

## RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, many of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business; (ii) risks relating to the PRC real estate industry and (iii) risks relating to business operations in the PRC.

### **RISKS RELATING TO OUR BUSINESS**

#### **Our business is susceptible to fluctuations in the property market in China, particularly that of Xiamen, which may adversely affect our revenues and results of operations.**

Our business depends substantially on the conditions of the property market in China, particularly in Xiamen. Demand for private residential properties in China has grown rapidly in the past decade but such growth is often accompanied by volatility in market conditions and fluctuations in property prices. For example, following a period of rising property prices and transaction volumes in most major cities from 2003 to 2007, the property market of China experienced a downturn in 2008 which continued into the first quarter of 2009, with transaction volume in many major cities, including Xiamen, declining significantly compared to 2007. Average selling prices also declined in many cities during such period. Fluctuations of supply and demand in China’s property market are caused by economic, social, political and other factors.

Since early 2009, China’s real estate market has rebounded and many cities, including Xiamen, have experienced increases in property prices and transaction volumes. This rebound has coincided with a sharp rise in the volume of bank loans as part of China’s response to the global economic crisis. Bank regulators in China have expressed concern over excessive lending for real estate investments. Excessive development fueled by cheap credit could cause an oversupply of property inventory leading to a significant market correction, which could adversely affect the sales volumes and selling prices of our projects. On the other hand, any efforts by bank regulators to curb excessive lending, if taken too far, might prevent developers from raising funds they need to start new projects. If any of the foregoing occurs, our revenues and results of operations may be materially and adversely affected.

#### **Our business depends on the availability of an adequate supply of sites and our ability to successfully tender for land and obtain land use rights and other necessary PRC Government approvals for our future developments and the payment terms for land use rights with respect to land we acquire in the future will be subject to more restrictive regulation recently promulgated by the PRC Government.**

We derive our revenue principally from the sale of properties that we have developed. To secure future revenue, we need to identify and acquire a suitable portfolio of properties for future development at commercially acceptable prices. However, our ability to identify and acquire these sites is subject to a number of factors that are beyond our control.

The PRC Government controls substantially all of the land supply in the PRC. As a result, the policies of the PRC Government towards land supply will affect our ability to acquire land use rights for the sites we have identified for future developments and our land acquisition costs.

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The PRC Government regulates the means by which property developers, including us, obtain land for development. In May 2002, the PRC Government introduced regulations requiring that land use rights for residential and commercial property developments be granted by public tender, auction or listing-for-sale. In addition, the PRC Government may also limit the supply of land available for development in the cities in which we have or intend to have an interest. We cannot assure you that we will continue to be successful in tendering or bidding for sites suitable for our future developments at acceptable prices, or at all.

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

In order to develop and sell property in the PRC, property developers are required to obtain land use rights certificates from relevant PRC Government authorities. As of the Latest Practicable Date, we had obtained land use rights certificates for all of our properties under development and completed properties.

On September 28, 2007, the Ministry of Land and Resources promulgated the Regulation on the Grant of State-owned Land Use Rights for Construction through Competitive Bidding, Auction and Listing-For-Sale (《招標拍賣掛牌出讓國有建設用地使用權規定》), effective November 1, 2007. This Regulation provides, among other things, that property developers must pay the relevant land premiums in full according to the provisions of the relevant land grant contract for the entire parcel under the land grant contract before they can apply for land registration and obtain a land use rights certificate. As a result, property developers are not allowed to bid for a large piece of land, make partial payment, and then apply for land registration and a land use rights certificate for the corresponding portion of land in order to commence development, which has been the practice in many Chinese cities. The implementation of the regulation will require property developers to maintain a higher level of working capital. We cannot assure you that our cash flow position, financial condition or business plans will not be materially and adversely affected as a result of the implementation of this requirement.

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

**We may not have adequate resources to fund land acquisitions or property developments or to service our financing obligations.**

We generally fund our development projects through capital contributions from our Shareholders, bank loans and internal cash flows, including proceeds from the pre-sale of our

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properties. There is no guarantee that we will always have sufficient funds available to fund all our future property developments.

In relation to bank financing, our ability to arrange adequate financing for our property developments on terms which will enable a particular property development to achieve a reasonable return is dependent on a number of factors, including general economic conditions, our financial strength and performance, credit availability from financial institutions and monetary policies in the PRC generally. The PRC Government has in recent years taken a number of policy initiatives in the financial sector to further tighten lending requirements in general and for property developers in particular, which, among other things, include:

- increasing the reserve requirement ratio for commercial banks several times in 2007 and 2008 to 17.5%, effective from June 25, 2008, which represents the minimum amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. However, effective on September 25, 2008, the PBOC decreased the reserve requirement ratio to 16.5% for commercial banks other than the Industrial and Commercial Bank of China (中國工商銀行), the Agricultural Bank of China (中國農業銀行), the Bank of China (中國銀行), the China Construction Bank (中國建設銀行), the Bank of Communications (中國交通銀行) and the Postal Savings Bank (郵政儲蓄銀行), and to 15.5% for commercial banks in areas hit by the May 12, 2008 earthquake in Sichuan, China. Effective on October 15, 2008, the PBOC further decreased the reserve requirement ratio by 0.5%. Effective on December 5, 2008, the PBOC decided to cut the reserve requirement ratio of the Industrial and Commercial Bank of China (中國工商銀行), the Agricultural Bank of China (中國農業銀行), the Bank of China (中國銀行), the China Construction Bank (中國建設銀行), the Bank of Communications (中國交通銀行) and the Postal Savings Bank (郵政儲蓄銀行), by 1% to 16%, the reserve requirement ratio for the smaller commercial banks by 2% to 14% and adopt a preferential reserve requirement ratio for rural commercial banks and commercial banks in areas hit by the May 12, 2008 earthquake in Sichuan, China. Effective on December 25, 2008, the PBOC decreased the reserve requirement ratio by 0.5%;
- forbidding PRC commercial banks from granting loans to property developers for funding the payments of land premium;
- forbidding PRC commercial banks from granting loans to a property developer if the property developer’s internal funds available for the project are less than 35% of the total estimated capital required for that project;
- restricting the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;
- prohibiting commercial banks from taking commodity properties that have been vacant for more than three years as security for mortgage loans;
- prohibiting property developers from financing property developments with loans obtained from banks in regions outside the location of the relevant property developments; and
- restricting PRC commercial banks in financing the development of luxury residential properties.

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We cannot assure you that the PRC Government will not introduce other initiatives which may limit our access to capital. The foregoing and other initiatives introduced by the PRC Government may limit our flexibility and ability to use bank loans or other forms of financing to fund our land acquisitions or property developments and therefore may require us to maintain a relatively high level of internally sourced funds. As a result, our business, financial condition and results of operations may be materially and adversely affected.

