainty.

### Convertible Bonds and Secured Notes, Embedded Derivatives and Secured Bonds and Secured Notes

In December 2007, we issued the Convertible Bonds and Secured Notes. The Convertible Bonds and Secured Notes are denominated in Renminbi, to be settled in H.K. dollars, and are secured by our issued share capital, the issued share capital of BVI Powerlong and HK Powerlong as well as an escrow arrangement. The Convertible Bonds are convertible into our Shares. You may find additional information about these Convertible Bonds and Secured Notes in the section entitled “History, Reorganization and Corporate Structure — Convertible Bonds and Secured Notes” and note (18) in the Accountants’ Report contained in Appendix I to this document.

We recognized the Convertible Bonds and Secured Notes as a number of embedded financial derivatives and a debt. Embedded financial derivatives consist of the fair value of the option of the holders of the Convertible Bonds to convert the Convertible Bonds into our Shares at the stipulated conversion price, the fair value of the option of the holders of the Convertible Bonds and Secured Notes to require us to redeem the Convertible Bonds and Secured Notes and the fair value of our option to redeem the Convertible Bonds. Because these embedded options are interdependent and mutually exclusive in their exercisability, they are not accounted for separately, but are instead recognized as a single compound derivative. The debt component consists of the residual amount after deducting the fair value of the derivative component from the net proceeds of Convertible Bonds and Secured Notes at the initial recognition. The debt component, net of transaction costs, is recorded as a liability and is subsequently carried at its amortized cost.

We obtained a valuation on the Convertible Bonds and Secured Notes from BMI Appraisals Limited, an independent valuer, on December 31, 2007 and June 30, 2008. BMI Appraisals Limited used the binomial model in its valuation of the embedded financial derivatives. Key assumptions and variables used in the model are as follows:

	<u>December 31, 2007</u>	<u>June 30, 2008</u>
Conversion price . . . . .	Offer Price	Offer Price
Risk-free rate of interest . . . . .	4.08%	3.84%
Dividend yield . . . . .	1.00%	1.00%
Time to expiration . . . . .	3 years	3 years
Volatility . . . . .	49.44%	56.56%

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The risk-free rate of interest adopted by BMI Appraisals Limited in its assumptions is approximated to the interest rate of PRC government bonds with maturity of three years. Because the conversion price of the Convertible Bonds is subject to adjustments for any future share dividend and asset distribution in accordance with their terms and conditions, BMI Appraisals Limited used a 1.00% dividend yield in determining the fair value of the embedded financial derivatives. This was based on our dividend yield and the dividend yield of peer companies. The volatility adopted by BMI Appraisals Limited for us as a private company was based on the average of the upper range between the industry volatility and peer companies' volatilities.

To determine the fair market value of the embedded financial derivatives requires us to make complex and subjective judgments regarding projected financial and operating results, our unique business risks, the liquidity of our various securities, and our operating history and prospects at respective commitment dates of the Convertible Bonds and Secured Notes. In addition, the value of embedded financial derivatives varies with different variables in the assumptions, which have been made by our Directors based on their best estimates.

The movement of the debt component and embedded financial derivatives of the Convertible Bonds and Secured Notes is set out in the table below.

	<u>Debt component</u>	<u>Embedded financial derivatives</u>	<u>Total</u>
	(Rmb in thousands)		
Convertible Bonds and Secured Notes issued on December 24, 2007 . . . . .	783,056	156,082	939,138
Interest charged . . . . .	3,401	—	3,401
Less: reclassified to interest payables . . . . .	<u>(2,033)</u>	<u>—</u>	<u>(2,033)</u>
As of December 31, 2007 . . . . .	784,424	156,082	940,506
Convertible Bonds and Secured Notes issued on January 4, 2008 . . . . .	61,372	12,084	73,456
Fair value loss on embedded financial derivatives . . . . .	—	14,834	14,834
Interest charged . . . . .	211,724	—	211,724
Less: reclassified to interest payables . . . . .	(97,276)	—	(97,276)
Less: Partial redemption of principal . . . . .	(269,901)	—	(269,901)
Restructure of Convertible Bonds and Secured Notes . . . . .	<u>(690,343)</u>	<u>(183,000)</u>	<u>(873,343)</u>
As of December 31, 2008 . . . . .	<u>—</u>	<u>—</u>	<u>—</u>

The Convertible Bonds and Secured Notes were initially due to mature on September 30, 2008. On September 30, 2008, we reached an agreement with the Investors to refinance our obligations by redeeming some of the Convertible Bonds and Secured Notes with a total payment of HK\$350.0 million in cash and to amend the terms and conditions of the outstanding Convertible Bonds and Secured Notes. The key terms of the agreement became effective on September 30, 2008 and are summarized below:

- the Convertible Bonds in the aggregate principal amount of Rmb 127.7 million were redeemed on September 30, 2008;



## FINANCIAL INFORMATION

- the Secured Notes in the aggregate principal amount of Rmb 142.2 million were redeemed on September 30, 2008;
- the right of holders of the Convertible Bonds to convert the Convertible Bonds into our Shares was cancelled and the Convertible Bonds were restructured into Secured Bonds; and
- the Secured Bonds with an outstanding principal amount of Rmb 330.9 million and the Secured Notes with an outstanding principal amount of Rmb 496.4 million, together with the accrued interests are to be repaid by installments on a monthly basis up to June 30, 2009.

During the period from October 31, 2008 to March 9, 2009, we redeemed Rmb 320.2 million in principal amount of the Secured Bonds and Secured Notes.

On April 9, 2009, we entered into a verbal agreement with the Investors. In consideration of a cash payment of HK\$150.0 million to redeem some of the Secured Bonds and Secured Notes, the Investors agreed to further amend the maturity, amortizing schedule and terms of the Secured Bonds and Secured Notes. On July 17, 2009, we renegotiated the terms of the verbal agreement and entered into a written agreement with the Investors. The key terms of the written agreement are summarized below:

- the annual rate of interest applicable to the Secured Bonds and Secured Notes is 25% per annum. The interest is payable on the date of principal repayment, calculated on a daily basis from (and including) April 9, 2009, until (and excluding) the date of principal repayment;
- all interest payments are calculated in Renminbi and are to be settled in equivalent H.K. dollars at a fixed exchange rate of Rmb 0.8772 to HK\$1.00; and
- the outstanding principal amount of the Secured Bonds and Secured Notes of Rmb 414.4 million together with the accrued interests should be repaid by installments on a monthly basis upto December 31, 2009.

## FINANCIAL INFORMATION

The movement of the Secured Bonds and Secured Notes is set out in the table below.

	<b>Secured Bonds and Secured Notes</b> (Rmb in thousands)
As of January 1, 2008 . . . . .	—
Transfer from Convertible Bonds, Secured Notes and embedded financial derivatives. . . . .	873,343
Interest charged. . . . .	52,350
Less: principal repaid . . . . .	(35,091)
Less: reclassified to interest payables . . . . .	<u>(56,790)</u>
As of December 31, 2008 . . . . .	833,812
Interest charged. . . . .	62,080
Repayment of principal. . . . .	(457,614)
Reclassified to interest payables . . . . .	<u>(23,308)</u>
As of June 30, 2009 . . . . .	<u><u>414,970</u></u>

The effective interest rate of the Secured Bonds and Secured Notes for the year ended December 31, 2008 and for the six months ended June 30, 2009 was 27.6%.

### CERTAIN INCOME STATEMENT ITEMS

#### Revenue

We derived our revenue during the Track Record Period primarily from the sales of the properties that we developed. We recognize our revenue after the completed properties have been sold and delivered, with all relevant permits and certificates having been obtained and typically at the time when the risks and rewards of the property has been passed to the purchaser. Such revenue recognition is made on a property by property basis as we complete and deliver each property. As is customary in the PRC property industry, we pre-sell our properties prior to their completion in accordance with PRC pre-sale regulations. We do not, however, recognize the sales of properties until we have completed the construction of these properties and the properties have been delivered to the purchasers. Typically there is a time gap ranging from 10 to 24 months between the time we commence pre-sale of the properties under development and the delivery of the completed properties. We record the proceeds from the pre-sold properties as “advances from customers” under current liabilities on our consolidated balance sheets, and as “advances from customers” under “cash generated from operating activities” on our consolidated cash flow statements.

## FINANCIAL INFORMATION

The table below sets forth, for the periods and projects indicated, the revenue, the total GFA of properties we delivered and the average selling prices per square meter for these properties, as measured by dividing the revenue by the aggregate GFA delivered.

	Year ended December 31,					Six months ended June 30,				
	2006		2007			2008		2008		
	Revenue	GFA delivered	Average selling price	Revenue	GFA delivered	Average selling price	Revenue	GFA delivered (unaudited)	Average selling price	Revenue
	(Rmb in thousands)	(sq.m.)	(Rmb/sq.m.)	(Rmb in thousands)	(sq.m.)	(Rmb/sq.m.)	(Rmb in thousands)	(sq.m.)	(Rmb/sq.m.)	(Rmb in thousands)
<b>Fuzhou Powerlong City Plaza</b>										
Commercial	215,639	12,095	17,829	615,626	39,623	15,537	6,097	290	—	5,807
Residential	44,103	8,653	5,097	121,229	24,621	4,924	—	—	—	—
<b>Quanzhou Anhui Powerlong Haoyuan</b>										
Residential	128,899	50,509	2,552	—	—	—	—	—	—	—
Carparks	3,120	1,591	1,961	—	—	—	—	—	—	—
<b>Suzhou Taicang Powerlong City Plaza</b>										
Commercial	—	—	—	79,186	14,049	5,636	53,782	12,918	4,163	—
Residential	—	—	—	166,652	51,654	3,226	167,607	49,676	3,374	159,661
<b>Quanzhou Jinjiang Powerlong Golden Jiayuan</b>										
Commercial	4,005	906	4,421	—	—	—	—	—	—	—
Residential	3,540	1,285	2,755	—	—	—	—	—	—	—
Carparks	—	—	—	—	—	—	—	—	—	—
<b>Tai'an Powerlong City Plaza</b>										
Commercial	—	—	—	—	—	—	29,311	6,750	4,342	—
Residential	—	—	—	—	—	—	201,469	53,990	3,732	40,699
Car parks	—	—	—	—	—	—	4,370	858	5,093	—
<b>Bengbu Powerlong City Plaza</b>										
Commercial	—	—	—	—	—	—	167,961	15,222	11,034	127,817
Residential	—	—	—	—	—	—	334,761	97,525	3,433	159,533
<b>Zhengzhou Powerlong City Plaza</b>										
Commercial	—	—	—	—	—	—	378,549	24,848	15,235	100,517
Residential	—	—	—	—	—	—	86,290	15,197	5,678	—
<b>Wuxi Powerlong City Plaza</b>										
Commercial	—	—	—	—	—	—	19,069	1,115	17,102	—
Residential	—	—	—	—	—	—	62,494	8,885	7,034	—
<b>Qingdao Powerlong City Plaza</b>										
Commercial	—	—	—	—	—	—	—	—	—	—
Residential	—	—	—	—	—	—	—	—	—	—
<b>Total</b>										
Commercial	219,644	13,001	16,894	694,812	53,672	12,946	654,769	61,143	10,709	281,392
Residential	176,542	60,447	2,921	287,881	76,275	3,774	852,621	225,273	3,785	359,893
Carparks	3,120	1,591	1,961	—	—	—	4,370	858	5,093	—
<b>Total</b>	<u>399,306</u>			<u>982,693</u>			<u>1,511,760</u>			<u>641,285</u>
										<u>1,255,624</u>

## FINANCIAL INFORMATION

During the Track Record Period, approximately 93.0% of our commercial GFA delivered in 2006 was from Fuzhou Powerlong City Plaza; approximately 83.6% of our residential GFA delivered in 2006 was from Quanzhou Anhui Powerlong Haoyuan. Approximately 73.8% and 26.2% of our commercial GFA delivered in 2007 were from Fuzhou Powerlong City Plaza and Suzhou Taicang Powerlong City Plaza, respectively, and approximately 32.3% and 67.7% of our residential GFA delivered in 2007 were from Fuzhou Powerlong City Plaza and Suzhou Taicang Powerlong City Plaza, respectively. Approximately 40.6%, 24.9% and 21.1% of our commercial GFA delivered in 2008 were from Zhengzhou Powerlong City Plaza, Bengbu Powerlong City Plaza and Suzhou Taicang Powerlong City Plaza, respectively, and approximately 43.3%, 24.0% and 22.1% of our residential GFA delivered in 2008 were from Bengbu Powerlong City Plaza, Tai'an Powerlong City Plaza and Suzhou Taicang Powerlong City Plaza, respectively. Approximately 33.4% and 59.7% of our commercial GFA delivered in the six months ended June 30, 2009 were from Zhengzhou Powerlong City Plaza and Qingdao Powerlong City Plaza, respectively, and approximately 22.8% and 76.4% of our residential GFA delivered in the six months ended June 30, 2009 were from Bengbu Powerlong City Plaza and Qingdao Powerlong City Plaza, respectively.

Average selling prices for residential properties in each project remained largely constant between 2006 and 2008. In the six months ended June 30, 2009, the average selling prices for residential properties in Tai'an Powerlong City Plaza and Bengbu Powerlong City Plaza, respectively, was higher as compared to the six months ended June 30, 2008 primarily because we delivered mostly duplex apartments in these two projects in the six months ended June 30, 2009, which generally commanded higher selling prices than the single floor residential units are delivered in the same projects in the six months ended June 30, 2008.

Average selling prices for commercial properties in each project remained largely constant during the Track Record Period except our sales of commercial properties in Fuzhou Powerlong City Plaza, Suzhou Taicang Powerlong City Plaza, Zhengzhou Powerlong City Plaza and Bengbu Powerlong City Plaza. The average selling prices for commercial properties in Fuzhou Powerlong City Plaza decreased from Rmb 17,829 per square meter in 2006 to Rmb 15,537 per square meter in 2007. The average selling price for commercial properties in Suzhou Taicang Powerlong City Plaza decreased from Rmb 5,636 per square meter in 2007 to Rmb 4,163 per square meter in 2008. The average selling price for commercial properties in Zhengzhou Powerlong City Plaza decreased from Rmb 16,739 per square meter in the six months ended June 30, 2008 to Rmb 10,213 per square meter in the six months ended June 30, 2009. The decreases in the average selling prices in Fuzhou Powerlong City Plaza and Suzhou Taicang Powerlong City Plaza were primarily due to the sale of most of the more attractive shop units earlier in our sales campaign, and the sale of the remaining shop units thereafter. The decrease in the average selling prices in Zhengzhou Powerlong City Plaza was primarily due to the different locations of the shop units sold within the project. Average selling prices for commercial properties in Bengbu Powerlong City Plaza increased to Rmb 12,866 in the six months ended June 30, 2009 from Rmb 10,390 in the six months ended June 30, 2008, primarily because a substantial portion of the commercial properties we delivered in the six months ended June 30, 2009 are well positioned within the project and generally commanded higher selling prices than the commercial properties we delivered in the six months ended June 30, 2008.