As of August 31, 2009, being the latest practicable date to determine our indebtedness, our borrowings amounted to RMB1,273.4 million, of which RMB823.4 million was due within a period not exceeding one year and RMB450.0 million was due within a period of more than one year but not exceeding two years. We cannot assure you that we will be able to obtain bank loans or renew existing credit facilities granted by financial institutions in the future on reasonable terms or at all or that any fluctuation in the interest rate will not affect our ability to fund our property developments. Please also see “— We had net cash outflows from operating activities in 2006, 2007 and 2008, maintain a substantial level of indebtedness and have substantial committed future capital expenditures, all of which may materially and adversely affect our liquidity and results of operations” for more details.

**Our business is sensitive to the current global economic crisis. A severe or prolonged downturn in the global economy could materially and adversely affect our business and results of operations.**

Recent global market and economic conditions have been unprecedented and challenging with recession in most major economies persisting in 2009. Continued concerns about the systemic impact of potential long-term and wide-spread recession, energy costs, geopolitical issues, the availability and cost of credit, and the global housing and mortgage markets have contributed to increased market volatility and diminished expectations for economic growth around the world. The difficult economic outlook has negatively affected business and consumer confidence and contributed to market volatility of unprecedented levels.

The Chinese economy also faces challenges. The stimulus plans and other measures implemented by the Chinese government in response to the global economic crisis may not work effectively or quickly enough to maintain economic growth in China or avert a severe economic downturn. If economic growth slows or an economic downturn occurs, our business and results of operations may be materially and adversely affected.

**Our results of operations include fair value gains on investment properties, which are unrealized.**

In 2006, 2007, 2008 and the six months ended June 30, 2009, we recorded fair value gains on our completed investment properties, net of deferred tax effect, amounting to approximately RMB0.6 million, RMB55.0 million and RMB81.1 million and RMB699.1 million, respectively, in our combined income statements. In accordance with HKAS 40, the Hong Kong Accounting Standard for investment properties issued by the Hong Kong Institute of Certified Public Accountants, completed investment properties may be stated by using either the fair value model or the cost model. We have chosen to state completed investment properties at their fair values because we are of the view that periodic fair value adjustments in accordance with prevailing market conditions provide a more up-to-

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date picture of the value of our completed investment properties. Our use of the fair value model to account for completed investment properties at their fair values is consistent with our accounting policy as set out in the Accountants’ Report in Appendix I to this document and complies with the requirements of HKAS 40 “Investment Property”. However, prospective investors should be aware that upward fair value adjustments, which reflect, among other things, unrealized capital gains in the value of our completed investment properties at the relevant reporting dates are not profit generated from day-to-day rental or other income from our completed investment properties, are largely dependent on the conditions prevailing in the property markets and do not generate cash inflow to our Group for dividend distribution to our Shareholders unless such completed investment properties are disposed of and the capital gains are realized. Moreover, prospective investors should be aware that property values are subject to market fluctuations and we cannot assure you that our Group will be able to continue to record favorable fair value adjustments on completed investment properties in similar amounts, or at all, in the future. Should there be any severe downward fair value adjustments on our completed investment properties in the future, our results of operations may be materially and adversely affected.

**We provide guarantees over mortgage loans given by banks to purchasers of our properties which may materially and adversely affect our results of operations and financial condition if we are required to honor the guarantees.**

We enter into arrangements with banks to facilitate the provision of mortgage facilities to purchasers of our properties. In accordance with industry practice, we are required to provide guarantees to these banks in respect of mortgages offered to our customers until the earlier of (i) the completion of construction and relevant property ownership certificates being delivered to the purchasers and (ii) the settlement of mortgage loans between the mortgage banks and the purchasers. In our experience, the guarantee periods normally last for up to 24 months. If a purchaser defaults under the mortgage loan and the bank calls on the guarantee, we are required to repay all debt owed by the purchaser to the mortgagee bank under the loan, the mortgagee bank will assign its rights under the loan and the mortgage to us and we will have full recourse to the property.

In line with industry practice, we do not conduct independent credit checks on our customers but rely instead on the credit checks conducted by the mortgagee banks. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our outstanding guarantees over the mortgage loans of our customers amounted to approximately RMB1,241.0 million, RMB1,688.8 million, RMB1,719.3 million and RMB2,220.2 million, respectively.

During the three years ended December 31, 2008 and the six months ended June 30, 2009, there had been six lawsuits brought by mortgage banks against purchasers who defaulted on their mortgages and our Group as the guarantor of such mortgages, all but three of which were resolved as of the Latest Practicable Date. We had not suffered any financial loss from the resolved defaults as of the Latest Practicable Date because the defaulted purchasers eventually either paid off the mortgages or resumed payments of the mortgages. The claim amount of the lawsuits not resolved as of the Latest Practicable Date was approximately RMB2.3 million. We believe the ultimate outcome of such cases of default will not have a material and adverse effect on our financial condition, results of operation or cash flow. We did not experience any new lawsuits resulting from defaults on residential mortgages guaranteed

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by us during the period between July 1, 2009 and the Latest Practicable Date. As of the Latest Practicable Date, we were not required by the relevant banks to pay the shortfall between the guaranteed mortgages and the market value of the relevant properties. We cannot assure you that defaults will not occur in the future or that we will not suffer any loss due to existing or future defaults. If a significant number of purchasers default on their mortgages and our guarantees are called upon, our results of operations and financial condition could be adversely affected to the extent that there is a material depreciation in the value of the relevant properties from the price paid by the purchaser or that we cannot sell such properties due to unfavorable market conditions or other reasons.

### **Changes to laws and regulations with respect to pre-sale may materially adversely affect our business, cash flow position and financial condition.**

We depend on pre-sale of properties as an important source of funding for our property projects. There is no assurance that we will be able to continue achieving sufficient pre-sales to fund a particular development. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sale of the relevant properties and may only use pre-sale proceeds to finance the development of such properties. Please see “Business — Property Development — Pre-sale” for more details. In August 2005, the PBOC in a report entitled “2004 Real Estate Financing Report” recommended discontinuation of the practice of pre-selling unfinished properties because such practices, in the PBOC’s opinion, create significant market risks and generate transactional irregularities. Although this and similar recommendations have not been adopted by the PRC Government, there can be no assurance that the PRC Government will not adopt such recommendations and ban the practice of pre-selling unfinished properties or implement further restrictions on the pre-sale practice, such as imposing additional conditions for obtaining a pre-sale permit or imposing further restrictions on the use of pre-sale proceeds. Any restriction on our ability to pre-sell our properties, including any increase in the amount of up-front expenditure we must incur prior to obtaining a pre-sale permit or any restriction on our ability to utilize the pre-sale proceeds, including future changes to laws and regulations governing the use of pre-sale proceeds, would extend the time required to recover our capital outlay and could require us to seek alternative means to finance the various stages of our developments, which, in turn, could have an adverse effect on our business, cash flow position and financial condition.