## FINANCIAL INFORMATION

The table below sets forth, for the periods indicated, our revenue from property sales by project and revenue from other sources.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(unaudited)	
	(Rmb in millions)				
<b>Sales of properties</b>					
Fuzhou Powerlong City Plaza . . . . .	259.7	736.9	6.1	—	5.8
Quanzhou Anhui Powerlong Haoyuan . . .	132.0	—	—	—	—
Suzhou Taicang Powerlong City Plaza. . . . .	—	245.8	221.4	212.7	—
Jinjiang Powerlong Golden Jiayuan . . . . .	7.6	—	—	—	—
Tai'an Powerlong City Plaza . . . . .	—	—	235.2	40.7	5.4
Bengbu Powerlong City Plaza . . . . .	—	—	502.7	287.4	146.8
Zhengzhou Powerlong City Plaza . . . . .	—	—	464.8	100.5	241.0
Wuxi Powerlong City Plaza	—	—	81.6	—	—
Qingdao Powerlong City Plaza . . . . .	—	—	—	—	856.6
Sub-total . . . . .	399.3	982.7	1,511.8	641.3	1,255.6
<b>Property management services . . . . .</b>					
	3.0	7.9	16.0	7.0	10.3
<b>Rental income of investment properties . . . . .</b>					
	0.2	32.2	53.3	24.5	28.4
<b>Other Income . . . . .</b>	0.3	3.1	2.8	2.3	—
<b>Total . . . . .</b>	402.8	1,025.8	1,583.8	675.1	1,294.3

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue was primarily generated from sales of our developed properties, which amounted to approximately 99.1%, 95.8%, 95.5% and 97.0% of our revenue, respectively. Revenue from property management services, rental income from investment properties and other income remained relatively insignificant in our overall revenue stream, although our rental income from investment properties increased substantially during the Track Record Period.



## FINANCIAL INFORMATION

### Cost of Sales

Cost of sales comprises primarily costs incurred directly for our property development, including land acquisition costs, construction costs, capitalized interest expenses, business tax and other levies. The table below sets forth the breakdown by these categories of our cost of sales for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	(Rmb in millions)	(% of cost of sales)	(Rmb in millions)	(% of cost of sales)	(Rmb in millions)	(% of cost of sales)	(unaudited) (Rmb in millions)	(% of cost of sales)	(Rmb in millions)	(% of cost of sales)
Land acquisition costs . . . . .	34.9	18	66.4	16	160.4	18	54.9	13	131.8	22
Construction costs . . . . .	133.5	68	271.3	66	594.1	68	301.6	74	386.4	63
Subtotal . . . . .	168.4	86	337.7	82	754.5	87	356.5	87	518.2	85
Business tax and other levies . . . . .	24.9	13	60.0	14	82.3	9	35.6	9	66.4	11
Capitalized interest expenses . . . . .	0.5	—	7.8	2	17.2	2	9.2	2	13.7	2
Others . . . . .	2.6	1	7.4	2	15.0	2	7.1	2	11.0	2
<b>Total . . . . .</b>	<b>196.4</b>	<b>100</b>	<b>412.9</b>	<b>100</b>	<b>869.1</b>	<b>100</b>	<b>408.4</b>	<b>100</b>	<b>609.3</b>	<b>100</b>

**Land acquisition costs.** Land acquisition costs represent costs relating to the acquisition of the rights to occupy, use and develop land, including land premium, other land-related taxes and government surcharges, and relocation and resettlement cost. In addition to PRC economic development and property market conditions, our land acquisition costs are affected by the location of the property projects and the timing of acquisition. In 2006, 2007 and 2008, our average land acquisition costs per square meter of GFA were Rmb 475.0, Rmb 511.4 and Rmb 558.5, respectively, as measured by dividing the aggregate land costs recognized in our consolidated statement of comprehensive income by the total GFA of properties delivered within these periods. The corresponding figures for the six months ended June 30, 2008 and 2009 were Rmb 384.0 and Rmb 732.9, respectively.

Land acquisition costs, as part of the cost of sales, are recognized upon the completion and delivery of relevant properties to the purchasers. In 2006, we sold and delivered most of our completed properties in Fuzhou and Quanzhou; in 2007, we sold and delivered most of our completed properties in Taicang and Fuzhou; in 2008, we sold and delivered most of our completed properties in Bengbu, Zhengzhou, Taicang and Tai’an; and in the six months ended June 30, 2009, we sold and delivered most of our completed projects in Qingdao, Zhengzhou and Tai’an. In addition, land costs increased as competition for land increased as a result of the rapidly growing real estate industry in China during the Track Record Period.

## FINANCIAL INFORMATION

**Construction costs.** Construction costs represent costs for the design and construction of a property project, consisting primarily of fees paid to our contractors, including contractors responsible for civil engineering, landscaping, equipment installation and interior decoration, as well as infrastructure construction costs, design costs and certain government surcharges. Our construction costs were affected by a number of factors such as price movements of construction materials, location and types of properties, choices of materials and investments in ancillary facilities. For instance, the price for steel in China increased by approximately 70% in 2007 as compared to 2006, and declined by approximately 17% in 2008 as compared to 2007. The price of steel in China further decreased by approximately 7% in the six months ended June 30, 2009 as compared to 2008. The price fluctuation in construction materials during the Track Record Period affected our construction costs and our gross profit margin. Substantially all of the costs of construction materials, whether procured by ourselves or by our contractors, were accounted for as part of the contractor fees upon settlement with the relevant contractors. A portion of our properties completed and delivered in 2006, 2007 and 2008 and the six months ended June 30, 2009 were interior-furnished units, which also generated more construction costs than non-interior, furnished units, although interior-furnished units tend to fetch higher selling prices.

**Business tax and other levies.** We include business tax and other levies such as city development tax and education supplementary tax as part of our cost of sales.

**Capitalized interest.** We capitalize our borrowing costs as part of the cost of sales for a project to the extent that such costs are directly attributable to the acquisition or construction of such project. See “— Critical Accounting Policies — Borrowing Costs.”

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 total interest expenses of Rmb 329.6 million in relation to our Convertible Bonds and Secured Notes, as well as 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. These capitalized interest expenses had no impact on our financial position during the Track Record Period as they were not capitalized under the properties which we delivered or expect to deliver in 2009. Going forward, we expect to recognize such capitalized interest expenses as cost of sales progressively according to our project completion and delivery schedule. We do not expect these capitalized interest expenses to have any material adverse impact on our gross profit margin or financial position.

## FINANCIAL INFORMATION

The table below sets forth, for the periods indicated, our cost of sales by project and by business segment.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(unaudited)	
	(Rmb in millions)				
<b>Property development</b>					
Fuzhou Powerlong City Plaza . . . . .	85.5	253.5	1.0	—	1.0
Quanzhou Anhui Powerlong Haoyuan . . .	100.8	—	—	—	—
Suzhou Taicang Powerlong City Plaza. . . . .	—	141.6	186.3	193.9	—
Jinjiang Powerlong Golden Jiayuan . . . . .	4.8	—	—	—	—
Tai'an Powerlong City Plaza . . . . .	—	—	192.2	41.5	6.9
Bengbu Powerlong City Plaza . . . . .	—	—	272.4	138.1	85.8
Zhengzhou Powerlong City Plaza . . . . .	—	—	149.2	26.1	86.2
Wuxi Powerlong City Plaza . . . . .	—	—	32.3	—	—
Qingdao Powerlong City Plaza . . . . .	—	—	—	—	416.4
Sub-total . . . . .	191.1	395.1	833.4	399.6	596.3
<b>Property management services . . . . .</b>	1.6	5.6	10.4	3.9	8.2
<b>Property investment . . . . .</b>	0.1	6.3	16.4	4.6	4.8
<b>Other services . . . . .</b>	3.6	5.9	8.9	0.3	—
<b>Total . . . . .</b>	196.4	412.9	869.1	408.4	609.3

During the Track Record Period, we incurred most of our cost of sales in the property development segment. Cost of sales for the segments of property management services, property investment and other related services remained relatively insignificant in our overall cost of sales. Our cost of sales generally increased during the Track Record Period as our business operations expanded.

## FINANCIAL INFORMATION

### Fair Value Gains on Investment Properties

We hold certain properties such as retail units in our commercial complexes for recurring rental income and/or capital appreciation. Our investment properties are revalued periodically on an open market value or existing use basis by an independent property valuer using the investment method. This method is appropriate for valuing investment properties as it is able to reflect the value of property during the lease period of the property. Any appreciation or depreciation in our investment property value is recognized as a fair value gain or loss in our consolidated statement of comprehensive income. We started to hold investment properties toward December 2006 when we completed the ground floor of Fuzhou Powerlong City Plaza and decided to hold more investment properties when we completed the whole project in 2007. As of December 31, 2006, 2007 and 2008 and June 30, 2009, we held completed investment properties with a total leasable GFA of 6,436 square meters, 103,408 square meters, 205,829 square meters and 205,022 square meters, respectively. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we recognized fair value gains on our investment properties in the amount of Rmb 121.1 million, Rmb 533.0 million, Rmb 856.0 million and Rmb 2.4 million, respectively. The amount of revaluation adjustments have been, and may continue to be, significantly affected by the prevailing property markets. Since we measure our investment properties under construction at cost until the constructions are completed, the construction progress of our investment properties can also materially affect the change in fair values of investment properties. See “— Critical Accounting Policies — Fair Value of Investment properties” and “— Certain Balance Sheet Items — Investment Properties”.

### Selling and Marketing Costs

Selling and marketing costs comprise primarily advertising and promotion expenses, sales commissions and other expenses relating to the marketing and sales of our properties, including salaries for our sales and marketing personnel, advertisement on television and in newspapers, magazines and on billboards.

### Administrative Expenses

Administrative expenses comprise primarily administrative staff costs, depreciation, amortization, land use tax and charitable contributions.

### Fair Value Losses on Embedded Financial Derivatives

In December 2007, we issued the Convertible Bonds and Secured Notes totaling Rmb 939.1 million to the Investors pursuant to a subscription agreement dated December 14, 2007. The Convertible Bonds consisted of a debt component and a financial derivative component. The financial derivatives consisted of the embedded options. We engaged an independent third-party appraiser to assist us in determining the fair value of these embedded financial derivatives. The determination of fair value of the embedded financial derivatives was made after consideration of a number of factors, including conversion price, risk-free interest rate, dividend yield, expiration time and volatility. In September 2008, we restructured our Convertible Bonds into Secured Bonds and removed the conversion features attaching to the Convertible Bonds. As a result, the embedded financial derivatives ceased to exist in the six months ended June 30, 2009.

## FINANCIAL INFORMATION

### Finance Costs

Finance costs comprise primarily interest expenses on bank borrowings, the Convertible Bonds and Secured Notes, the Secured Bonds and the Secured Notes, net of capitalized interest relating to properties under development. See “— Critical Accounting Policies — Borrowing Costs” above. Since the construction period for a project does not necessarily coincide with the interest payment period of the relevant loan, not all of the interest costs related to a project can be capitalized. As a result, our finance costs fluctuate from period to period depending on the level of interest costs that are capitalized within the reporting period.

### Income Tax

Income tax comprises primarily PRC corporate income tax and LAT. The PRC corporate income tax rate generally levied in China was 33% of taxable income before January 1, 2008. There are preferential income tax treatments available to eligible companies pursuant to relevant national or local regulations. As Xiamen is designated by the PRC government as a special economic zone in China, all our enterprises registered in Xiamen paid corporate income tax at a reduced rate of 15% prior to January 1, 2008.

Effective since January 1, 2008, PRC companies are subject to the new national corporate income tax of 25% unless the company qualifies under certain limited exceptions pursuant to the new PRC Corporate Income Tax Law adopted by the National People’s Congress in March 2007. As a result of this regulatory change, we may not continue to receive the tax concession currently enjoyed by our Xiamen registered subsidiaries. As there is a five-year transition period to phase in the new 25% corporate income tax rate, the 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. We did not provide for any Hong Kong profits tax as we had no business operations in Hong Kong during the Track Record Period. Our property developments are subject to LAT. We make LAT provisions based on our calculation in accordance with relevant government regulations.

The following table sets forth our provisions for corporate income tax and LAT for the periods indicated.

	Year ended December 31,			Six months ended	
	2006	2007	2008	June 30,	2009
				2008	2009
				(unaudited)	
	(Rmb in thousands)				
<b>Current tax</b>					
PRC corporate income					
tax . . . . .	28,009	115,741	135,121	40,039	116,619
LAT . . . . .	73,598	199,438	3,945	30,684	144,147
<b>Deferred income tax</b>					
PRC corporate income					
tax . . . . .	28,134	106,203	206,247	8,665	(6,347)
<b>Total . . . . .</b>	<b>129,741</b>	<b>421,382</b>	<b>345,313</b>	<b>79,388</b>	<b>254,419</b>



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Because of the increases in our gross profits in 2007 over 2006 and in 2008 over 2007, we made greater total PRC corporate income tax provisions in 2007 and 2008. During the Track Record Period, our projects under development in Henan Province, Anhui Province and Jiangsu Province were subject to LAT calculated on the basis of a fixed rate (ranging from 0.5% to 3.5%) of the proceeds from sales of 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. With respect to our other projects in Fujian Province and Shandong Province, LAT is levied at progressive rates ranging from 30% to 60% on the appreciated value of the land. 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 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》 issued by the State Tax Bureau. For more information, please see the section entitled “Taxation — Mainland China Taxation — Our operations in mainland China — Land appreciation tax” in Appendix V to this document.

The following table sets forth our weighted average applicable PRC corporate income tax rate and their calculation for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	(unaudited)				
	(Rmb in thousands, except percentages)				
Operating profit before income tax . . . . .	252,782	1,028,123	1,282,629	133,835	582,987
Calculated at applicable PRC corporate income tax rate . . . . .	80,430	297,414	327,975	43,409	146,309
Effect of expenses not deductible for income tax . . . . .	—	—	14,379	12,966	—
PRC LAT deductible for PRC corporate income tax purposes. . . . .	(24,287)	(65,815)	(986)	(7,671)	(36,037)
Effect of tax rate change.	—	(9,655)	—	—	—
	56,143	221,944	341,368	48,704	110,272
PRC LAT . . . . .	73,598	199,438	3,945	30,684	144,147
	129,741	421,382	345,313	79,388	254,419
<b>The weighted average applicable PRC corporate income tax rate . . . . .</b>	<b>32%</b>	<b>29%</b>	<b>26%</b>	<b>32%</b>	<b>25%</b>

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The fluctuation of our weighted average applicable PRC corporate income tax rate over the Track Record Period was primarily the result of a change in the profitability of our subsidiaries in the respective tax jurisdictions and reflected the length of time it generally took to complete a property development project, especially large projects such as Fuzhou Powerlong City Plaza and Suzhou Taicang Powerlong City Plaza. As a result, during this period, we did not incur significant corporate income tax and LAT charges. We expect to settle with the relevant tax authorities our corporate income tax and LAT liabilities with respect to Fuzhou Powerlong City Plaza in the third quarter of 2010 and Suzhou Taicang Powerlong City Plaza in the fourth quarter of 2010. We intend to settle these income tax and LAT liabilities by using sales proceeds from our completed projects and the rental income from our investment properties. The fluctuation was partially caused by a reduction of the applicable income tax rate for the fair value gains on our investment properties from 33% in 2007 to 25% in 2008 in accordance with the new PRC Corporate Income Tax Law. In addition, the decrease of the weighted average applicable PRC corporate income tax rate in 2008 as compared to 2007 and 2006 was also attributable to the different taxation methods adopted in calculating the LAT provisions for our projects in different provinces.

### Minority Interests

Minority interests represent our profit or loss after taxation that is attributable to minority equity holders of our subsidiaries. The following table sets forth the minority interests during the periods specified.

	Year ended December 31,						Six months ended June 30,			
Company	2006		2007		2008		2008		2009	
	(unaudited)									
	(Rmb in thousands, except percentages)									
Quanzhou Baohua . .	1,567	9.5%	(16)	—*	—	—	—	—	—	—
Bairun Consulting. . .	692	30.0%	1,839	29.0%	2	29.0%	26	29.0%	242	29.0%
Powerlong Design . .	217	20.0%	117	20.0%	(285)	20.0%	(84)	20.0%	(197)	20.0%
Powerlong										
Decoration . . . . .	2,967	30.0%	924	30.0%	(1,010)	—	(1,126)	—	—	—
Fuzhou Powerlong										
Commercial. . . . .	(29)	7.0%	9	—*	—	—	—	—	—	—
Wuxi Powerlong . . .	(87)	30.0%	(965)	20.0%	5,424	20.0%	(340)	20.0%	(1,540)	20.0%
Jinjiangguo Consulting	356	45.0%	1,479	29.0%	527	29.0%	313	29.0%	(5)	29.0%
Xiamen Original										
Design . . . . .	—	—	13	29.0%	—	29.0%	—	29.0%	—	29.0%
Henan Hualong										
Commercial. . . . .	—	—	(1)	—*	—	—	—	—	—	—
Bengbu Powerlong										
Commercial. . . . .	—	—	1	—*	—	—	—	—	—	—
Total. . . . .	5,683		3,400		4,658		(1,211)		(1,500)	

Note:

\* Less than 0.1%

## FINANCIAL INFORMATION

### CERTAIN FINANCIAL RATIOS

The following table sets out a summary of certain financial ratios as of the date or for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(unaudited)	

#### Profitability ratio

Return on equity (%) . . . .	<u>16.3</u>	<u>57.5</u>	<u>46.4</u>	<u>4.9</u>	<u>14.1</u>
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	Year ended December 31,			Six months ended June 30, 2009
	2006	2007	2008	

#### Liquidity ratios

Current ratio (times) . . . . .	0.82	0.78	0.87	0.89
Quick ratio (%) . . . . .	<u>39.0</u>	<u>42.7</u>	<u>31.4</u>	<u>34.8</u>

#### Capital adequacy ratio

Gearing ratio (%) . . . . .	<u>3.8</u>	<u>24.6</u>	<u>22.7</u>	<u>15.4</u>
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### Return on Equity

Return on equity is net profit attributable to our equity holders divided by total equity attributable to our equity holders and multiplied by 100%.

In 2007, our return on equity ratio improved as a result of our sales of properties with higher margin such as Fuzhou Powerlong City Plaza and Suzhou Taicang Powerlong City Plaza as well as the revaluation gains of our investment properties in Fuzhou Powerlong City Plaza. In 2008, our return on equity ratio decreased primarily due to the increased equity as a result of accumulated retained earnings in 2008, while the net profit margin remained relatively constant in 2007 and 2008. Our return on equity ratio increased in the six months ended June 30, 2009 as compared to that in the six months ended June 30, 2008 primarily due to an increase in revenue from our sales of properties, as well as higher margin of the properties sold.

### Current Ratio

Current ratio is current assets divided by current liabilities. The increase in current ratio in 2008 as compared with that in 2007 and 2006 was primarily due to the greater increase in current assets compared with current liabilities as of December 31, 2008. The increase in current assets in 2008 was primarily due to the increased development of properties for sale and the increased completed properties held for sale. Our current ratio as of December 31, 2008 and June 30, 2009 remained largely constant.

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### Quick Ratio

Quick ratio is current assets after subtraction of our inventories, including our completed properties held for sale, properties under development and land use rights included in our current assets, and divided by our current liabilities.

The lower quick ratio in 2008 compared with that in 2007 and 2006 was primarily due to (i) a significant increase in our inventories in 2008 mainly as a result of our utilization of the proceeds from the issuance of the Convertible Bonds and Secured Notes for land acquisition and construction work in respect of various property projects and an increase in completed properties held for sale in 2008 compared to 2007 and 2006; and (ii) an increase in the amount of borrowings due within one year. The increase in the quick ratio as of June 30, 2009 compared with that as of December 31, 2008 was primarily due to an increase in cash and prepayment made to our related parties in connection with the acquisition of certain properties in Mingfa Centre.

### Gearing Ratio

Gearing ratio equals total borrowings (including current and non-current borrowings, Convertible Bonds and Secured Notes, Secured Bonds and Secured Notes as shown in the consolidated balance sheet) divided by total assets and multiplied by 100%. In 2007, the significant increase in our gearing ratio was mainly due to (i) the increase in our bank borrowings by Rmb 631.3 million from 2006 to 2007; and (ii) our issuance of Convertible Bonds and Secured Notes in 2007 to finance the development of our new projects. In 2008, the decrease in our gearing ratio was primarily attributable to (i) an increase in investment properties as we added certain commercial properties in Zhengzhou Powerlong City Plaza and Bengbu Powerlong City Plaza to our investment property portfolio; and (ii) an increase in land use rights, properties under development, completed properties held for sale and trade and other receivables in accordance with our enlarged scale of property development. In the six months ended June 30, 2009, the decrease in our gearing ratio as compared to that in 2008 was primarily attributable to our repayment of the Secured Bonds and Secured Notes in the principal amount of Rmb 457.6 million.

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### RESULTS OF OPERATIONS

The table below summarizes our consolidated results in absolute terms and as a percentage of our revenue for the Track Record Period.

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
(unaudited)										
(Rmb in millions, except percentages data)										
Revenue . . . . .	402.8	100.0%	1,025.8	100.0%	1,583.8	100.0%	675.1	100.0%	1,294.3	100.0%
Cost of sales . . . . .	(196.4)	(48.8%)	(412.9)	(40.2%)	(869.1)	(54.9%)	(408.4)	(60.5%)	(609.3)	(47.1%)
<b>Gross profit . . . . .</b>	<b>206.4</b>	<b>51.2%</b>	<b>612.9</b>	<b>59.8%</b>	<b>714.7</b>	<b>45.1%</b>	<b>266.7</b>	<b>39.5%</b>	<b>685.0</b>	<b>52.9%</b>
Fair value gains on investment properties . .	121.1	30.1%	533.0	52.0%	856.0	54.1%	12.0	1.8%	2.4	0.1%
Selling and marketing costs	(21.8)	(5.4%)	(57.9)	(5.6%)	(60.9)	(3.8%)	(22.1)	(3.3%)	(26.3)	(1.6%)
Administrative expenses . .	(53.0)	(13.2%)	(50.8)	(5.0%)	(140.9)	8.9%	(67.2)	(10.0%)	(75.9)	(5.9%)
Other losses — net . . . . .	—	—	(5.7)	(0.6%)	(37.8)	(2.4%)	(9.4)	(1.4%)	0.5	—
<b>Operating profit . . . . .</b>	<b>252.7</b>	<b>62.7%</b>	<b>1,031.5</b>	<b>100.6%</b>	<b>1,331.1</b>	<b>84.0%</b>	<b>180.0</b>	<b>26.7%</b>	<b>585.7</b>	<b>45.3%</b>
Fair value losses on embedded financial derivatives . . . . .	—	—	—	—	(14.8)	(0.9%)	(14.8)	(2.2%)	—	—
Finance costs . . . . .	—	—	(3.4)	(0.4%)	(33.7)	(2.1%)	(31.3)	(4.6%)	(2.7)	(0.2%)
<b>Profit before income tax .</b>	<b>252.7</b>	<b>62.7%</b>	<b>1,028.1</b>	<b>100.2%</b>	<b>1,282.6</b>	<b>81.0%</b>	<b>133.8</b>	<b>19.8%</b>	<b>583.0</b>	<b>45.0%</b>
Income tax . . . . .	(129.7)	(32.2%)	(421.4)	(41.1%)	(345.3)	(21.8%)	(79.4)	(11.8%)	(254.4)	(19.7%)
<b>Profit for the year/period</b>	<b>123.0</b>	<b>30.5%</b>	<b>606.7</b>	<b>59.1%</b>	<b>937.3</b>	<b>59.2%</b>	<b>54.4</b>	<b>8.1%</b>	<b>328.6</b>	<b>25.4%</b>
Other comprehensive income . . . . .	—	—	—	—	—	—	—	—	—	—
<b>Total comprehensive income for the year/ period . . . . .</b>	<b>123.0</b>	<b>30.5%</b>	<b>606.7</b>	<b>59.1%</b>	<b>937.3</b>	<b>59.2%</b>	<b>54.4</b>	<b>8.1%</b>	<b>328.6</b>	<b>25.4%</b>
<b>Attributable to:</b>										
Owners of the Company . .	117.4	29.1%	603.3	58.8%	932.7	58.9%	55.7	8.2%	330.1	25.5%
Minority interests . . . . .	5.6	1.4%	3.4	0.3%	4.7	0.3%	(1.2)	(0.2%)	(1.5)	(0.1%)
	<b>123.0</b>	<b>30.5%</b>	<b>606.7</b>	<b>59.1%</b>	<b>937.3</b>	<b>59.2%</b>	<b>54.4</b>	<b>8.1%</b>	<b>328.6</b>	<b>25.4%</b>
<b>Basic and diluted earnings per share for profit attributable to our equity holders during the year (expressed in Rmb per share) . . . . .</b>	<b>Not applicable</b>		<b>Not applicable</b>		<b>0.31</b>		<b>0.02</b>		<b>0.11</b>	
Dividend . . . . .	—		32.9		—		—		—	

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### Business Segments

We are organized into four business segments:

- Property development;
- Property management services;
- Property investment; and
- Other services related to property development, namely, decoration services provided by Powerlong Decoration.

The following table illustrates our revenue by business segment for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(unaudited)	
				(Rmb in millions)	
Property development. . . . .	399.3	982.7	1,511.8	641.3	1,255.6
Property management services .	3.0	7.9	16.0	7.0	10.3
Property investment . . . . .	0.2	32.2	53.3	24.5	28.4
Others. . . . .	0.3	3.1	2.8	2.3	—
<b>Total. . . . .</b>	<b>402.8</b>	<b>1,025.8</b>	<b>1,583.8</b>	<b>675.1</b>	<b>1,294.3</b>

### Six months ended June 30, 2009 compared to six months ended June 30, 2008

**Revenue.** Our revenue increased by Rmb 619.2 million, or 91.7%, to Rmb 1,294.3 million for the six months ended June 30, 2009 from Rmb 675.1 million for the six months ended June 30, 2008. The increase was primarily attributable to an increase of Rmb 614.3 million in our sales of property and an increase of Rmb 3.9 million in revenue from our property investment.

- *Property Development.* Our revenue generated from property development increased by Rmb 614.3 million, or 95.8%, to Rmb 1,255.6 million in the six months ended June 30, 2009 from Rmb 641.3 million in the six months ended June 30, 2008. The increase was primarily due to the total GFA we delivered in June 30, 2009 of approximately 179,805 square meters as compared to 143,188 square meters in June 30, 2008. Major projects completed and delivered in the six months ended June 30, 2009 included Qingdao Powerlong City Plaza, Zhengzhou Powerlong City Plaza and Bengbu Powerlong City Plaza. GFA sold increased by 25.6% and the average selling price on our delivered properties increased by 55.9% to Rmb 6,983 per square meter in the six months ended June 30, 2009 from Rmb 4,479 per square meter in the six months ended June 30, 2008.
- *Property Management Services.* Our revenue generated from property management services increased by Rmb 3.3 million, or 47.1%, to Rmb 10.3 million in the six months ended June 30, 2009 from Rmb 7.0 million in the six months ended June 30,



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2008. The increase was primarily due to the additional management fees that we received from our property management services for commercial properties delivered in Fuzhou Powerlong City Plaza in the six months ended June 30, 2009.

- **Property Investment.** Our revenue generated from property investment increased by Rmb 3.9 million, or 16.1%, to Rmb 28.4 million in the six months ended June 30, 2009 from Rmb 24.5 million in the six months ended June 30, 2008. The increase was primarily due to the additional rental income derived from the commercial properties in Zhengzhou Powerlong City Plaza and a greater number of commercial properties in Fuzhou Powerlong City Plaza that were leased out in the six months ended June 30, 2009.
- **Others.** Our revenue generated from other areas was Rmb 2.3 million in the six months ended June 30, 2008. There was no revenue generated from other areas in the six months ended June 30, 2009.

**Cost of sales.** Our cost of sales increased by Rmb 200.9 million, or 49.2%, to Rmb 609.3 million in the six months ended June 30, 2009 from Rmb 408.4 million in the six months ended June 30, 2008. The increase was primarily due to an increase in the total GFA completed and sold in the six months ended June 30, 2009 as compared to the six months ended June 30, 2008.

**Gross profit.** Our gross profit increased by Rmb 418.3 million, or 156.9%, to Rmb 685.0 million in the six months ended June 30, 2009 from Rmb 266.7 million in the six months ended June 30, 2008. Our gross profit margin increased to 52.9% in the six months ended June 30, 2009 from 39.5% in the six months ended June 30, 2008, primarily due to the increased proportion of commercial GFA in the total delivered GFA in the six months ended June 30, 2009 as compared to the six months ended June 30, 2008. We delivered commercial GFA of approximately 70,710 square meters, or approximately 39.4% of our total delivered GFA, in the six months ended June 30, 2009, and we delivered commercial GFA of approximately 31,272 square meters, or approximately 25.6% of our total delivered GFA, in the six months ended June 30, 2008. The significant increase in our delivered commercial GFA had an increasing effect on our gross profit margin in the six months ended June 30, 2009.

**Fair value gains on investment properties.** Fair value gains on our investment properties decreased by Rmb 9.6 million, or 80.0%, to Rmb 2.4 million in the six months ended June 30, 2009 from Rmb 12.0 million in the six months ended June 30, 2008. The decrease was primarily due to the lack of addition of commercial properties to our completed investment properties portfolio in the six months ended June 30, 2009. In addition, a number of our investment properties were measured at cost and not at fair value as they were still under construction during the same period. For more information on the accounting policies of our investment properties, please see “— Critical Accounting Policies — Investment Properties.”

**Finance costs.** Our finance costs decreased by Rmb 28.6 million, or approximately 91.3%, to Rmb 2.7 million in the six months ended June 30, 2009 from Rmb 31.3 million in the six months ended June 30, 2008, primarily because we capitalized a higher proportion of borrowing costs in relation to our property development projects in the six months ended June 30, 2009.

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**Selling and marketing expenses.** Our selling and marketing expenses increased by Rmb 4.2 million, or 19.0%, to Rmb 26.3 million in the six months ended June 30, 2009 from Rmb 22.1 million in the six months ended June 30, 2008. The increase was primarily due to an increase in sales and marketing staff costs and an increase in advertising and marketing costs as a result of the sale of properties in Wuxi Powerlong City Plaza and Qingdao Powerlong City Plaza.

**Administrative expenses.** Our administrative expenses increased by Rmb 8.7 million, or 12.9%, to Rmb 75.9 million in the six months ended June 30, 2009 from Rmb 67.2 million in the six months ended June 30, 2008. The increase was primarily due to an increase in staff costs and administrative expenses incurred in relation to the preparation for development of our newly acquired land in Suqian, Licang, Yantai, Xinxiang and Yancheng for development.

**Other gains and losses (net).** Our other gains (net) in the six months ended June 30, 2009 were Rmb 0.5 million, primarily due to the combined effects of the following:

- Foreign exchange gains of Rmb 3.6 million derived from cash at bank denominated in H.K. dollars; and
- Loss of Rmb 3.1 million in relation to the disposal of certain investment properties in Fuzhou Powerlong City Plaza to a third party.

**Income tax.** Our tax expenses increased by Rmb 175.0 million, or 220.5%, to Rmb 254.4 million in the six months ended June 30, 2009 from Rmb 79.4 million in the six months ended June 30, 2008. Our tax expenses in the six months ended June 30, 2009 primarily related to our projects in Qingdao, Zhengzhou and Bengbu while our tax expenses in the six months ended June 30, 2008 primarily related to our projects in Zhengzhou and Suzhou Taicang.

**Profit for the year/period.** Our profit for the year/period increased by Rmb 274.1 million, or 503.5%, to Rmb 328.6 million in the six months ended June 30, 2009 from Rmb 54.4 million in the six months ended June 30, 2008.

**Minority interest.** Our minority equity holders shared losses in the six months ended June 30, 2009 and 2008. Losses shared by minority interests increased by Rmb 0.3 million, or 23.9%, to Rmb 1.5 million in the six months ended June 30, 2009 from Rmb 1.2 million in the six months ended June 30, 2008. The increase in the losses attributable to minority interests in the six months ended June 30, 2009 compared to the six months ended June 30, 2008 was primarily due to the losses shared by minority equity holders of Wuxi Powerlong due to the initial capital outlay and administrative costs incurred prior to the delivery of completed properties.