### **We are exposed to pre-sale related contractual and legal risks.**

We make certain undertakings in our pre-sale contracts. These pre-sale contracts and PRC laws and regulations provide for remedies with respect to any breach of such undertakings. For example, if we pre-sell a property project and we fail to complete that property project, we will be liable to the purchasers for their losses. Should we fail to complete a pre-sold property project on time, our purchasers may seek compensation for late delivery pursuant to either their contracts with us or PRC laws and regulations. If our delay extends beyond a specified period, our purchasers may terminate the pre-sale contracts and claim compensation. We cannot assure you of the timely completion and delivery of our projects.

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**We had net cash outflows from operating activities in 2006, 2007 and 2008, had net current liabilities as of June 30 and August 31, 2009, maintain a substantial level of indebtedness and have substantial committed future capital expenditures, all of which may materially and adversely affect our liquidity and results of operations.**

We had net cash outflow from operating activities of RMB308.1 million, RMB924.0 million and RMB106.8 million in 2006, 2007 and 2008, respectively. Our property development business experiences net operating cash outflows from time to time, particularly when imbalances occur between the timing of our cash inflows relating to the pre-sale and sale of properties and our cash outflows relating to the construction and development of properties and the purchases of land. We expanded our property development business, including acquisition of land and construction of projects, and incurred cash outflows at a more rapid rate in 2006, 2007 and 2008 than cash inflows from pre-sale and sale of our projects which were eligible for pre-sale or sale during the same period. We cannot assure you that we will not experience periods of net cash outflow from operating activities in the future.

We had net current liabilities of RMB51.0 million as of June 30, 2009 as compared to net current assets of RMB362.4 million as of December 31, 2008, partially attributable to the reclassification of non-current bank loans to current liabilities which become repayable within one year from June 30, 2009 and increased expenditure for investment properties under construction during the six months ended June 30, 2009. Our net current liabilities increased to RMB365.7 million as of August 31, 2009 as compared to RMB51.0 million as of June 30, 2009, partially attributable to the early repayment of non-current bank loans due to surplus cash and increased expenditure for investment properties under construction. We cannot assure you that we will not have net current liabilities in the future. If we continue to have net current liabilities in the future, our working capital for the purposes of our operations may be constrained.

We maintain a substantial level of indebtedness. Our total bank and other loans, including both current and non-current bank and other loans, as of December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 were approximately RMB917.2 million, RMB2,043.1 million, RMB2,364.5 million and RMB1,713.4 million, respectively. In comparison, our total net assets as of December 31, 2006, 2007 and 2008 and June 30, 2009 was RMB308.0 million, RMB778.8 million, RMB1,013.2 million and RMB1,980.5 million, respectively. As of August 31, 2009, being the latest practicable date to determine our indebtedness, of our total bank loans of approximately RMB1,273.4 million, approximately RMB823.4 million was repayable within one year or on demand and approximately RMB450.0 million was repayable beyond one year. We may not generate sufficient cash flows from operations to support the repayment of such current loans, as indicated by the continuous operating cash outflow in 2006, 2007 and 2008.

We also have substantial committed future capital expenditures and contingent liabilities. As of June 30, 2009, our capital commitments in connection with our investment properties under construction, properties under development and acquisition of land use rights amounted to RMB938.5 million and we provided guarantees of RMB2,220.2 million to banks in the PRC in respect of the mortgage loans provided by the banks to purchasers of our developed properties.

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Our liquidity in the future will primarily depend on our ability to maintain adequate cash inflows from operations to meet our debt obligations as they become due and on our ability to maintain adequate external financing to meet our committed future capital expenditures and pay for the guarantees we provide to commercial banks if purchasers default on their mortgages. Our operating cash flows may be adversely affected by numerous factors, including increased competition, decreased demand for residential properties, retail and commercial properties or car park spaces, unforeseen delays in the property development process and various other matters beyond our control. Since we maintain a high level of indebtedness and have substantial committed future capital expenditures and contingent liabilities, a decrease in our operating cash inflows could materially and adversely affect our liquidity and results of operations.

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

At present, we derive substantially all of our revenues from the sale of residential properties that we have developed, and not from returns on investment properties, such as rental income. Our results of operations may fluctuate in the future due to a combination of factors, including the overall schedules of our property development projects, the level of acceptance of our properties by prospective customers, the timing of the sale of properties that we have developed, our recognition of revenue policies and any volatility in expenses such as land costs and construction costs. For each of the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue was approximately RMB92.6 million, RMB1,083.7 million, RMB1,759.8 million and 1,308.3 million, respectively.

In light of the above, we believe that period-to-period comparisons of our operating results may not be as meaningful as they would be for a company with a greater proportion of recurring revenues. Furthermore, the completion and delivery of any project development may be adversely affected by a combination of factors, including adverse weather conditions, delays in obtaining requisite permits and approvals from relevant government authorities, as well as other factors beyond our control. Any of these factors may affect the timing of completion and delivery of our projects, as well as our cash flow position and recognition of revenue from our projects, thus adversely affecting our financial condition.

**We may not be successful in leveraging our past experience in residential property development in expanding into our new hotel and investment property businesses.**

We are entering into the business of developing and managing office buildings and hotels. We are currently developing a hotel and office buildings in Xiamen and Shanghai. However, our experience solely as a residential property developer may not be applicable to the development of these types of investment properties. We cannot assure you that we will be able to leverage our past experience to face the challenges in these new investment property businesses. We will rely on third party property management companies to conduct the daily operation of our hotel and office buildings. If their performance is not satisfactory to our guests or tenants, the occupancy rate and/or rental value for our hotels and office buildings may decrease, and thus adversely affect our results of operations and our reputation. We also may not be able to reduce the costs associated with the management of our hotel and office buildings in a timely manner in response to changes in demand for those properties. Furthermore, the performance of our investment properties is subject to various factors beyond our

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control, such as the economic conditions and the level of business activities, business travel and tourism in the region. There may not be sufficient and consistent market demand for high-end hotels and office space in Xiamen and other cities in which we plan to develop such properties, and, as a result, our results of operations in these new segments may not be profitable or generate recurring income or cash flow as we expect, and we could even operate at a loss.

**We may not be able to leverage our previous experience in property development in expanding into other cities.**

Our business has expanded rapidly since 1994 when we commenced our property development business. In addition to growing our presence in Xiamen, we have expanded into Shanghai, Hefei and Fuzhou. We intend to continue to leverage our experience expanding into other fast growing PRC cities. The market and circumstantial situations in these new cities may differ from Xiamen and other cities where we have already developed projects in terms of the level of economic development, topography, culture, regulatory practices, level of familiarity with contractors and business practices and customs, and customer tastes, behavior and preferences. Accordingly, our prior experiences may not be applicable to other cities. In addition, when we enter into new markets and geographical areas, it is likely that we will compete with local developers who have an established local presence, have more familiarity with local regulatory and business practices and customs, and have stronger relationships with local contractors, all of which may give them a competitive advantage over us. Failure to leverage our experience or failure to understand the property market in other cities in China which we target for expansion may have a material adverse effect on our financial condition or results of operations. Furthermore, if we are unsuccessful in our endeavors to expand our business outside Xiamen, our confinement to the Xiamen market over the long term may constrain our development and prospects.

**Our results of operations may be affected by the performance and reputation of, and any adverse developments relating to, the hotel management partner that manages our hotel.**

Our Yuzhou International Hotel, upon completion, will be managed by an Independent Third Party hotel management group. Therefore, our results of operations may be affected by the performance of the hotel management partner, as well as any adverse publicity or other adverse developments that may affect the hotel management partner or its brands generally. Any disagreement between our hotel management partner and ourselves in respect to the management of Yuzhou International Hotel may adversely affect the performance of the operations of our hotel. In addition, in the event that we wish to replace our hotel management partner, we may be unable to do so under the terms of our management agreement or we may need to pay substantial termination fees and experience operational disruptions at the hotel. The effectiveness and performance of the hotel management partner in managing our hotel will, therefore, significantly affect the revenue, expenses and value of our hotel.

**Our objectives may conflict from time to time with the objectives of our hotel management partner, which may materially and adversely impact the operations and profitability of our hotel.**

The hotel management partner that will operate our Yuzhou International Hotel will have a non-exclusive arrangement with us and it will own, operate or franchise properties other than our property, including properties that may compete with our property. Therefore, our hotel management

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partner may have interests that differ from or conflict with our own with respect to short-term or long-term goals and objectives. These differences may be significant depending upon many factors, including the remaining term of our management agreement, trade area restrictions with respect to competition or differing policies, procedures or practices. Any of these factors may materially and adversely affect the operations and profitability of our hotel, which could harm our business, financial condition and results of operations.

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

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

The Provisions on Administration of Qualification Certificates of Real Estate Developers (《房地產開發企業資質管理規定》), or the Provisions on Administration of Qualifications, provide that a newly established developer must first apply for a temporary qualification certificate with a one-year term (暫定資質證書), which can be renewed for a maximum of a two-year period.

Thereafter, the developer must apply for a formal qualification certificate (資質證書) under one of the four grades set out in the Provisions on Administration of Qualifications. A qualification certificate will not be granted or renewed until and unless the developer meets the various requirements set out in the Provisions on Administration of Qualifications. If any one of our project companies is unable to meet the relevant requirements for obtaining or renewing its qualification certificate, that project company will be given a deadline within which it has to meet these requirements, and it will also be subject to a penalty of between RMB50,000 and RMB100,000. Failure to meet the requirements within the specified timeframe could result in the revocation of any qualification certificate and the business license of the relevant project company.

### **We may become involved, from time to time, in legal and other proceedings arising out of our operations and may face significant liabilities as a result.**

We may be involved in disputes with various parties involved in the development, construction and sale of our properties, including contractors, suppliers, construction workers, partners and purchasers. Such disputes may arise from a variety of causes, including the suitability of building materials, workmanship, construction delay and payment terms. These disputes may lead to legal or other proceedings which would result in substantial costs and diversion of resources and management’s attention. As most of our projects comprise multiple phases, purchasers of our properties in earlier phases may file legal actions against us if the subsequent planning and development of such projects is perceived to be inconsistent with the representations and warranties made to such purchasers. In addition, we may have compliance issues with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in pecuniary liabilities and cause delays to our property developments.

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### **Our ability to sell our properties is partly affected by our customers’ ability to procure bank mortgages.**

A significant number of our property purchasers rely on mortgages to fund their purchases. Without mortgage financing, some of our prospective customers would not be able to purchase our properties. There are a number of factors, which we cannot control, affecting the market for and availability of mortgages in China, any one or a combination of which could make it more difficult for us to pre-sell or sell our properties. These factors include the following:

- Increases in interest rates will increase the cost to our customers of funding property purchases through mortgages. Any increases in interest rates, including by the PBOC, China’s central bank, will adversely affect the affordability and attractiveness of mortgage financing to potential purchasers of our properties. Our cost of borrowing would also increase as a result of interest rate increases, which would, in turn, adversely affect our results of operations;
- The PRC Government may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. Under current PRC laws and regulations, purchasers of their first self-used residential properties with a unit floor area of less than 90 sq.m. generally must pay at least 20% of the purchase price of the properties before they can finance their purchases through mortgages. Since June 2006, the PRC Government has increased the minimum amount of down payment to 30% of the purchase price for first-time home owners if such property has a unit floor area of 90 sq.m. or more. Since September 2007, for second-time home buyers that use mortgage financing, the PRC Government has increased the minimum down payment to 40% of the purchase price, with minimum mortgage loan interest rates at 110% of the relevant PBOC benchmark lending interest rate. For commercial property buyers, banks are no longer allowed to finance the purchase of any pre-sold properties. The minimum down payment for commercial property buyers has increased to 50% of the purchase price, with minimum mortgage loan interest rates at 110% of the relevant PBOC benchmark lending interest rate and maximum maturities of no more than 10 years. Commencing on October 27, 2008, the PBOC restricted the minimum mortgage loan rates at 0.7 times of the benchmark lending rates for residential mortgage loans and lowered the minimum down payment ratio to 20%. In addition, according to the Guideline for Commercial Banks on Risks of Real Estate Loans 《商業銀行房地產貸款風險管理指引》, mortgagee banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan would exceed 50% of the individual borrower’s monthly income or if the total debt service of the individual borrower would exceed 55% of such individual’s monthly income.
- Availability of mortgage funds to purchasers in a timely manner. In particular, the PBOC Notice on Regulating Financing Business of Housing (《中國人民銀行關於規範住房金融業務的通知》) issued by the PBOC on June 19, 2001 states that banks may not provide mortgages to purchasers entering into pre-sale agreements for properties under construction until substantial construction of the building in which such property is located is completed. Substantial construction work means, for a non-high-rise building, completion of the general structure of the building, and, for a high-rise building,

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two-thirds of the total investment having been made. This condition is more stringent than the condition for obtaining a pre-sale permit. Therefore, strict adherence by banks to this June 2001 notice would result in some of our customers not having access to funds to support their purchases until later than has historically been the case. As a result, our ability to obtain and use the pre-sale deposits to finance construction could be adversely affected; and

- Any disruption to, or change in, the banking sector in China that affects our customers’ ability to obtain mortgages could have an adverse effect on our liquidity and results of operations.