Profit attributable to our equity holders increased by Rmb 274.4 million, or 493.0%, to Rmb 330.1 million in the six months ended June 30, 2009 from Rmb 55.7 million in the six months ended June 30, 2008.

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### 2008 Compared to 2007

**Revenue.** Our revenue increased by Rmb 558.0 million, or 54.4%, to Rmb 1,583.8 million in 2008 from Rmb 1,025.8 million in 2007. This increase in revenue was primarily due to an increase of Rmb 529.1 million in sales of properties and an increase of Rmb 21.1 million in revenue from our property investment.

- *Property Development.* Our revenue from sales of properties increased by Rmb 529.1 million, or 53.8%, to Rmb 1,511.8 million in 2008 from Rmb 982.7 million in 2007. This increase was primarily due to an increase of approximately 157,327 square meters of GFA we delivered in 2008 as compared to 2007. The increase in delivered GFA was a result of more properties completed and delivered during 2008, including Bengbu Powerlong City Plaza, Tai'an Powerlong City Plaza, Suzhou Taicang Powerlong City Plaza, Zhengzhou Powerlong City Plaza and Wuxi Powerlong City Plaza. The increase of 120.9% in the total GFA delivered was partially offset by a decrease of 30.4% in the average selling price of our delivered properties to Rmb 5,262 per square meter in 2008 from Rmb 7,557 per square meter in 2007. The proportion of residential GFA in our total delivered GFA in 2008 increased significantly. As residential properties generally command lower selling prices than commercial properties, a significant increase in our delivered residential GFA had the effect of reducing the average selling prices in 2008.
- *Property Management Services.* Our revenue generated from property management services increased by Rmb 8.1 million, or 103.0%, to Rmb 16.0 million in 2008 from Rmb 7.9 million in 2007. The increase was primarily due to the additional management fees that we received from our property management services for residential properties and commercial properties delivered in 2008.
- *Property Investment.* Our revenue generated from property investment increased by Rmb 21.1 million, or 65.4%, to Rmb 53.3 million in 2008 from Rmb 32.2 million in 2007. The increase was primarily due to the additional rental income derived from the commercial properties in Zhengzhou Powerlong City Plaza and a greater number of commercial properties in Fuzhou Powerlong City Plaza that were leased out in 2008.
- *Others.* Our revenue generated from other areas decreased by Rmb 0.3 million, or 9.9%, to Rmb 2.8 million in 2008 from Rmb 3.1 million in 2007, primarily due to a decrease in the decoration services provided by Powerlong Decoration in 2008.

**Cost of sales.** Our cost of sales increased by Rmb 456.2 million, or 110.5%, to Rmb 869.1 million in 2008 from Rmb 412.9 million in 2007. The increase was primarily due to an increase in total GFA delivered in 2008 as compared to 2007. The average land cost in 2008 was Rmb 558.5 per square meter as compared to Rmb 511.4 per square meter in 2007. The increase in the average land cost per square meter in 2008 was primarily attributable to the completion and delivery of properties in Tai'an Powerlong City Plaza, which has the relatively higher land costs.

**Gross profit.** Our gross profit increased by Rmb 101.8 million, or 16.6%, to Rmb 714.7 million in 2008 from Rmb 612.9 million in 2007. Our gross profit margin decreased to 45.1% in 2008 from 59.8% in 2007, primarily due to the increased proportion of residential GFA in the total delivered GFA in 2008 as compared to 2007. We delivered residential GFA of approximately 225,273 square meters, or approximately 78.4% of our total delivered GFA, in

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2008, and we delivered residential GFA of approximately 76,275 square meters, or approximately 58.7% of our total delivered GFA, in 2007. The significant increase in our delivered residential GFA had a decreasing effect on our gross profit margin in 2008.

**Fair value gains on investment properties.** Fair value gains on our investment properties increased by Rmb 323.0 million, or 60.6%, to Rmb 856.0 million in 2008 from Rmb 533.0 million in 2007. The increase was primarily due to the addition of certain commercial properties in Zhengzhou Powerlong City Plaza and Bengbu Powerlong City Plaza to our completed investment properties portfolio in 2008.

**Selling and marketing costs.** Our selling and marketing costs increased by Rmb 3.0 million, or 5.1%, to Rmb 60.9 million in 2008 from Rmb 57.9 million in 2007. The increase was primarily due to an increase in sales and marketing staff costs and an increase in advertising and marketing costs as a result of our pre-sale activities in relation to Qingdao Powerlong City Plaza and Zhengzhou Powerlong City Plaza.

**Administrative expenses.** Our administrative expenses increased by Rmb 90.1 million, or 177.1%, to Rmb 140.9 million in 2008 from Rmb 50.8 million in 2007. The increase was primarily due to a significant increase in the number of our management and operational staff attributable to our expanded business operations and the establishment of Powerlong Management on October 16, 2007. Powerlong Management is responsible for the overall management of most of our property projects and the relevant project companies, and did not become fully operational until November 2007. The increase in administrative expenses, to a lesser extent, was due to the increased payment for land use tax and a general increase in wages and salaries paid to our employees in 2008.

**Other gains and losses (net).** Our other losses (net) in 2008 were Rmb 37.8 million, primarily due to the combined effects of the following:

- Foreign exchange losses derived from cash at bank denominated in H.K. dollars; and
- We disposed of certain investment properties in Fuzhou Powerlong City Plaza to a third party. The loss represented the net assets disposed of over the consideration received.

**Fair value losses on embedded financial derivatives.** Our fair value losses on embedded financial derivatives were Rmb 14.8 million in 2008 and nil in 2007. In December 2007, we entered into a subscription agreement, pursuant to which we issued the Convertible Bonds and Secured Notes totaling Rmb 939.1 million to the Investors. The fair value of these embedded financial derivatives reflected the fair value of the financial derivatives issued under the agreement and were calculated by an independent third-party appraiser.

**Finance costs.** Our finance costs increased by Rmb 30.3 million, or approximately 889.6%, to Rmb 33.7 million in 2008 from Rmb 3.4 million in 2007. The increase was primarily due to the interest expense incurred, net of the portion being capitalized, in relation to the debt component of the Convertible Bonds and Secured Notes as well as our bank borrowings.

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**Income tax.** Our income tax expenses decreased by Rmb 76.1 million, or 18.1%, to Rmb 345.3 million in 2008 from Rmb 421.4 million in 2007. The decrease was primarily due to a decrease of Rmb 195.5 million in our LAT provision, partially offset by an increase of Rmb 119.4 million in PRC corporate income tax (including deferred corporate income tax) which was primarily attributable to our increased profits before tax in 2008. The decreased LAT provisions in 2008 were primarily attributable to the LAT provisions with respect to Wuxi Powerlong City Plaza, Wuxi Yuqi Powerlong Riverside Garden, Suzhou Taicang Powerlong City Plaza and Bengbu Powerlong City Plaza. The taxation methods used in calculating the LAT provision for these projects were specifically authorized by the relevant local tax authorities and they differ from the taxation method used in calculating the LAT provision with respect to Fuzhou Powerlong City Plaza, the major project we completed and delivered 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.

**Profit for the year/period.** Our profit for the year/period increased by Rmb 330.6 million, or 54.5%, to Rmb 937.3 million in 2008 from Rmb 606.7 million in 2007.

**Minority interest.** Profits shared by minority interests increased by Rmb 1.3 million, or 37.0%, to Rmb 4.7 million in 2008 from Rmb 3.4 million in 2007. The increase in the profit attributable to minority interests in 2008 compared to 2007 was primarily attributable to the profits shared by minority equity holders of Wuxi Powerlong as a result of the sale and delivery of properties in Wuxi Powerlong City Plaza in 2008.

Profit attributable to our equity holders increased by Rmb 329.4 million, or 54.6%, to Rmb 932.7 million in 2008 from Rmb 603.3 million in 2007.

### 2007 Compared to 2006

**Revenue.** Our revenue increased by Rmb 623.0 million, or 154.7%, to Rmb 1,025.8 million in 2007 from Rmb 402.8 million in 2006. The increase was primarily attributable to an increase of Rmb 583.4 million in our sales of property and an increase of Rmb 32.0 million in revenue from our property investment.

- **Property Development.** Our revenue generated from property development increased by Rmb 583.4 million, or 146.1%, to Rmb 982.7 million in 2007 from Rmb 399.3 million in 2006. The increase was primarily due to the increased total GFA we delivered in 2007 of approximately 130,044 square meters as compared to 75,039 square meters in 2006. Major projects completed and delivered in 2007 included Fuzhou Powerlong City Plaza and Suzhou Taicang Powerlong City Plaza. GFA sold increased by 73.3% and the average selling price, on our delivered properties increased by 42.0% to Rmb 7,557 per square meter in 2007 from Rmb 5,321 per square meter in 2006.
- **Property Management Services.** Our revenue generated from property management services increased by Rmb 4.9 million, or 164.2%, to Rmb 7.9 million in 2007 from Rmb 3.0 million in 2006. The increase was primarily due to more property management fees generated as a result of an increase in our completed GFA in Fuzhou Powerlong City Plaza, for which we provided property management services.



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- **Property Investment.** Our revenue generated from property investment increased by Rmb 32.0 million, or 21,379.3%, to Rmb 32.2 million in 2007 from Rmb 0.2 million in 2006. The increase was primarily due to additional rental income from investment properties in Fuzhou Powerlong City Plaza. Fuzhou Powerlong City Plaza was completed in December 2006 and was the first property project in which we decided to hold some investment properties. As of December 31, 2006 and 2007, we held investment properties with a total GFA of 6,436 square meters and 103,408 square meters, respectively, in Fuzhou Powerlong City Plaza. In 2007, the average occupancy rate was approximately 92.4% (excluding car parking spaces) and our average rental was approximately Rmb 43.1 per square meter per month.
- **Others.** Our revenue generated from other areas increased by Rmb 2.8 million, or 843.4%, to Rmb 3.1 million in 2007 from Rmb 0.3 million in 2006. Powerlong Decoration, our subsidiary, increased its provision of interior decoration services to third parties in 2007.

**Cost of sales.** Our cost of sales increased by Rmb 216.5 million, or 110.2%, to Rmb 412.9 million in 2007 from Rmb 196.4 million in 2006. The increase was primarily due to an increase in the total GFA completed and sold in 2007 as compared to 2006. Per square meter cost of sales also increased as a result of higher quality construction materials used and the increase in selling prices of construction materials for Fuzhou Powerlong City Plaza. For instance, we used more expensive tiles for Fuzhou Powerlong City Plaza for the commercial portion of properties we delivered in 2007 while we used mostly basic tiles for the residential properties of Fuzhou Powerlong City Plaza we delivered in 2006. Prices for steel and cement, two principal construction materials in property development, also increased generally in 2007 by approximately 70% and 30%, respectively, as compared to 2006. As a result, our cost of sales on a per square meter of GFA basis increased by approximately 18.7% in 2007 as compared to 2006.

**Gross profit.** Our gross profit increased by Rmb 406.5 million, or 197.1%, to Rmb 612.9 million in 2007 from Rmb 206.4 million in 2006. Our gross profit margin increased to 59.8% in 2007 from 51.2% in 2006, primarily due to a substantial increase in the average selling prices of properties in Fuzhou Powerlong City Plaza and Suzhou Taicang Powerlong City Plaza of approximately Rmb 7,557 per square meter that we sold in 2007, compared to the average selling prices of properties in Fuzhou Powerlong City Plaza, Jinjiang Powerlong Golden Jiayuan and Quanzhou Anhai Powerlong Haoyuan of approximately Rmb 5,321 per square meter that we sold in 2006. Fuzhou Powerlong City Plaza is comprised of largely commercial properties, which commanded a higher profit margin compared to our residential property projects. We were also able to centralize our purchase of construction materials and other supplies to negotiate for volume price discounts with our suppliers as our operations expanded.

**Fair value gains on investment properties.** Fair value gains on our investment properties increased by Rmb 411.9 million, or 340.1% to Rmb 533.0 million in 2007 from Rmb 121.1 million in 2006. The increase was primarily due to more investment properties in Fuzhou Powerlong City Plaza completed in 2007 and the rapidly growing real estate market in Fuzhou City. As of December 31, 2006 and 2007, the completed investment properties we held in Fuzhou Powerlong City Plaza amounted to a total GFA of 6,436 square meters and 103,408 square meters, respectively.



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**Selling and marketing costs.** Our selling and marketing costs increased by Rmb 36.1 million, or 167.0%, to Rmb 57.9 million in 2007 from Rmb 21.8 million in 2006. The increase was primarily due to an increase in sales and marketing staff costs and in advertising and marketing costs as a result of our pre-sale activities in relation to Bengbu Powerlong City Plaza, Tai'an Powerlong City Plaza, Wuxi Yuqi Powerlong Riverside Garden, Wuxi Powerlong City Plaza, Luoyang Powerlong City Plaza and Zhengzhou Powerlong City Plaza. In 2006, our selling and marketing costs were lower as we commenced pre-sales of properties in relatively fewer projects, namely, Fuzhou Powerlong and Suzhou Taicang Powerlong City Plaza, as compared to 2007.

**Administrative expenses.** Our administrative expenses decreased by Rmb 2.2 million, or 4.0%, to Rmb 50.8 million in 2007 from Rmb 53.0 million in 2006. The decrease was primarily due to a decrease of donations to government charities.

**Other gains and losses (net).** Our other losses (net) in 2007 were Rmb 5.7 million, primarily due to the combined effects of the following:

- We acquired additional equity interests in Quanzhou Baohua, Jinjianguo Consulting, Bairun Consulting and Fuzhou Powerlong Commercial from their minority equity holders. The gains represented excess of net assets acquired over the respective considerations;
- We disposed of certain equity interest in Jinjianguo Consulting to minority equity holders. The loss represented the net assets disposed of over the consideration received; and
- Exchange losses derived from cash at bank denominated in H.K. dollars.

**Income tax.** Our income tax expenses increased by Rmb 291.7 million, or 224.8%, to Rmb 421.4 million in 2007 from Rmb 129.7 million in 2006. Our tax expenses in 2007 primarily included PRC corporate income tax and LAT for our projects in Fuzhou and Suzhou Taicang while our tax expenses in 2006 primarily related to our projects in Fuzhou, Quanzhou and Jinjiang.

**Profit for the year/period.** Our profit for the year/period increased by Rmb 483.7 million to Rmb 606.7 million in 2007 from Rmb 123.0 million in 2006.

**Minority interest.** Profits shared by minority interests decreased by Rmb 2.2 million, or 40.2%, to Rmb 3.4 million in 2007 from Rmb 5.6 million in 2006. The decrease in the profit attributable to minority interests in 2007 compared to 2006 was primarily due to our acquisition of certain equity interests in Quanzhou Baohua and Fuzhou Powerlong Commercial from minority interests in 2007.

Profit attributable to our equity holders increased by Rmb 485.9 million, or 414.1% to Rmb 603.3 million in 2007 from Rmb 117.4 million in 2006.

## **FINANCIAL INFORMATION**

### **CERTAIN BALANCE SHEET ITEMS**

#### **Land Use Rights**

Land use rights consist of our cost of acquiring rights to use and occupy the relevant parcels of land for the purpose of developing commercial and residential properties, which excludes the cost amortized into administrative expenses, properties under development or assets under construction and the cost transferred to cost of sales. We divided our land use rights into current and non-current assets. Land use rights included in our current assets consisted of amounts that would be realized within one normal operating cycle, and amounts not realizable within one normal operating cycle were included in our non-current assets. One normal operating cycle typically means three years. We had aggregate land use rights of Rmb 728.0 million, Rmb 713.2 million, Rmb 1,155.2 million and Rmb 1,195.3 million as of December 31, 2006, 2007 and 2008 and June 30, 2009, respectively, which were divided into land use rights of current assets of Rmb 688.1 million, Rmb 674.3 million, Rmb 1,116.7 million and Rmb 1,157.3 million, respectively, and land use rights of non-current assets of Rmb 39.9 million, Rmb 38.9 million, Rmb 38.5 million and Rmb 38.0 million, respectively. The fluctuation of our land use rights during the Track Record Period was primarily attributable to our project development schedule. The general increase in our land use rights during the Track Record Period was in line with the increase in the number of our new projects.