### **We are subject to certain restrictive covenants and certain risks normally associated with debt financing which may limit or otherwise adversely affect our operations.**

We are subject to certain restrictive covenants in the loan contracts between us and certain banks, which state that it will be an event of default under a loan contract with a bank if we fail to meet any payment obligation under any other loan contract between us and such bank (a “Cross Default”). If any Cross Default occurs, such bank will be entitled to accelerate payment of all or any part of the indebtedness owing under all the loan contracts between us and such bank and to enforce all or any of the security for such indebtedness. If any of these events were to occur, our financial condition, results of operations, cash flow and cash available for distributions to Shareholders may be materially and adversely affected.

### **Any unauthorized use of our brand or trademark may adversely affect our business.**

We own trademarks for “禹洲”, in the form of Chinese characters and our company logo. We rely on the PRC intellectual property and anti-unfair competition laws and contractual restrictions to protect our brand and trademarks. We believe our brand, trademarks and other intellectual property rights are important to our success. Any unauthorized use of our brand, trademarks and other intellectual property rights could harm our competitive advantages and business. Historically, China has not protected intellectual property rights to the same extent as the United States or the Cayman Islands, and infringement of intellectual property rights continues to pose a serious risk of doing business in China. Monitoring and preventing unauthorized use is difficult. The measures we take to protect our intellectual property rights may not be adequate. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our brand, trademarks and other intellectual property rights, our reputation may be harmed and our business may be adversely affected.

### **Our success depends on the continuing services of our senior management team and other key personnel.**

Our future success depends heavily upon the continuing services of our executive directors and members of our senior management team, in particular, our founder and Chairman, Lam Lung On. Most members of our senior management team have more than nine years of property development experience in the PRC. If one or more of our senior executives or other personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and

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our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. As competition in the PRC for senior management and key personnel with experience in property development is intense and the pool of qualified candidates is limited, we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or carries on a competing business, we may lose customers and key professionals and staff members. Furthermore, as our business continues to grow, we will need to recruit and train additional qualified personnel. If we fail to attract and retain qualified personnel, our business and prospects may be adversely affected.

### **We rely on independent contractors to provide property development products and services.**

We engage independent third party contractors to provide significant property development services, including construction, piling and foundation, building and property fitting-out work, interior decoration and installation of air-conditioning units and elevators. Payments to our construction contractors account for a significant amount of our costs and for each of the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, payments to our five largest construction contractors as a percentage of our total payments under construction contracts were 50.8%, 41.8%, 62.6% and 61.3%, respectively. Our projects are usually undertaken by independent contractors selected through invitation and our contracts typically do not allow these independent contractors to sub-contract all or significant portions of the work unless our prior approval has been obtained. There can be no assurance that the services rendered by any such independent contractor or any subcontractor will be completed in a timely manner or of satisfactory quality. If these services are not timely or of acceptable quality, we may incur substantial costs to complete the projects and remedy any defects and our reputation could be significantly harmed. We are also exposed to the risk that a contractor may require additional funds in excess of the fixed cost to which they committed contractually and we may have to bear such additional amounts. Furthermore, any contractor that experiences financial or other difficulties, including labor disputes with its employees, may be unable to carry out construction or related work, resulting in a delay in the completion of our development projects or resulting in additional costs. We believe that any problems with our contractors, individually or in the aggregate, may materially and adversely affect our financial condition, results of operations or reputation. We cannot assure you that such problems with our contractors will not occur in the future.

### **Our business, financial condition and results of operations may be materially and adversely affected if we fail to obtain, or are considered by relevant governmental authorities to have failed to obtain, or experience material delays in obtaining, PRC Government approvals or certificates for our property developments.**

The property industry in the PRC is heavily regulated by the PRC Government. PRC real estate developers must comply with various requirements mandated by applicable laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations.

In order to develop and complete a property development, a property developer must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities at

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various stages of the property development, including land use rights documents, planning permits, construction permits, pre-sale permits and certificates or confirmation of completion and acceptance. Each approval is dependent on the satisfaction of certain conditions. We cannot assure you that we will not encounter major problems in obtaining the permits, licenses, certificates or approvals as required, or that we will be able to adapt ourselves to new laws, regulations or policies that may come into effect from time to time with respect to the property industry in general or the particular processes with respect to the granting of the approvals.

### **We may not be able to complete our development projects on time or at all.**

Property development projects require substantial capital expenditure prior to and during the construction period. The timing and costs involved in completing a development project can be adversely affected by many factors, including:

- delay in obtaining necessary licenses, permits or approvals from government agencies or authorities;
- provisional government regulation;
- relocation of existing site occupants and/or demolition of existing structures;
- shortages of materials, equipment, contractors and skilled labor;
- labor disputes;
- construction accidents;
- natural catastrophes; and
- adverse weather conditions.

Construction delays or the failure to complete the construction of a project according to its planned specifications, schedule or budget as a result of the above factors may result in harm to our reputation, loss of or delay in recognizing revenues and lower returns. If a pre-sold property development is not completed on time, the purchasers of pre-sold units may be entitled to compensation for late delivery. If the delay extends beyond a certain period, the purchasers may even be entitled to terminate the pre-sale agreements and claim damages. As of the Latest Practicable Date, our Group has not encountered any significant construction delays or failure to complete the construction of a project on time. However, we cannot assure you that we will not experience any significant delays in completion or delivery in the future or that we will not be subject to any liabilities for any such delays.

In addition, further regulatory changes, competition, and inability to procure governmental approvals or required changes in project development practice could occur at any stage of the planning and development process. We may not be able to complete projects that we are currently developing or plan to develop and we may find ourselves liable to purchasers of pre-sold units for losses suffered by them.

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### **Property owners may terminate our engagement as the provider of property management services.**

We provide post-sales property management services to the owners of several residential projects that we have developed through our wholly owned property management subsidiary, Huaqiao Cheng Properties Co. We believe that property management is an integral part of our business and critical to the successful marketing and promotion of our property developments. Under PRC laws and regulations, the homeowners of a residential community of certain scale have the right to change the property management service provider upon the consent of a certain percentage of the homeowners. If homeowners of the projects that we have developed choose to terminate our property management services, or property buyers dislike our property management services, our reputation could be materially and adversely affected.