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The table below sets forth, as of the dates indicated, our land use rights by project.

	As of December 31,			As of
	2006	2007	2008	June 30,
	(Rmb in millions)			2009
<b>Non-current land use rights</b>				
Suzhou Taichang Hotel. . . . .	5.0	4.9	4.8	4.7
Zhengzhou Powerlong City Plaza . . . .	—	—	—	—
Shandong Powerlong Industrial Development Company Limited . . . .	12.9	12.6	12.3	12.2
Qingdao Powerlong City Plaza . . . . .	<u>22.0</u>	<u>21.3</u>	<u>21.4</u>	<u>21.1</u>
Sub-total . . . . .	<u>39.9</u>	<u>38.9</u>	<u>38.5</u>	<u>38.0</u>
<b>Current land use rights</b>				
Fuzhou Powerlong City Plaza . . . . .	46.4	1.1	0.8	0.5
Suzhou Taicang Powerlong City Plaza.	27.8	51.8	48.6	57.5
Zhengzhou Powerlong City Plaza . . . .	39.6	38.6	48.4	35.1
Shandong Powerlong Industrial Development Company Limited . . . .	168.2	165.1	74.3	76.2
Bengbu Powerlong City Plaza . . . . .	87.7	86.3	54.9	49.8
Luoyang Powerlong City Plaza . . . . .	110.3	107.8	174.8	172.7
Qingdao Powerlong City Plaza . . . . .	139.3	113.5	211.6	150.2
Wuxi Powerlong City Plaza . . . . .	68.8	68.3	64.5	63.7
Wuxi Yuqi Powerlong Riverside Garden	—	41.8	143.8	141.5
Suqian Project . . . . .	—	—	107.9	106.6
Yantai Project . . . . .	—	—	108.7	107.3
Xinxiang Project. . . . .	—	—	78.4	77.4
Yancheng Project. . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>118.9</u>
Sub-total . . . . .	<u>688.1</u>	<u>674.3</u>	<u>1,116.7</u>	<u>1,157.3</u>
<b>Total . . . . .</b>	<u><u>728.0</u></u>	<u><u>713.2</u></u>	<u><u>1,155.2</u></u>	<u><u>1,195.3</u></u>

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### Property under Development

Properties under development in our consolidated financial information are accounted for as current assets and include primarily construction costs, capitalized expenditures, amortization of land use rights that is directly related to properties under development, as well as capitalized interests. We had properties under development of Rmb 243.2 million, Rmb 830.0 million, Rmb 1,577.2 million and Rmb 1,737.2 million as of December 31, 2006, 2007 and 2008 and June 30, 2009, respectively. The fluctuation of our properties under development during the Track Record Period was primarily attributable to the timing of property delivery and our development schedule. The significant increase in properties under development in 2007 was in line with the increased number of new projects under development.

The table below sets forth, as of the dates indicated, our properties under development by project.

	As of December 31,			As of
	2006	2007	2008	June 30,
				2009
	(Rmb in millions)			
Suzhou Taicang Powerlong City Plaza.	122.0	85.5	7.9	11.1
Zhengzhou Powerlong City Plaza . . . .	38.3	130.9	—	—
Tai'an Powerlong City Plaza . . . . .	28.6	125.0	115.5	127.6
Bengbu Powerlong City Plaza . . . . .	25.1	193.2	110.5	144.0
Luoyang Powerlong City Plaza . . . . .	16.8	129.0	371.5	400.1
Qingdao Powerlong City Plaza . . . . .	12.4	131.3	492.6	442.9
Wuxi Powerlong City Plaza . . . . .	—	16.4	117.4	166.3
Wuxi Yuqi Powerlong Riverside Garden	—	18.7	179.4	204.8
Suqian Project . . . . .	—	—	24.8 <sup>(1)</sup>	33.7
Licang Project . . . . .	—	—	19.1 <sup>(1)</sup>	24.8
Yantai Project . . . . .	—	—	44.2 <sup>(1)</sup>	58.8
Xinxiang Project . . . . .	—	—	40.0 <sup>(1)</sup>	50.7
Yancheng Project . . . . .	—	—	21.8 <sup>(1)</sup>	28.9
Changzhou Project . . . . .	—	—	32.5 <sup>(1)</sup>	43.5
<b>Total . . . . .</b>	<b><u>243.2</u></b>	<b><u>830.0</u></b>	<b><u>1,577.2</u></b>	<b><u>1,737.2</u></b>

*Note:*

- <sup>(1)</sup> Primarily represents capitalized finance costs and costs incurred from pre-construction preparatory works, including project planning and design and associated management costs.

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The table below sets forth, for the periods indicated, our properties under development by project and their estimated time of completion of construction and delivery of completed properties.

	<u>Estimated time of final completion of construction of entire project</u>	<u>Actual/estimated earliest time of delivery of properties<sup>(1)</sup></u>
Suzhou Taicang Powerlong City Plaza . . . . .	Dec 2011	Feb 2007
Wuxi Powerlong City Plaza . . . . .	Dec 2010	Jul 2008
Wuxi Yuqi Powerlong Riverside Garden . . . . .	Aug 2012	Sep 2009
Qingdao Powerlong City Plaza . . . . .	May 2010	Mar 2009
Tai'an Powerlong City Plaza . . . . .	May 2010	Jul 2008
Luoyang Powerlong City Plaza . . . . .	Dec 2012	Sep 2009
Bengbu Powerlong City Plaza . . . . .	Feb 2010	May 2008

*Note:*

- (1) As the projects are developed in multiple phases, the time of delivery of properties in the first phase is earlier than the completion of construction of the entire project.

### Completed Properties Held for Sale

Completed properties held for sale include our completed properties remaining unsold at each of our balance sheet dates and are included in our consolidated balance sheet as current assets. They are stated at the lower of cost and net realizable value. Cost comprises development costs attributable to the unsold properties. Net realizable value is determined by reference to the sale proceeds of properties sold in our ordinary course of business, net of applicable selling expenses, or by management estimates based on prevailing market conditions. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our completed properties held for sale amounted to approximately Rmb 149.9 million, Rmb 19.4 million, Rmb 417.5 million and Rmb 366.0 million, respectively. During the Track Record Period, we were able to pre-sell approximately 93% of our completed properties held for sale prior to their completion.

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The table below sets forth, as of the dates indicated, our completed properties held for sale by project.

	As of December 31,			As of
	2006	2007	2008	June 30,
				2009
	(Rmb in millions)			
<b>Completed properties held for sale</b>				
Fuzhou Powerlong City Plaza . . . . .	149.9	1.2	0.9	0.5
Suzhou Taicang Powerlong City Plaza . . . . .	—	18.2	23.7	23.8
Zhengzhou Powerlong City Plaza . . . . .	—	—	262.9	210.4
Tai'an Powerlong City Plaza . . . . .	—	—	12.6	15.0
Bengbu Powerlong City Plaza . . . . .	—	—	116.4	56.0
Wuxi Powerlong City Plaza . . . . .	—	—	1.0	0.9
Qingdao Powerlong City Plaza . . . . .	—	—	—	68.4
<b>Total . . . . .</b>	<b>149.9</b>	<b>19.4</b>	<b>417.5</b>	<b>366.0</b>

### Investment Properties

We began to hold investment properties towards the end of 2006. As of December 31, 2006, 2007 and 2008 and June 30, 2009, we had investment properties under construction at cost of Rmb 1,102.2 million, Rmb 1,631.4 million, Rmb 1,218.9 million and Rmb 1,243.6 million, respectively. As of December 31, 2006, 2007 and 2008 and June 30, 2009, we held completed investment properties with a total GFA of 6,436 square meters, 103,408 square meters, 205,829 square meters and 205,022 square meters, respectively, and at a fair value of Rmb 144.0 million, Rmb 1,073.0 million, Rmb 2,173.0 million and Rmb 2,168.9 million, respectively, based on revaluation conducted at those respective dates by Savills, an independent valuer. The increase in fair value of our completed investment properties in 2007 as compared to 2006 was primarily due to our increased holding of completed investment properties as well as the upward movement in the market value of Fuzhou Powerlong City Plaza. The increase in the fair value of our completed investment properties in 2008 as compared to 2007 was primarily attributable to the retention of certain commercial properties in Zhengzhou Powerlong City Plaza and Bengbu Powerlong City Plaza which we retained for long-term investment purposes in 2008. The fair value of our completed investment properties as of December 31, 2008 and June 30, 2009 remained largely constant.



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The table below sets forth, as of the dates indicated, our investment properties by project.

	As of December 31,			As of
	2006	2007	2008	June 30,
	(Rmb in millions)			2009
<b>Investment Properties Under Construction</b>				
Fuzhou Powerlong City Plaza . . . . .	303.2	—	—	—
Zhengzhou Powerlong City Plaza . . . .	165.6	361.3	—	—
Bengbu Powerlong City Plaza . . . . .	136.5	340.6	214.3	229.5
Suzhou Taicang Powerlong City Plaza .	61.2	88.7	12.5	—
Qingdao Powerlong City Plaza . . . . .	197.1	459.5	457.8	399.3
Luoyang Powerlong City Plaza . . . . .	135.8	253.6	117.3	124.0
Tai'an Powerlong City Plaza . . . . .	60.7	68.0	103.1	111.4
Wuxi Powerlong City Plaza . . . . .	42.1	52.2	168.1	154.8
Wuxi Yuqi Powerlong Riverside Garden	—	7.5	10.5	16.8
Suqian Project . . . . .	—	—	48.6	49.7
Licang Project . . . . .	—	—	7.2	9.1
Yantai Project . . . . .	—	—	23.8	25.9
Xinxiang Project . . . . .	—	—	35.7	38.4
Yancheng Project . . . . .	—	—	8.2	70.1
Changzhou Project . . . . .	—	—	11.8	14.6
Subtotal . . . . .	<u>1,102.2</u>	<u>1,631.4</u>	<u>1,218.9</u>	<u>1,243.6</u>
<b>Completed Investment Properties</b>				
Fuzhou Powerlong City Plaza . . . . .	144.0	1,073.0	971.0	974.0
Zhengzhou Powerlong City Plaza . . . .	—	—	1,078.0	1,071.5
Bengbu Powerlong City Plaza . . . . .	—	—	124.0	123.4
Subtotal . . . . .	<u>144.0</u>	<u>1,073.0</u>	<u>2,173.0</u>	<u>2,168.9</u>
<b>Total . . . . .</b>	<u><u>1,246.2</u></u>	<u><u>2,704.4</u></u>	<u><u>3,391.9</u></u>	<u><u>3,412.5</u></u>

### Trade and Other Receivables and Prepayments

We had trade and other receivables and prepayments of Rmb 893.4 million, Rmb 570.7 million, Rmb 1,408.1 million and Rmb 1,715.9 million, respectively, as of December 31, 2006, 2007 and 2008, and June 30, 2009. Trade receivables from third parties as of December 31, 2006, 2007 and 2008 and June 30, 2009, were Rmb 1.9 million, Rmb 28.2 million, Rmb 56.3 million and Rmb 111.1 million, respectively. Our trade receivables mainly arose from rental income derived from the investment properties we leased out. Consideration in respect of properties sold is generally paid in accordance with the terms of the sale and purchase agreements. Other receivables from related parties and third parties as of December 31, 2006, 2007 and 2008 and June 30, 2009 were Rmb 838.3 million, Rmb 98.7 million, Rmb 263.0 million and Rmb 353.5 million, respectively. Other receivables from third parties primarily represented deposits paid to electricity suppliers and water suppliers for our projects and utilities costs we prepaid on behalf of our contractors. Prepayments primarily include deposits made in connection

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with our acquisition of land use rights, prepayments of business taxes and other taxes, prepayments for construction costs incurred by third parties, prepayments for acquisition of properties from related parties and prepayments for professional fees.

Our trade and other receivables composition and percentage trade and other receivables composition during the Track Record Period were approximately as follows:

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	(Rmb in thousands, except percentages)							
Trade receivables. . . . .	1,861	0.2%	28,239	4.9%	56,290	4.0%	111,101	6.5%
Other receivables. . . . .	838,348	93.8%	98,680	17.3%	262,978	18.7%	353,547	20.6%
Prepayments . . . . .	53,163	6.0%	443,776	77.8%	1,088,833	77.3%	1,251,269	72.9%
<b>Total. . . . .</b>	<b>893,372</b>	<b>100.0%</b>	<b>570,695</b>	<b>100.0%</b>	<b>1,408,101</b>	<b>100.0%</b>	<b>1,715,917</b>	<b>100.0%</b>

Our trade and other receivables and prepayments include receivables of our property sales proceeds, rental receivable for our investment properties, prepaid business taxes and other taxes, prepayments for the acquisition of land use rights, prepayments for construction costs to third parties, prepayments for acquisition of properties from related parties and prepayments for professional fees. Prepaid taxes are levied when we receive advances from pre-sale of properties and such taxes are recorded as trade and other receivables before the relevant revenue is recognized.

Our trade receivables as of December 31, 2006, 2007 and 2008 and June 30, 2009 were aged less than 90 days. Our credit policy to our customers is largely reflected in our sale and purchase agreements with our customers. Our customers generally have seven days to pay their down-payments and one month, subject to a grace period of 15 more days, to secure mortgage loan to pay the remaining purchase price. In accordance with our agreements, we charge a default interest on the amount due and payable in addition to other legally available means to resolve such defaults. We do not normally provide installment payment plans to purchasers of our properties. With respect to our trade receivables of Rmb 111.1 million outstanding as of June 30, 2009, we subsequently collected approximately Rmb 21.6 million as of August 31, 2009. Our trade receivables turnover days during the Track Record Period were two days in 2006, 10 days in 2007, 13 days in 2008 and 15 days in the six months ended June 30, 2009, respectively. We have computed our trade receivables turnover days as follows: (Trade receivables at the end of the period/Revenue) x number of days in the period. The fluctuation in our trade receivables turnover days during the Track Record Period was primarily due to the different composition of principal sources of revenue during the respective periods. While our revenue from property development was mostly a transfer of our pre-sale proceeds to our revenue with immediate recognition, property management service fees and rental income tend to have longer collection cycles. Trade receivables as of December 31, 2006, 2007 and 2008 primarily consisted of rental income derived from the investment properties we leased out. The shorter trade receivables turnover days in 2006 as compared to 2007 and 2008 were due to the fact that we did not generate rental income from our investment properties until the completion of Fuzhou Powerlong City Plaza in November 2006. Trade receivables as of June 30, 2009 primarily consisted of rental income as well as proceeds due to us from the sales of commercial properties in Qingdao Powerlong City Plaza.

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The following table sets forth our other receivables during the Track Record Period.

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(Rmb in thousands)			
<b>Other receivables from related parties</b>				
Xiamen Powerlong Group . . . . .	729,581	62,371	210,180	320,744
Hoi Kin Hong . . . . .	24,594	—	—	—
Xiamen Powerlong . . . . .	2,617	—	—	—
Jinjiang Powerlong Hotel Company Limited . . . . .	66,031	—	—	—
Fuzhou Cannes Department Store Company Limited . . . . .	—	—	20,616	—
Fuzhou Powerlong Amusement Management Company Limited . . . .	—	—	3,996	4,107
Zhengzhou Powerlong Food & Beverage Company Limited . . . . .	—	—	2,032	388
Other related entities ultimately controlled by Hoi Kin Hong . . . . .	839	—	100	1,418
	<u>823,662</u>	<u>62,371</u>	<u>236,924</u>	<u>326,657</u>
<b>Other receivables from third parties . . . . .</b>	<u>14,686</u>	<u>36,309</u>	<u>26,054</u>	<u>26,890</u>
<b>Total . . . . .</b>	<u>838,348</u>	<u>98,680</u>	<u>262,978</u>	<u>353,547</u>

Other receivables from related parties consist of amounts due from our Chairman, Hoi Kin Hong, and companies owned or controlled by him. The amounts due from related parties were unsecured, non-interest bearing and repayable to us on demand. As of June 30, 2009, we had amounts due from related parties of Rmb 326.7 million. Such amounts due from related parties will be repaid.