### **We may suffer losses arising from uninsured risks.**

In accordance with what we believe to be industry practice, we do not maintain insurance for destruction of, or damage to, our property developments (whether they are under development or have been completed and are pending delivery) other than with respect to those buildings over which our lending banks have security interests, for which we are required to maintain insurance coverage under the relevant loan agreements. We also do not carry insurance covering construction-related personal injuries. In addition, we do not carry insurance for any liability arising from allegedly tortious acts committed on our work sites. Under PRC laws, construction companies bear the primary civil liability for personal injuries arising out of their construction work. The owner of a property under construction may also bear liability supplementary to the liability of the construction company if the latter is not able to fully compensate the injured. The owner of the property may also bear civil liability for personal injuries, accidents and death if such personal injuries, accidents or death are due to the fault of such owner. Moreover, there are certain losses for which insurance is not available on commercially practicable terms, such as those suffered due to earthquake, typhoon, flooding, war and civil disorder. If we suffer from any losses, damages or liabilities in the course of our business operations, we may not have sufficient funds to cover any such losses, damages or liabilities or to replace any property development that has been destroyed. In addition, any payment we make to cover any losses, damages or liabilities could have a material adverse effect on our business, financial condition and results of operations.

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

We are a holding company and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur. If any of our subsidiaries incurs debt in its own name in the future, the instruments governing the debt may restrict payment of dividends or other distributions on its equity interest from such subsidiary to us. Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC subsidiaries on a combined basis only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Our PRC subsidiaries are required to set aside a certain percentage of their after-tax profit based on PRC accounting standards each year for their statutory funds in

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accordance with the requirements of relevant PRC laws and provisions in their respective articles of association. As a result, our PRC subsidiaries on a combined basis may be restricted in their ability to transfer any portion of their net income to us whether in the form of dividends, loans or advances. Any limitation on the ability of our subsidiaries to pay dividends to us could materially and adversely limit our ability to conduct and expand our business, make investments or acquisitions that could be beneficial to our businesses, or pay dividends or otherwise fund.

Under the new PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), or the EIT Law, which was issued on March 16, 2007 and became effective on January 1, 2008, and the Implementation Rules for the EIT Law (《中華人民共和國企業所得稅法實施條例》) issued by the State Council, which became effective simultaneously with the EIT Law, a PRC income tax at the rate of 10% is applicable to dividends paid by PRC enterprises to “non-resident enterprises” (enterprises that do not have an establishment or place of business in China, or that have an establishment or place of business in China but the relevant income is not effectively connected with such establishment or place of business), subject to the application of any relevant income tax treaty that China has entered into which provides for a lower withholding tax rate. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), a company incorporated in Hong Kong will be subject to withholding tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in the PRC subsidiary at the time of the distribution, or at a rate of 10% if it holds less than a 25% interest in the PRC subsidiary. If we or our non-PRC subsidiaries are considered “non-resident enterprises,” any dividend that we or any such non-PRC subsidiary receive from our PRC subsidiaries may be subject to PRC taxation at a rate of 5% or 10%, as the case may be.

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

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

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### RISKS RELATING TO THE PRC REAL ESTATE INDUSTRY

#### **The PRC Government may adopt further measures to curtail the overheating of the property sector.**

As a property developer, we are subject to extensive government regulations in virtually every aspect of our operations and are highly susceptible to changes in the regulatory measures and policy initiatives implemented by the PRC Government. Over the past few years, property developers have invested heavily in the PRC, raising concerns that certain sectors of the property market are subject to overheating. In response, the PRC Government has from time to time introduced austerity measures intended to curtail the overheating of property development and discourage speculation in the residential property market. These measures include the credit tightening measures discussed in “— Risks Relating to Our Business — We may not have adequate resources to fund land acquisitions or property developments or to service our financing obligations” and the following, among others:

- requiring that at least 70% of the land supply approved by a local government for residential property development for any given year must be used for developing low- to medium-cost and small- to medium-size units and low-cost rental properties;
- adopting the “70/90 rule” which requires at least 70% of the total GFA of residential projects approved or constructed on or after June 1, 2006 consist of units with a GFA of less than 90 sq.m. per unit;
- increasing the minimum amount of down payment from 20% to 30% of the purchase price of property if the property as a primary residence has a GFA of 90 sq.m. or more;
- for a second-time home buyer, increasing (i) the minimum amount of down payment to 40% of the purchase price of the underlying property and (ii) the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark lending interest rate, except that, when the size of such second-time home buyer’s existing ordinary residence is smaller than the average size of homes in the locality of such buyer, such buyer may be entitled to favorable loan terms similar to those for first-time home buyers; if a member of a family (including the buyer and his/her spouse and their children under 18) has financed the purchase of a residential unit with loans from banks, any member of the family that buys another residential unit will be regarded as a second-time home buyer;
- for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down payment to 50% of the purchase price of the underlying property, (iii) increasing the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark lending interest rate, and (iv) limiting the terms of such bank loans to no more than 10 years, although commercial banks are allowed flexibility based on their risk assessment;
- for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down payment to 45% of the purchase price of the underlying property, with the other terms similar to those for commercial properties;
- imposing a business tax levy on the entire sales proceeds from re-sale of properties if the holding period is shorter than five years as of June 1, 2006. However, there are certain business tax reductions or exemptions provided by the PRC government in 2009 such as:

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(i) business tax exemption for the transfer of an ordinary residential property made more than two years after its last transfer, (ii) reduced tax which is levied on the difference between the transfer price and the original price for any transfer of non-ordinary residential property made more than two years after its last transfer or any transfer of ordinary residential property within two years of its last transfer, and (iii) tax levied on the entire sale price of any non-ordinary residential property sold within two years of its last transfer;

- imposing a ban on onward transfer of uncompleted properties;
- limiting the monthly mortgage payment to 50% of an individual borrower’s monthly income and limiting all monthly debt service payments of an individual borrower to 55% of his or her monthly income;
- imposing an idle land fee for land which has not been developed for one year starting from the commencement date stipulated in the land grant contract and cancellation of the land use right for land being idle for two years or more;
- revoking the approvals for projects not in compliance with the planning permits; and
- banning land grants for villa construction and restricting the provision of land for high-end residential property construction.

Please see “Industry and Regulatory Overview — Regulatory Overview” and “Regulatory Overview” in Appendix IV to this document for more details. The PRC Government’s restrictive regulations and measures to curtail the overheating of the property sector could increase our operating costs in adapting to these regulations and measures, limit our access to capital resources or even restrict our business operations. We cannot be certain that the PRC Government will not issue additional and more stringent regulations or measures, which could further slow down property development in China and adversely affect our business, financial condition, results of operations and prospects.

### **The PRC Government has recently implemented restrictions on the ability of PRC property developers to obtain offshore financing.**

On July 10, 2007, the General Affairs Department of the SAFE issued the Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment that have Properly Filed with MOFCOM (《關於下發第一批通過商務部備案的外商投資房地產項目名單的通知》). The notice stipulates, among other things, (i) that the SAFE will no longer process foreign debt registrations or foreign debt applications for settlement of foreign exchange submitted by foreign invested real estate enterprises (including newly established enterprises and enterprises with increased registered capital) which obtained approval certificates from or filed with MOFCOM on or after June 1, 2007 and (ii) that the SAFE will no longer process foreign exchange registrations (or amendments of such registrations) or applications for settlement and sale of foreign exchange submitted by foreign-invested real estate enterprises which obtained approval certificates from the commerce departments of local governments on or after June 1, 2007 but which had not filed with MOFCOM. This new regulation restricts the ability of foreign-invested property companies to raise funds offshore for the purpose of injecting such funds into the

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companies by way of borrowing foreign debt, including shareholder loans and overseas commercial loans. Nonetheless, this new regulation does not restrict property developers from receiving foreign capital by way of increase of registered capital of the existing foreign-invested property companies or the establishment of new foreign-invested project companies provided that such registered capital increase or the new company establishment has been duly approved by competent local branches of MOFCOM and filed with MOFCOM or duly approved by MOFCOM. Subsequent to June 1, 2007, we have filed with MOFCOM the increases of registered capital contribution to one of our existing foreign-invested subsidiaries and the establishment of one foreign-invested subsidiary.

### **The property market in the PRC is at an early stage of development and is volatile.**

The property market in the PRC is still at an early stage of development, and social, political, economic, legal and other factors may affect its development. For example, the lack of a mature and active secondary market for private properties and the limited amount of mortgage loans available to individuals in the PRC have been cited as factors which may inhibit demand for residential properties. We are, and expect to continue to be, dependent upon the growth of the urban middle and upper-middle classes in China. A significant downturn in the PRC economy could adversely affect such demand, as well as the demand by corporations and other institutional entities for our Commercial Properties.

The PRC property market is volatile and may experience undersupply or oversupply and property price fluctuations. The central and local governments frequently adjust monetary and other economic policies to prevent and curtail the overheating of the PRC and local economies, and such economic adjustments may affect the property market in China. We cannot assure you that there will not be overdevelopment in the property sector in China in the future. Any future overdevelopment in the property sector in China may result in an oversupply of properties and a decrease in property prices, as well as an undersupply of available sites for future development and an increase in the cost of acquiring land in our markets, which could materially and adversely affect our business, financial condition and results of operations.

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

According to the requirements of the Provisional Regulations of the PRC on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) and the Detailed Implementation Rules on the Provisional Regulations of the PRC on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例實施細則》), or the LAT Implementation Rules, all income from the sale or transfer of state-owned land use rights, buildings and their ancillary facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value as defined by the relevant tax laws. Certain exemptions are available for the sale of ordinary residential properties (普通標準住房) if the appreciation does not exceed 20% of the total deductible items as defined in the relevant tax laws and regulations. Sales of high-end apartments, villas and holiday villas are not eligible for such exemption. On May 12, 2009, the State Administration of Taxation issued the Administrative Rules on the Settlement of Land Appreciation Tax (《土地增值稅清算管理規程》) effective as of June 1, 2009, which further clarifies the specific conditions and procedures for settlement of the LAT.

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We have estimated and made provisions for the full amount of applicable LAT in accordance with the requirements set forth in the relevant PRC tax laws and regulations. For the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we made a provision for LAT in the amount of RMB2.3 million, RMB41.9 million, RMB200.4 million and RMB198.9 million, respectively. It is not certain as to when the PRC tax authorities will collect the amount of LAT in full. In the event that the LAT we have provided for is actually collected in full by the PRC tax authorities, our cash flow and financial position will be affected. Furthermore, in the event that LAT eventually collected by the PRC tax authorities exceeds the amount we have provided for, our net profits after tax will be adversely affected. Please see “Regulatory Overview — Taxation in China — Land Appreciation Tax” in Appendix IV to this document.

### **We face intense competition from other real estate developers.**

In recent years, a large number of property developers have begun to undertake property development and investment projects in China. In addition, a number of international developers have expanded their operations into China, including a number of leading Hong Kong and Singapore real estate development and investment groups. Many of these developers, both private and state-owned, have greater financial, managerial, marketing and other resources than we do, as well as more experience in property and land development. Competition between property developers is intense and may result in, among other things, increased costs for the acquisition of land for development, excessive supply of properties in certain parts of China, a decrease in property prices, a slowdown in the rate at which new property developments will be approved and/or reviewed by the relevant government authorities, an increase in construction costs and difficulty in obtaining high quality contractors and qualified employees. Any such effect may adversely affect our business, results of operations and financial position. In addition, the real estate market in China is rapidly changing. If we cannot respond to changes in market conditions more swiftly or effectively than our competitors do, our business, financial condition and results of operations will be adversely affected. Please see “Business — Competition” for more details.

### **We may be liable to our customers for damages if we do not deliver individual property ownership certificates in a timely manner.**

Property developers are typically required to deliver to purchasers the relevant individual property ownership certificates within 90 days after delivery of the property or within a time frame set out in the relevant sale and purchase agreement. Property developers, including us, generally elect to specify the deadline for the delivery of the individual property ownership certificates in the sale and purchase agreements to allow sufficient time for the application and approval processes. Under current regulations, we are required to submit requisite governmental approvals in connection with our property developments, including land use rights documents and planning and construction permits, to the local bureau of land resources and housing administration within 30 days after the receipt of the completion and acceptance certificate for the relevant properties and to apply for the general property ownership certificate in respect of these properties. We are then required to submit within regulated periods or a time set out in the relevant sale and purchase agreement after delivery of the properties the relevant property sale and purchase agreements, identification documents of the purchasers, and proof of payment of deed tax, together with the general property ownership certificate, for the bureau’s

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review and the issuance of the individual property ownership certificates in respect of the properties purchased by the respective purchasers. Delays by the various administrative authorities in reviewing the application and granting approval as well as other factors may affect timely delivery of the general as well as individual property ownership certificates. We may become liable for monetary penalties to purchasers for late delivery of the individual property ownership certificates due to delays in the administrative approval processes or for any other reason beyond our control.