Our prepayments during the Track Record Period were primarily related to our deposits in connection with our land acquisition endeavors, and to a lesser extent related to prepayments of business taxes and other taxes, prepayments to third-party construction contractors, prepayments for acquisition of properties from related parties and prepayments for professional fees. We paid deposits in connection with our land use rights acquisitions in the aggregate of nil, Rmb 332.2 million, Rmb 677.7 million and Rmb 528.4 million as of December 31, 2006, 2007 and 2008 and June 30, 2009, respectively. In addition, we prepaid business taxes and other taxes of Rmb 43.5 million, Rmb 91.2 million, Rmb 92.0 million and Rmb 86.0 million as of December 31, 2006, 2007 and 2008 and June 30, 2009, respectively. The fluctuation of our prepayments during the Track Record Period was primarily attributable to our land acquisition plan for the construction of different projects. The increase in our prepayments in 2008 and the six months ended June 30, 2009 was also attributable to the prepayment of Rmb 300.0 million for the acquisition of certain properties in Xiamen City from Xiamen Powerlong Group. For more information, please see the section entitled “Business — Acquisition of Properties in Mingfa Centre” in this document.

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### Trade and Other Payables

We had trade and other payables of Rmb 1,327.8 million, Rmb 891.9 million, Rmb 1,542.6 million and Rmb 2,344.4 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. Trade payables to third parties were Rmb 211.4 million, Rmb 521.3 million, Rmb 492.9 million and Rmb 512.0 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. The fluctuation of our trade payables during the Track Record Period was largely in line with construction costs incurred for property development during the same period.

Our trade and other payables composition and percentage trade and other payables composition during the Track Record Period were approximately as follows:

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	(Rmb in thousands, except percentages)							
Trade payables . . .	211,409	15.9%	521,292	58.4%	492,936	32.0%	512,011	21.8%
Notes payables . . .	—	—	—	—	—	—	40,478	1.7%
Other payables and accruals. . . . .	473,344	35.6%	47,494	5.4%	787,350	51.0%	1,518,812	64.9%
Payables for retention fee . . .	48,710	3.7%	74,045	8.3%	99,401	6.4%	108,618	4.6%
Payables for land use right . . . . .	591,757	44.6%	234,981	26.3%	143,434	9.3%	143,434	6.1%
Other taxes payable	2,569	0.2%	14,057	1.6%	19,496	1.3%	21,058	0.9%
<b>Total. . . . .</b>	<b>1,327,789</b>	<b>100.0%</b>	<b>891,869</b>	<b>100.0%</b>	<b>1,542,617</b>	<b>100.0%</b>	<b>2,344,411</b>	<b>100.0%</b>

The decrease in payables in 2007 as compared to 2006 was mainly due to the settlement of the consideration for the land use rights purchased in 2006 as they became due in 2007 and a decrease in payables to related parties, thereby resulting in the decrease of our payable balance as of December 31, 2007. The increase in payables in 2008 as compared to 2007 was mainly due to the increase in other payables to third parties and related parties in 2008, partially offset by the decrease in payables for land use rights.

Our trade payables represented mainly payables to third parties including suppliers and contractors. We do not have uniform settlement terms with our suppliers and contractors. For general suppliers, we typically settle our payments within 90 days of receiving the goods and services. For our construction contractors, we typically settle in the current month approximately 80% of the construction costs incurred during the previous month. This is largely because of the time needed to verify the construction costs actually incurred. We typically settle as much as 90% of the construction costs by the time the construction of a project is completed and 95% by the time we and our contractors reach an agreement on the aggregate amount of the construction costs. Typically our arrangements with the contractors allow us to withhold a retention fee of up to 5% of the aggregate construction costs, the settlement of most of which will be made within two years from the completion of the relevant projects.

With respect to our trade payables of Rmb 512.0 million outstanding as of June 30, 2009, we subsequently paid approximately Rmb 29.6 million as of August 31, 2009, with the remainder not yet due and payable. Our trade payables turnover days during the Track Record Period were 393 days in 2006, 461 days in 2007, 207 days in 2008 and 307 days in the six months ended June 30, 2009. We have computed our trade payables turnover days as follows: (Trade payables at the end of the period/Cost of sales) x number of days in the period. The fluctuation

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in our trade payables turnover days during the Track Record Period was primarily due to the combined effect of our properties completed and delivered and project developments started and on-going during the respective periods. Our trade payables represent primarily the construction fees payable under our construction contracts. In 2006, 2007 and 2008 and the six months ended June 30, 2009, our trade payables turnover days were affected by the number of development projects we undertook during the period as more projects tended to increase our trade payables. In addition, our trade payables turnover days were affected by the volume of properties completed and delivered during the period as they tended to affect our cost of sales since we recognize our cost of sale in line with the sales of the relevant properties. We plan to settle the remaining trade payables with our sales proceeds and internally generated funds.

Our other payables included payables and accruals to related parties and to third parties. Our other payables information during the Track Record Period was as follows:

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(Rmb in thousands)			
<b>Other payables to related parties</b>				
Hoi Kin Hong . . . . .	—	—	633,115	1,397,796
Xiamen Powerlong Group . . . . .	423,064	—	—	—
Xiamen Powerlong Hotel Company Limited . . . . .	31,267	—	—	—
Jinjiang Powerlong Hotel Company Limited . . . . .	561	—	—	—
Macau Entertainment Company Limited . . . . .	1,349	—	—	—
Other related entities ultimately controlled by Hoi Kin Hong . . . . .	239	—	64	192
	<u>456,480</u>	<u>—</u>	<u>633,179</u>	<u>1,397,988</u>
<b>Other payables to third parties . . . . .</b>	<u>16,864</u>	<u>47,494</u>	<u>154,171</u>	<u>120,824</u>
<b>Total . . . . .</b>	<u>473,344</u>	<u>47,494</u>	<u>787,350</u>	<u>1,518,812</u>

Other payables to related parties comprised of amounts due to our Controlling Shareholders and companies owned or controlled by them. As of December 31, 2008 and June 30, 2009, we had other payables to related parties of Rmb 633.2 million and Rmb 1,398.0 million, respectively, both of which were attributable to advances from Hoi Kin Hong and entities controlled by him. These advances were made to us primarily for redeeming a portion of the Convertible Bonds and Secured Notes, Secured Bonds and Secured Notes and funding our registered capital contribution into our project companies. Of other payables to related parties of Rmb 1,398.0 million as of June 30, 2009, Rmb 920.2 million was used to redeem the Secured Bonds and Secured Notes and Rmb 477.8 million was used to fund our registered capital contribution into our project companies. We will have no other payables to related parties. As of June 30, 2009, our related parties provided guarantees to us with respect to our bank loan of Rmb 609.8 million. All guarantees provided to us by our related parties, including those given by Hoi Kin Hong, will be released.

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Payables for retention fee was Rmb 48.7 million, Rmb 74.0 million, Rmb 99.4 million and Rmb 108.6 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. The increase during the Track Record Period was primarily due to an increase in our property development, which resulted in an increase in retention fee held by us for quality assurance of construction work. With respect to Rmb 108.6 million of payables for retention fee outstanding as of June 30, 2009, we intend to repay them to the constructors in accordance with the construction progress of the relevant projects. We typically repay such retention fee within two years from the completion of the relevant project development. For instance, warranties for fitting-out work, including pipes and cables, are for two years. Warranties for certain other types of defects such as building leakage are for a longer period.

We had payables for land use rights of Rmb 591.8 million, Rmb 235.0 million, Rmb 143.4 million and Rmb 143.4 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. Our land premium payable fluctuated during the Track Record Period primarily due to our land acquisition plan for the construction of different projects. As our projects tend to be large, it typically takes longer to complete them before we embark on additional projects. With respect to Rmb 143.4 million of our payables for land use rights outstanding as of June 30, 2009, we expect to settle those payables between 2009 and 2011 according to the relevant arrangements. We plan to settle the remaining payables for land use rights with our sales proceeds and internally generated funds.

We had other taxes payable of Rmb 2.6 million, Rmb 14.1 million, Rmb 19.5 million and Rmb 21.1 million, as of December 31, 2006, 2007 and 2008 and June 30, 2009, respectively. These other taxes payable primarily related to business tax and other levies.

### **Advances from Customers**

We record our pre-sale proceeds as “advances from customers” within our current liabilities in our consolidated balance sheets. We do not recognize these advances from pre-sale of properties as revenue until we have completed the construction of the relevant projects and delivery of properties. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our aggregate advances from pre-sale of properties amounted to Rmb 1,086.1 million, Rmb 2,072.6 million, Rmb 2,267.9 million and Rmb 2,044.6 million, respectively.



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The table below sets forth, as of the dates indicated, advances received from our pre-sale of properties by project.

	As of December 31,			As of
	2006	2007	2008	June 30,
	(Rmb in millions)			2009
Fuzhou Powerlong City Plaza . . . . .	604.1	0.9	—	—
Suzhou Taicang Powerlong City Plaza . . . . .	314.3	222.3	—	11.4
Zhengzhou Powerlong City Plaza . . . . .	106.9	419.1	98.8	45.2
Tai'an Powerlong City Plaza . . . . .	5.6	220.4	200.9	253.1
Bengbu Powerlong City Plaza . . . . .	55.2	579.5	292.4	235.0
Luoyang Powerlong City Plaza . . . . .	—	190.5	391.0	520.3
Qingdao Powerlong City Plaza . . . . .	—	372.4	1,063.6	524.2
Wuxi Powerlong City Plaza . . . . .	—	67.5	5.3	186.7
Wuxi Yuqi Powerlong Riverside Garden . . . . .	—	—	215.9	268.7
<b>Total . . . . .</b>	<b><u>1,086.1</u></b>	<b><u>2,072.6</u></b>	<b><u>2,267.9</u></b>	<b><u>2,044.6</u></b>

For the six months ended June 30, 2009, we had received proceeds from pre-sale and sale of properties of Rmb 1,045.6 million.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to pay for construction costs, land costs (principally the payment of land premium and relocation costs), infrastructure costs, finance costs, as well as to service our indebtedness, and to fund working capital and normal recurring expenses. To date, we have primarily financed our expenditures through internally generated cash flows, proceeds from pre-sale and sale of properties, borrowings from commercial banks and debt financings. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of sources including project construction loans and mortgage loans, cash provided by operating activities, including the rental, sale and pre-sale of properties, and additional offerings of equity securities or other capital market instruments.

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

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(unaudited)	
	(Rmb in millions)				
Net cash inflow/(outflow) from operating activities . . . . .	490.9	1,047.4	131.3	(99.1)	335.0
Net cash outflow from investing activities. . . . .	(1,084.2)	(1,833.9)	(1,850.2)	(1,066.9)	(448.9)
Net cash inflow from financing activities. . . . .	<u>608.1</u>	<u>1,907.4</u>	<u>772.7</u>	<u>352.1</u>	<u>177.3</u>
Net increase/(decrease) in cash and cash equivalents. . . . .	14.8	1,120.9	(946.2)	(813.9)	63.3
Cash and cash equivalents at the beginning of the year. . . .	33.7	48.5	1,162.6	1,162.6	205.3
Effect of foreign exchange rate changes . . . . .	<u>—</u>	<u>(6.9)</u>	<u>(11.0)</u>	<u>(9.4)</u>	<u>3.6</u>
Cash and cash equivalents at end of the year/period . . . . .	<u>48.5</u>	<u>1,162.6</u>	<u>205.3</u>	<u>339.2</u>	<u>272.2</u>

### Operating Activities

Our cash inflow from operating activities is generated primarily from proceeds from the sales of our properties, including proceeds from pre-sales of our properties, rental income from our investment properties and income from property management services we provide. Cash used in our operating activities reflects our investments in our property developments. Cash used in operating activities also includes payments of income taxes and interests.

In the six months ended June 30, 2009, our net cash inflow from operating activities was Rmb 335.0 million. Our cash inflows in the six months ended June 30, 2009 were principally a result of the advances from customers derived from pre-sales of the properties in Qingdao Powerlong City Plaza, Zhengzhou Powerlong City Plaza, Wuxi Powerlong City Plaza, Luoyang Powerlong City Plaza, Bengbu Powerlong City Plaza of approximately Rmb 817.0 million, partially offset by the payment of PRC corporate income tax of Rmb 18.8 million, LAT of Rmb 19.2 million and interest expense of Rmb 90.9 million.

In 2008, our net cash inflow from operating activities was Rmb 131.3 million. Our cash inflows in 2008 were principally a result of the advances from customers derived from pre-sales of the properties in Bengbu Powerlong City Plaza, Tai'an Powerlong City Plaza, Zhengzhou Powerlong City Plaza, Luoyang Powerlong City Plaza, Qingdao Powerlong City Plaza and Wuxi Yuqi Powerlong Riverside Garden of approximately Rmb 1,680.2 million, partially offset by the construction costs incurred in our property development of Rmb 1,147.3 million, payment of PRC corporate income tax of Rmb 77.5 million, LAT of Rmb 57.0 million and interest expense of Rmb 169.9 million.

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In 2007, our net cash inflow from operating activities was Rmb 1,047.4 million. Our cash inflows in 2007 were principally a result of the advances from customers derived from pre-sales of properties in Bengbu Powerlong City Plaza, Tai'an Powerlong City Plaza, Zhengzhou Powerlong City Plaza, Luoyang Powerlong City Plaza and Qingdao Powerlong City Plaza of approximately Rmb 1,611.4 million, partially offset by payment of PRC corporate income tax of Rmb 70.4 million, PRC LAT of Rmb 32.5 million and interest expense of Rmb 22.6 million.

In 2006, our net cash inflow from operating activities was Rmb 490.9 million. Our cash inflows in 2006 were principally a result of the advances from customers derived from pre-sales of properties in Fuzhou Powerlong City Plaza and Suzhou Taicang Powerlong City Plaza of approximately Rmb 733.9 million, partially offset by payment of PRC corporate income tax of Rmb 44.0 million, PRC LAT of Rmb 13.0 million and interest expense of Rmb 9.3 million.

### Investing Activities

Our cash used in investing activities reflects cash outflows relating to the purchases of property and equipment as well as purchases of land use rights and advances made to related parties. Our cash from investing activities reflects primarily proceeds from repayment of cash advances from related parties and disposals of property and equipment.

In the six months ended June 30, 2009, our net cash used in investing activities was Rmb 448.9 million. Our cash outflows were mainly made up of purchases of land use rights of Rmb 29.5 million, cash advance made to related parties of Rmb 89.7 million and prepayments for acquisition of properties from related parties of Rmb 300.0 million. The purchases of land use rights in the six months ended June 30, 2009 primarily reflected our acquisition costs for the land use rights in connection with our properties in Yancheng Project, Licang Project and Suqian Project for long-term investment purposes. The prepayments for acquisition of properties from related parties in the six months ended June 30, 2009 reflected our prepayment of Rmb 300.0 million for the acquisition of certain properties in Xiamen City from Xiamen Powerlong Group.

In 2008, our net cash used in investing activities was Rmb 1,850.2 million. Our cash outflows were mainly made up of purchases of land use rights of Rmb 988.3 million, purchases of investment properties of Rmb 323.1 million, purchases of property and equipment of Rmb 108.4 million, cash advances made to related parties of Rmb 174.6 million and prepayments for acquisition of properties from related parties of Rmb 300.0 million. The purchases of land use rights in 2008 primarily reflected our acquisition costs for the land use rights in connection with our properties in Xinxiang Project, Yantai Project, Yancheng Project, Suqian Project, Licang Project, Changzhou Project and Luoyang Powerlong City Plaza for long-term investment purposes. The purchases of investment properties in 2008 primarily reflected construction costs incurred in the development of commercial properties in Zhengzhou Powerlong City Plaza, Qingdao Powerlong City Plaza, Bengbu Powerlong City Plaza, Luoyang Powerlong City Plaza and Tai'an Powerlong City Plaza for long-term investment purposes. The purchases of property and equipment in 2008 primarily reflected construction costs incurred in the development of hotels in Qingdao Powerlong City Plaza, Taicang Powerlong City Plaza and Tai'an Powerlong City Plaza. Cash advances made to our related parties in 2008 were of the same nature as prior years.

In 2007, our net cash used in investing activities was Rmb 1,833.9 million. Our cash outflows were mainly made up of purchases of investment properties of Rmb 687.1 million, purchase of land use rights of Rmb 647.3 million, cash advances made to related parties of Rmb

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522.3 million and purchases of property and equipment of Rmb 86.1 million. The purchases of investment properties in 2007 primarily reflected construction costs incurred in the development of commercial properties in Zhengzhou Powerlong City Plaza, Qingdao Powerlong City Plaza, Bengbu Powerlong City Plaza, Luoyang Powerlong City Plaza and Tai'an Powerlong City Plaza for long-term investment purposes. The purchases of land use rights in 2007 primarily reflected our acquisition costs for the land use rights in connection with our properties in Qingdao Powerlong City Plaza, Wuxi Yuqi Powerlong Riverside Garden, Xinxiang Project, Yantai Project, Suqian Project and Tai'an Powerlong City Plaza for long-term investment purposes. The purchases of property and equipment in 2007 primarily reflected construction costs incurred in the development of hotels in Qingdao Powerlong City Plaza, Taicang Powerlong City Plaza and Tai'an Powerlong City Plaza. Cash advances made to our related parties in 2007 were of the same nature as those in 2006. Our cash outflows in 2007 were partially offset by repayments of cash advances by related parties of Rmb 112.4 million.

In 2006, our net cash used in investing activities was Rmb 1,084.2 million. Our cash outflows were mainly made up of purchases of investment properties of Rmb 300.0 million, purchases of land use rights of Rmb 565.8 million and cash advances made to related parties of Rmb 464.4 million. The purchases of investment properties in 2006 primarily reflected construction costs incurred in the development of commercial properties in Fuzhou Powerlong City Plaza and Zhengzhou Powerlong City Plaza for long-term investment purposes. The purchases of land use rights in 2006 primarily reflected our acquisition costs for the land use rights in connection with our properties in Qingdao Powerlong City Plaza, Bengbu Powerlong City Plaza, Wuxi Powerlong City Plaza, Luoyang Powerlong City Plaza and Tai'an Powerlong City Plaza for long-term investment purposes. Cash advances made to our related parties in 2006 primarily reflected amounts advanced to related parties, which are companies controlled by Hoi Kin Hong, our Chairman. Prior to the Reorganization, we and these related parties were managed by Hoi Kin Hong as the same group of companies. As private enterprises, we provided funding to these companies controlled by Hoi Kin Hong to satisfy their funding needs from time to time. Our cash outflows in 2006 were partially offset by repayment of cash advance by related parties of Rmb 264.5 million.

### Financing Activities

Our cash from financing activities is mainly generated from bank borrowings and borrowings from third parties, contributions by the equity holders and cash advances from related parties. Our cash inflows from financing activities are offset by repayments of bank borrowings, repayments of Convertible Bonds and Secured Notes, and Secured Bonds and Secured Notes and repayments of cash advances made to related parties.

In the six months ended June 30, 2009, our net cash inflow from financing activities was Rmb 177.3 million. In the six months ended June 30, 2009, we raised borrowings of Rmb 110.0 million and received cash advances from related parties of Rmb 764.8 million. We made repayments of borrowings of Rmb 232.8 million and repayments of Secured Bonds and Secured Notes of Rmb 457.6 million.

In 2008, our net cash inflow from financing activities was Rmb 772.7 million. In 2008, we raised borrowings of Rmb 611.8 million and received cash advances from related parties of Rmb 628.9 million. We made repayments of borrowings of Rmb 262.0 million and repayments of Convertible Bonds and Secured Notes, Secured Bonds and Secured Notes of Rmb 305.0 million.

In 2007, our net cash inflow from financing activities was Rmb 1,907.4 million. In 2007, we issued the Convertible Bonds and Secured Notes totaling Rmb 939.1 million, raised other borrowings totaling Rmb 765.0 million, received various capital contributions from the then

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equity holders of subsidiaries and minority interests of Rmb 227.1 million, and received cash advances from related parties of Rmb 357.0 million. We made repayments of cash advances to related parties of Rmb 232.0 million and repayments of borrowings of Rmb 133.7 million.

In 2006, our net cash inflow from financing activities was Rmb 608.1 million. In 2006, we received capital contributions from the then equity holders of subsidiaries and minority interests of Rmb 196.6 million, raised borrowings of Rmb 90.0 million and received cash advances from related parties of Rmb 408.6 million. We made repayments of borrowings of Rmb 81.0 million.

### INDEBTEDNESS, CONTINGENT LIABILITIES AND NET CURRENT LIABILITIES

#### Borrowings

As of December 31, 2006, 2007 and 2008, June 30, 2009 and August 31, 2009, we had the following outstanding borrowings.

	As of December 31,			As of	As of
	2006	2007	2008	June 30,	August 31,
				2009	2009
					(unaudited)
	(Rmb in millions)				
<b>Borrowings included in non-current liabilities:</b>					
Bank borrowings — secured . . . . .	129.0	733.3	1,111.0	968.2	947.1
Bank borrowings — unsecured . . . . .	—	27.0	—	—	—
Sub-total . . . . .	129.0	760.3	1,111.0	968.2	947.1
Less: Amount due within one year. . . . .	(30.0)	(42.4)	(563.7)	(663.0)	(515.5)
	<u>99.0</u>	<u>717.9</u>	<u>547.3</u>	<u>305.1</u>	<u>431.6</u>
<b>Borrowings included in current liabilities:</b>					
Short-term borrowings — secured . . . . .	—	—	—	20.0	30.0
Current portion of long-term borrowings . . . . .	30.0	42.4	563.7	663.0	515.5
Convertible Bonds and Secured Notes . . . . .	—	784.4	—	—	—
Secured Bonds and Secured Notes . . . . .	—	—	833.8	415.0	366.1
Sub-total . . . . .	<u>30.0</u>	<u>826.8</u>	<u>1,397.5</u>	<u>1,098.0</u>	<u>911.6</u>
<b>Total . . . . .</b>	<u>129.0</u>	<u>1,544.7</u>	<u>1,944.8</u>	<u>1,403.1</u>	<u>1,343.2</u>

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Our borrowings during the Track Record Period were denominated in Renminbi. Our total outstanding bank borrowings amounted to Rmb 129.0 million, Rmb 760.3 million, Rmb 1,111.0 million and Rmb 988.2 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. The increase in our bank borrowings was primarily due to the expansion of our operations and increased funding needs to finance our existing property developments. As of December 31, 2006, 2007 and 2008 and June 30, 2009, the effective interest rate was 6.03%, 7.40%, 7.12% and 6.42%, respectively, for our bank loans.

Commercial banks and non-bank financial institutions in China typically require guarantees or security interests for our borrowings. As of December 31, 2006, 2007 and 2008 and June 30, 2009, Rmb 129.0 million, Rmb 733.3 million, Rmb 1,111.0 million and Rmb 988.2 million, respectively, of our outstanding bank borrowings were secured by our properties, including assets under construction, land use rights, completed properties held for sale and investment properties.

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 property development projects. We refinanced the Convertible Bonds and Secured Notes through a series of restructures between September 2008 and July 2009. As a result of the restructuring, the Convertible Bonds and Secured Notes were converted into the Secured Bonds and Secured Notes. 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.

Bank borrowings of Rmb 49.0 million, Rmb 670.3 million, Rmb 796.0 million and Rmb 609.8 million as of December 31, 2006, 2007 and 2008 and June 30, 2009, respectively, were guaranteed by certain related parties. As of the Latest Practicable Date, guarantees with respect to Rmb 137.5 million had been released. In relation to the remaining borrowings of Rmb 472.3 million currently guaranteed by certain related parties, the banks have agreed to allow us to substitute certain companies within our Group as the guarantor of these borrowings.

The table below sets forth the maturity profiles of our bank borrowings included in non-current liabilities as of the dates indicated:

	As of December 31,			As of	As of
	2006	2007	2008	June 30,	August 31,
				2009	2009
					(unaudited)
	(Rmb in millions)				
Bank borrowings:					
1–2 years . . . . .	99.0	592.0	392.0	185.3	311.5
2–5 years . . . . .	—	108.8	106.9	84.1	84.4
Over 5 years . . . . .	—	17.1	48.4	35.7	35.7
<b>Total . . . . .</b>	<b>99.0</b>	<b>717.9</b>	<b>547.3</b>	<b>305.1</b>	<b>431.6</b>

As of August 31, 2009, we had total bank borrowings in an aggregate amount of Rmb 977.1 million, which comprised Rmb 545.5 million included in current liabilities and Rmb 431.6 million included in non-current liabilities. In addition, we had total outstanding Secured Bonds and Secured Notes of Rmb 366.1 million as of August 31, 2009.



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### Contingent Liabilities

We make arrangements with various PRC banks to provide mortgage facilities to the purchasers of our pre-sold properties. In accordance with market practice, we are required to provide guarantees to these banks in respect of mortgages provided to our customers. Guarantees for mortgages on pre-sold properties are generally discharged at the earlier of:

- the time when the property ownership certificates are submitted to the mortgagee banks; or
- the time when the purchaser pays off the total amount of the mortgage.

If a purchaser defaults on the mortgage loan, we may be required to repurchase the underlying property by paying off the mortgage loan. If we fail to do so, the mortgagee banks will auction the underlying property and recover the balance from us if the outstanding loan amount exceeds the net foreclosure sale proceeds. In line with industry practice, we do not conduct independent credit checks on our customers but rely on the credit checks conducted by the mortgagee banks. As of December 31, 2006, 2007 and 2008 and June 30, 2009, the outstanding guarantees for mortgage loans of the purchasers of our properties were equal to approximately Rmb 280.3 million, Rmb 912.4 million, Rmb 1,029.3 million and Rmb 1,229.8 million, respectively. As of August 31, 2009, we had outstanding guarantees of Rmb 1,299.4 million for mortgage loans and had not experienced any mortgage loan default by customers with respect to which we were required by mortgagee banks to honor or guarantee obligation. We believe that in case of default on mortgage loan payments by purchasers, the net realizable value of the related properties would exceed the outstanding mortgage principal together with the accrued interest and penalty. Our Directors are of the view that the fair value of these guarantees is not significant.

As of August 31, 2009, we had not guaranteed the indebtedness of any independent third parties.

Our Controlling Shareholders have agreed to indemnify us against the losses, claims, liabilities and expenses arising out of, or relating to (i) guarantees entered into by us prior to [●] in respect of indebtedness incurred by affiliates controlled by any of our Controlling Shareholders that are not our consolidated subsidiaries; and (ii) guarantees entered into by us in respect of indebtedness incurred by third parties that are not on normal commercial terms or in the ordinary course of our business.

Except as disclosed above and other than intra-group liabilities, we did not have any outstanding loan capital, debt securities, debentures, bank overdrafts, liabilities under acceptances or acceptance credits or hire purchase commitments as of August 31, 2009.

### Capital Expenditures

Our capital expenditures during the Track Record Period primarily represented expenditures incurred in relation to the acquisition of land use rights and purchases of properties and equipment. We incurred capital expenditures of Rmb 1,589.1 million in 2006, Rmb 1,086.0 million in 2007, Rmb 915.4 million in 2008 and Rmb 230.8 million in six months ended June 30, 2009.

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### Contractual Commitments

We were contractually committed to spend Rmb 1,621.8 million as of December 31, 2006, Rmb 1,440.5 million as of December 31, 2007, Rmb 2,455.6 million as of December 31, 2008 and Rmb 2,004.0 million as of June 30, 2009 on operating and capital expenditures required for our property developments, primarily consisting of costs with respect to obtaining land use rights and construction of projects.

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

Projects	As of December 31,			As of	Settlement
	2006	2007	2008	June 30, 2009	date/expected due date
	(Rmb in millions)				
Acquisition of land					
Wuxi Yuqi Powerlong Riverside Garden (無錫玉祁寶龍湖畔花城)	—	71.6	—	—	—
Suqian Project (宿遷項目)	—	298.4	209.5	209.5	Jun 2011
Yantai Project (煙台項目)	—	144.4	45.4	45.4	Dec 2009
Licang Project (李滄項目)	—	—	110.6	110.6	Dec 2009
Xinxiang Project (新鄉項目)	—	—	133.0	133.0	Dec 2009
Yancheng Project (鹽城項目)	—	—	262.7	256.6	Dec 2009
Changzhou Project (常州項目)	—	—	149.4	149.3	Dec 2010 <sup>(1)</sup>
Sub-total	—	514.4	910.6	904.4	
Construction of projects					
Quanzhou Jinjiang Powerlong Golden Jiayuan (泉州晉江寶龍金色家園)	10.1	—	—	—	—
Fuzhou Powerlong City Plaza (福州寶龍城市廣場)	139.9	—	18.5	7.6	Jun 2010
Suzhou Taicang Powerlong City Plaza (蘇州太倉寶龍城市廣場)	24.7	31.1	43.5	56.3	Mar 2010
Wuxi Powerlong City Plaza (無錫寶龍城市廣場)	—	7.8	191.2	146.6	Dec 2010
Wuxi Yuqi Powerlong Riverside Garden (無錫玉祁寶龍湖畔花城)	—	144.4	11.5	44.4	Dec 2010
Qingdao Powerlong City Plaza (青島寶龍城市廣場)	1,022.8	314.9	759.9	446.1	Aug 2010
Tai'an Powerlong City Plaza (泰安寶龍城市廣場)	69.7	166.8	128.3	118.4	Aug 2010
Luoyang Powerlong City Plaza (洛陽寶龍城市廣場)	156.8	61.0	101.5	87.6	Dec 2010
Zhengzhou Powerlong City Plaza (鄭州寶龍城市廣場)	188.6	45.3	26.8	19.5	Dec 2009
Bengbu Powerlong City Plaza (蚌埠寶龍城市廣場)	9.2	154.8	246.8	153.4	Aug 2010
Suqian Project (宿遷項目)	—	—	10.5	—	Mar 2010
Licang Project (李滄項目)	—	—	6.4	7.2	Mar 2010
Xinxiang Project (新鄉項目)	—	—	0.1	7.9	Mar 2010
Yantai Project (煙台項目)	—	—	—	4.6	Jun 2010
Sub-total	1,621.8	926.1	1,545.0	1,099.6	
Total	1,621.8	1,440.5	2,455.6	2,004.0	

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*Note:*

- (1) The estimated due date depends on the progress of the relocation and resettlement of existing residents undertaken by the local government authority as required under the relevant land grant contract. As of the Latest Practicable Date, the local government authority was in negotiation with existing residents. All relocation and resettlement are expected to be completed by December 2010, upon which time we plan to pay the outstanding land premium.

We intend to settle our contractual commitments as construction of our projects progresses. Accordingly, not all of the commitments of Rmb 2,004.0 million as of June 30, 2009 will need to be settled within 12 months of [●]. Furthermore, as a number of our projects currently under development are expected to be completed by the end of 2009, we believe we will be able to leverage the increased commercial value of these completed properties to secure further project loans to finance our ongoing business operations and property development activities. Our Directors believe that we have good credit standing and long-term relationships with our lending banks and we intend to continue to work with a number of major commercial banks in the PRC to discuss financing arrangements for our property developments to meet our funding needs.

During the Track Record Period, we financed our property development activities primarily using proceeds from the sale and pre-sale of our properties, internally generated cash, bank borrowings and proceeds from the Convertible Bonds and Secured Notes we issued. Our cash generated from operating activities and net proceeds from banking borrowings amounted to Rmb 2,629.7 million and Rmb 867.3 million, respectively, which provided abundant financing for our property development activities during this period. Going forward, we expect to fund our projects from a number of sources, including internally generated cash flow, sale and pre-sale proceeds from our properties under development that are expected to be completed in the next 12 months, bank borrowings, and other funds raised from the capital markets from time to time. In particular, as of June 30, 2009, we had total contracted capital commitments with respect to our property projects of Rmb 2,004.0 million, of which approximately Rmb 748.9 million is intended to be funded by [●]. For further details of the capital commitment of our projects as of June 30, 2009, please refer to the table above. Notwithstanding the above and the Directors’ estimate, investors and potential investors are reminded that our access to funds may be affected by various factors, including the factors discussed under the section entitled “Risk Factors” in this document and “— Key Factors Affecting Our Results of Operations” in this section.

### **Net Current Liabilities**

Our net current liabilities as of August 31, 2009 were approximately Rmb 716.5 million, comprising current assets of approximately Rmb 5,653.9 million and current liabilities of approximately Rmb 6,370.4 million. As of the same date, our current assets mainly consisted of land use rights of Rmb 1,412.2 million, properties under development of Rmb 1,909.8 million, trade and other receivables and prepayments of Rmb 1,355.4 million, prepaid taxes of Rmb 66.7 million, cash and cash equivalents and restricted cash of Rmb 567.4 million, and completed

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properties held for sale of Rmb 342.4 million. Our current liabilities mainly consisted of advances from customers for pre-sale of properties of Rmb 2,229.8 million, trade and other payables of Rmb 2,626.0 million, Secured Bonds and Secured Notes of Rmb 366.1 million, Dividend payable of Rmb 32.9 million, income tax payables of Rmb 570.1 million and borrowings of Rmb 545.5 million. Advances from customers for pre-sale of properties were accounted for as liabilities prior to delivery of the properties. The relevant amount in this category would be credited to revenue upon delivery of the properties. The net current liabilities as of December 31, 2006, 2007 and 2008 and June 30, 2009 were Rmb 450.1 million, Rmb 942.9 million, Rmb 736.5 million and Rmb 691.8 million, respectively. Our net current liabilities positions were mainly due to the fact that our business operations were expanding during the Track Record Period and that we mainly financed the construction of projects and acquisition of land reserves with advances from customers from the pre-sale of properties. As of August 31, 2009, approximately Rmb 1,343.2 million of our indebtedness was secured by collateral such as our assets under construction, land use rights, investment properties and properties under development.

We have reached a preliminary agreement with the Controlling Shareholders to capitalize the payables to the Controlling Shareholders of approximately Rmb 1,000.0 million of amounts due to related parties (companies that are owned by our Chairman, Hoi Kin Hong), which we expect will further reduce the balance of our other payables as of June 30, 2009.

In light of the fact that a significant portion, in the aggregate amount of approximately Rmb 2,229.8 million as of August 31, 2009, of our current liabilities was attributable to deposits received on pre-sale of our properties, our Directors are confident that our net current liabilities position should have no material impact on our financial position. We expect our net current liabilities to decrease further in the second half of 2009 as a number of projects currently under development are expected to be completed and delivered and the related proceeds from our pre-sold of properties will be recognized as revenue, thereby reducing the deposits received from our pre-sold properties recorded under current liabilities. Our construction costs payable as a component of our current liabilities as of August 31, 2009 was Rmb 511.6 million. As of August 31, 2009, we had available and undrawn bank facilities in the aggregate of Rmb 413.0 million.

Our Directors confirm that there has not been any material adverse change in our indebtedness or contingent liabilities since August 31, 2009.

### Restricted Cash

Our restricted cash comprises three components, namely, guarantee deposits for construction of projects, guarantee deposits for bank borrowings and guarantee deposits for paying salaries of employees of construction contractors. As of December 31, 2006, 2007 and 2008 and June 30, 2009, the outstanding amount of our restricted cash was Rmb 5.4 million, Rmb 27.4 million, Rmb 31.1 million and Rmb 53.7 million, respectively. Guarantee deposits for construction projects are a certain amount of pre-sale proceeds which we are required to place in designated bank accounts as guarantee deposits for construction of related properties. These guarantee deposits can only be used for purchases of construction materials and payments of construction fees for the relevant projects and can only be released after the completion of related pre-sold properties or the issuance of the property ownership certificates. Guarantee deposits for bank borrowings are rental income from our investment properties in Fuzhou Powerlong City Plaza which have been placed in a designated bank account to guarantee

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repayment of bank borrowings. Guarantee deposits for paying salaries of employees of construction contractors are guarantee deposits that are required to be placed with designated banks for paying salaries of employees of construction contractors.

### Working Capital

We centrally manage our working capital to ensure proper and efficient collection and deployment of our funds. We use an annual budget supplemented by quarterly and monthly cash flow rolling projections to control our current cash inflow and outflow. We also use a one to five-year budgeting system to monitor our cash flow, which covers land acquisition, construction cost payment, realization of revenue from properties and financing plans. All disbursements of funds must be approved by the appropriate managers. All idle cash must be accounted for in our efficiency of utilization analysis.

For long-term capital requirements, such as the periodic replenishment of our land reserves, we use a three-year and five-year budgeting system. We carefully consider our cash position and ability to obtain further financing when arranging payment for land reserves and project construction costs. We endeavor to have financing ready before we make significant capital commitments. In relation to our existing amounts due to and due from related parties, we intend to enter into arrangements to offset such payables and receivables and settle any outstanding amounts periodically. We are currently in discussion with certain banks in Hong Kong to increase our offshore credit facilities. Given suitable opportunities, we also intend to work with our bankers to access the capital markets through further equity or equity-linked capital raising or debt-related capital raising.

In addition, we seek to effectively manage our future cash flows and reduce our exposure to unexpected adverse changes in economic conditions through a number of alternative plans, including adjusting our development schedule to ensure that we have available resources to finance our projects, implementing cost control measures, adopting a more flexible approach to pricing our property sales, seeking co-developers to jointly develop certain projects, generating additional cash inflows through disposal of select investment properties at commercially acceptable prices, and renegotiating payment terms with counterparties in certain contractual land acquisition arrangements.

As of December 31, 2006, 2007 and 2008 and June 30, 2009, our aggregate cash and cash equivalents denominated in Rmb amounted to Rmb 48.5 million, Rmb 1,162.6 million, Rmb 205.3 million and Rmb 272.2 million, respectively, which would have been subject to PRC foreign exchange controls if any such cash and cash equivalents were to be exchanged into foreign currencies or remitted outside China. As of August 31, 2009, we had available and undrawn bank facilities in the aggregate of Rmb 413.0 million.

Available banking facilities and cash flow from our operations, our Directors are of the opinion that we have sufficient working capital for our present requirements and for the next 12 months from the date of this document.

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### Off-balance Sheet Commitments and Arrangements

Except for the contingent liabilities set forth above, we have not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have any interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

### MARKET RISKS

We are, in the normal course of business, exposed to market risks primarily relating to fluctuations in interest rates, commodity prices, foreign exchange rates and the rate of inflation.

#### Interest Rate Risk

We are exposed to interest rate risks, primarily relating to our bank borrowings, which totaled Rmb 129.0 million, Rmb 760.3 million, Rmb 1,111.0 million and Rmb 988.2 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. As of December 31, 2006, 2007 and 2008 and June 30, 2009, if interest rates on bank borrowings on those dates had been 0.5% higher/lower with all other variables held constant, interest charges for the years and period then ended would have been Rmb 0.8 million, Rmb 1.7 million, Rmb 4.8 million and Rmb 2.9 million higher/lower, mainly as a result of higher/lower interest expense on floating interest rate borrowings. We undertake debt obligations to support our property development and general working capital needs. Upward fluctuations in interest rates increase the cost of our financing. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations. The benchmark one-year lending rate published by PBOC for 2006, 2007 and 2008 and the six months ended June 30, 2009 was 6.12%, 7.47%, 5.31% and 5.31%, respectively. We do not currently use any derivative instruments to manage our interest rate risk.

A fluctuation in interest rates may also affect our prospective purchasers' ability and cost to obtain financing and depress the overall housing demand in China. On September 27, 2007, PBOC raised the minimum property mortgage loan rates for property mortgages with a term over five years to 7.83%, 27 basis points higher than the previously existing minimum mortgage loan rate. On October 27, 2008, PBOC reduced the minimum mortgage loan interest rate to 70% of the relevant PBOC benchmark interest rate. As of June 30, 2009, the minimum property mortgage loan interest rate for property mortgages with a term over five years was 4.16%.

#### Commodity Risk

We are exposed to fluctuations in the prices of raw materials for our property development, primarily steel and cement. We purchase most of our supplies of steel and cement at market prices. Such purchase costs are generally accounted for as part of the contractor fees pursuant to our arrangements with our construction contractors. Accordingly, rising prices for construction materials will affect our construction costs in the form of increased fee quotes by our construction contractors and suppliers. As a result, fluctuations in the prices of our construction materials have a significant impact on our results of operations. In order to mitigate the impact and risk of price fluctuations relating to our raw materials, we have endeavored to negotiate volume-discount prices for our key raw materials, but such measures have limited utility in reducing the commodity risks we face in our operations.



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### **Foreign Exchange Risk**

Substantially all of our revenue, expenses, cash and deposits are denominated in Renminbi. Our exposure to foreign exchange rate fluctuations results primarily from our cash and cash equivalents denominated in foreign currencies. To service our foreign currency denominated indebtedness, we will have to convert Renminbi into the relevant foreign currencies. A depreciation of Renminbi would require us to use more Renminbi funds to service the same amount of foreign currency debt. In addition, a depreciation of Renminbi would adversely affect the value of any dividends we pay to our offshore equity holders. We currently do not engage in hedging activities designed or intended to manage such currency risk. Also see the section entitled “Risk Factors — Risks Relating to China — 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.” In order to mitigate the impact and risk of the foreign exchange fluctuation to our operations, we have and will continue to endeavor to speed up our Renminbi conversion procedures at SAFE with respect to our foreign currency borrowings. Because Renminbi is not freely convertible, our ability to reduce the foreign exchange risk is necessarily limited.

### **Inflation**

China has not experienced significant inflation or deflation in recent years. According to the National Bureau of Statistics of China, China’s overall national inflation rate, as measured by the general consumer price index, was approximately 1.5% in 2006, 4.8% in 2007 and 5.9% in 2008. China experienced deflation of 1.1% in the six months ended June 30, 2009. Inflation in the past did not materially affect our business. Deflation could negatively affect our business as it might be a disincentive for prospective property purchasers to make a purchase.

### **DIVIDENDS AND DISTRIBUTABLE RESERVES**

Pursuant to the Cayman Companies Law and our Memorandum and Articles of Association, through a general meeting, we may declare dividends in any currency but no dividend may be declared in excess of the amount recommended by our Board. Our Memorandum and Articles of Association provide that dividends may be declared and paid out of our profit. Dividends may also be declared and paid out of our share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Companies Law.

Except so far as the rights attaching to, or the terms of issue of, any Shares that may otherwise provide,

- all dividends must be declared and paid according to the amounts paid up on the Shares in respect of which the dividend is paid, but no amount paid up on a Share in advance of calls may for the purpose be treated as paid up on the Share; and
- all dividends must be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid.

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Our Directors may deduct from any dividend or other monies payable to any of our equity holders or in respect of any Shares all sums of money (if any) presently payable by such equity holders to us on account of calls or otherwise. In addition, the declaration of dividends is subject to the discretion of our Board, and the amounts of dividends actually declared and paid will also depend on the following factors:

- our general business conditions;
- our financial results;
- our capital requirements;
- interests of our equity holders; and
- any other factors which may be relevant.

Our Board has absolute discretion in deciding whether to declare any dividend for any year and how much dividend to declare if it decides to declare a dividend. Our Board will declare dividends, if any, in H.K. dollars with respect to our Shares on a per Share basis and will pay such dividends in H.K. dollars. Any final dividend for a fiscal year will be subject to our equity holders' approval.

Our past dividend payment history is not, and should not be taken as, an indication of our potential future practice on dividend payments. We cannot assure you that dividends of any amount will be declared or distributed in any year.

In 2006, we did not distribute any dividends to our equity holders. In 2007, dividends declared by companies in our Group to their then equity holders amounted to approximately Rmb 32.9 million. In 2008 and the six months ended June 30, 2009, we did not distribute any dividends to our equity holders. Our future dividend policy is that approximately 20% of our profits available for distribution will be recommended for distribution for each financial year. Such final dividend is subject to the approval of our equity holders and, if approved, is currently expected to be paid in Renminbi. Our past dividend payment history is not, and should not be taken as, an indication of our potential future practice on dividend payments.

Under the Cayman Companies Law, our Company can declare dividends on its shares either out of its profits or its share premium account provided that immediately following the date on which any dividend is proposed to be distributed, our Company will be able to pay its debts as they fall due in the ordinary course of business. As of June 30, 2009, our Company did not have any available distributable reserve.

## **PROPERTY INTERESTS AND PROPERTY VALUATION**

Our property interests, including the interests in properties that are attributable to us, as valued by Savills, an independent property valuer, as of June 30, 2009 was Rmb 19,760.9 million. There is a net revaluation surplus, representing the excess market value of the properties over their book value as of December 31, 2008 (after adjusting for units sold during the period from January 1 to June 30, 2009).

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For further details of our property interests and the text of the letter and valuation certificates of these property interests prepared by Savills, see the property valuation report contained in Appendix IV to this document. You should also be aware of the differences between our classification of properties and the classification used by Savills in its Property Valuation Report and by our reporting accountants in the Accountants' Report as we have disclosed in "Business — Our Property Projects."

Disclosure of the reconciliation of the valuation of the interests in properties attributable to us and such property interests in our consolidated balance sheets as of June 30, 2009 is set forth below:

	<u>Rmb in millions</u>
Market value of properties attributable to us as of June 30, 2009, as set forth in the property valuation report contained in Appendix IV	19,760.9
Market value of properties attributable to minority interests as of June 30, 2009. . . . .	<u>248.0</u>
Market value of properties in existing state as of June 30, 2009, as set forth in the property valuation report contained in Appendix IV	<u>20,008.9</u>
Net book value of properties as of June 30, 2009, subject to valuation as set out in the property valuation report included contained in Appendix IV	
Land use rights . . . . .	1,195.3
Investment properties . . . . .	3,412.5
Assets under construction. . . . .	204.1
Properties under development. . . . .	1,737.2
Buildings . . . . .	18.8
Completed properties held for sale . . . . .	<u>366.0</u>
	<u>6,933.9</u>
Revaluation surplus, before income tax and minority interests . . . . .	<u>13,075.0</u>
	<u>20,008.9</u>

## RELATED PARTY TRANSACTIONS

Note 34 of the Accountants' Report contained in Appendix I to this document discloses the significant transactions we engaged in with related parties during the Track Record Period. As disclosed in the note, some of the related party transactions will continue while the others will discontinue. Our Directors believe that we conducted these related party transactions on normal commercial terms and in the ordinary course of our business. During the Track Record Period, such related party transactions were charged in accordance with the terms of the underlying agreements.

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**NO MATERIAL CHANGE**

Except as disclosed in this document, our Directors confirm that there has not been any material change in our financial or trading position since June 30, 2009.