Prior to our acquisition of Guifeng Co. in February 2007, Guifeng Co. experienced late delivery of individual property ownership certificates with respect to 147 units at The Mall at Phase I of Yuzhou World Trade Center as a result of delays in completion of the construction work in accordance with the original development plan. After we acquired Guifeng Co. in February 2007, we continued and completed the construction of The Mall at Phase I of Yuzhou World Trade Center. We received the notice for registration of building ownership certificate for The Mall at Phase I of Yuzhou World Trade Center from the real estate registration center of Xiamen in May 2008 and have informed the purchasers by public announcement that they can obtain individual property ownership certificates for their units. The purchaser of a unit who experienced a delay in delivery of the individual property ownership certificate filed for arbitration against Guifeng Co. Such arbitration was concluded in September 2008 and, under the arbitration order, Guifeng Co. paid the purchaser compensation of RMB173,934 and arbitration expenses of RMB9,390 and agreed to assist the purchaser in obtaining the individual property ownership certificate for the purchased unit. In addition, the purchasers of another unit who experienced a delay brought a lawsuit against Guifeng Co. that concluded in September 2008. Guifeng Co. paid the purchasers compensation of RMB375,917 pursuant to the court order and agreed to assist the purchasers in obtaining the individual property ownership certificate for the purchased unit. As of June 30, 2009, we had compensated the purchasers who experienced delays in the delivery of individual property ownership certificates in the aggregate amount of approximately RMB21.04 million based on the relevant sale and purchase agreements (including the amounts we paid pursuant to the above arbitration and court orders). The maximum amount of the compensation that we may pay to the purchasers due to such delays (including the amount already paid) under the relevant sale and purchase agreement is approximately RMB21.1 million. As of the Latest Practicable Date, we did not have any significant contingent liabilities in connection with such delays as the outstanding maximum amount of compensation that we may pay to the purchasers due to such delays was recorded as other payables in our combined financial statements. We cannot assure you that other purchasers who experienced delays in delivery of individual property ownership certificate will not bring legal or other proceedings against us. Each of our Controlling Shareholders has agreed to indemnify and keep us indemnified against all losses (including penalties and fines) which may arise from the late delivery of individual property ownership certificates for the units at The Mall at Phase I of Yuzhou World Trade Center.

Except for the aforesaid, during the three years ended December 31, 2008 and the six months ended June 30, 2009, we did not miss any deadlines for delivering individual property ownership certificates. However, we cannot assure you that we will be able to timely deliver all property ownership certificates in the future or that we will not be subject to any liabilities as a result of any late deliveries of property ownership certificates.

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### **The illiquidity of investment properties and the lack of alternative uses of investment properties could limit our ability to respond to adverse changes in the performance of our properties.**

Because investment properties in general are relatively illiquid compared to other types of investments such as securities, our ability to promptly sell one or more of our investment properties in response to changing economic, financial and investment conditions is limited. The property market is affected by many factors, such as general economic conditions, the availability of mortgage financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any of our investment properties for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a purchaser and to complete the sale. Should we decide to sell a property subject to a management agreement or tenancy agreement, we may have to obtain consent from or pay termination fees to our hotel management partners or our tenants.

In addition, investment properties may not be readily convertible to alternative uses if they become unprofitable due to competition, age, decreased demand or other factors. The conversion of investment properties to alternative uses would generally require substantial capital expenditures. In particular, we may be required to expend funds to maintain properties, to correct defects, or to make improvements before a property can be sold. We cannot assure you that we will have funds available for maintenance, to correct defects, or to make improvements. These factors and any others that would impede our ability to respond to adverse changes in the performance of our investment properties could adversely affect our ability to retain tenants and to compete against our competitors and therefore could materially and adversely affect our business, financial condition and results of operations.

### **We may be required to bear resettlement costs associated with our property developments.**

The land parcels we acquire in the future for development may have existing buildings or other structures or be occupied by third parties. In accordance with the City Housing Resettlement Administration Regulations (《城市房屋拆遷管理條例》) and the applicable local regulations, a property developer in the PRC is required to enter into a written agreement with the owners or residents of existing buildings subject to demolition for development, directly or indirectly through the local government, and to provide compensation for their relocation and resettlement. The compensation payable by the property developer is calculated in accordance with a pre-set formula determined by the relevant provincial authorities, which may be subject to change. If such compensation formula is changed to increase the compensation, our land acquisition costs may be subject to substantial increases which could adversely affect our financial condition and results of operations. In addition, if we or the local government fail to reach an agreement regarding compensation with the owners or residents of the buildings subject to demolition, any party may apply to the relevant housing resettlement authorities for a ruling on the amount of compensation, which may delay the timetable of our projects. Such delays to our development projects will lead to an increase in the cost and a delay in the expected cash inflow resulting from pre-sales of the relevant projects, which may in turn materially and adversely affect our business, results of operations and financial condition.

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### **We may be required to forfeit land to the PRC Government if we fail to comply with the terms of our land grant contracts.**

Under PRC laws and regulations, if a property developer fails to develop land according to the terms of the land grant contract (including those relating to payment of fees, designated use of land, time for commencement and completion of the developments of the land), the relevant government authorities may issue a warning to, or impose a penalty on, the developer or require the developer to forfeit the land. Specifically, under current PRC laws and regulations, if we fail to commence development for more than one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice on us and impose an idle land fee on the land of up to 20% of the land premium. If we fail to commence development for more than two years from the commencement date stipulated in the land grant contract, the land is subject to forfeiture to the PRC Government unless the delay in development is caused by government actions or force majeure. Recently, in the Notice on Promoting the Saving and Intensification of Use of Land (《國務院關於促進節約集約用地的通知》) promulgated by the State Council on January 3, 2008, this policy was reinforced. This notice states, among other things, that the Ministry of Land and Resources and other authorities are required to research and commence the drafting of implementation rules concerning the levy of land appreciation fees on idle land. Furthermore, the Ministry of Land and Resources issued a Notice on Restricting the Administration of Construction Land and Promoting the Use of Approved Land (《關於嚴格建設用地管理促進批而未用土地利用的通知》) in August 2009, which reiterates the current rules on idle land.

We have experienced delays in construction of Phases I and II of Yuzhou Huaqiao City. According to a certificate issued by the local land acquisition and reserve center and county government, the delay of Phase I of Yuzhou Huaqiao City was due to a delay in the local government’s construction of a water supply network and the delay of Phase II of Yuzhou Huaqiao City was due to a delay in the finalization of the construction plan for a trans-province high-speed railway project which is expected to pass through the land for Yuzhou Huaqiao City. In September 2008, the local authority accepted our request for a construction extension whereby we committed to commence construction of Phase I of Yuzhou Huaqiao City before January 16, 2009 and construction of Phase II of Yuzhou Huaqiao City before January 1, 2010. We commenced construction of Phase I of Yuzhou Huaqiao City in September 2008 and intend to commence construction of Phase II of this project before January 1, 2010. We have not received any warning notice or been fined any idle land fee for our delays in commencing construction from the local land bureau. Our PRC legal advisor is of the opinion that as long as we commence the construction of Phase II of Yuzhou Huaqiao City before January 1, 2010, the likelihood that we will be required to forfeit the land is relatively low. We further believe that we will not be required to pay idle land fees as the local authority did not specify any penalty.

We have not commenced the construction of Phase IV of Yuzhou Jinqiao International due to uncertainty over the designated land use purpose. We acquired the land for Phase IV of Yuzhou Jinqiao International through a court-organized auction for a consideration of RMB43.5 million and received the land use rights certificate on September 7, 2006. Since we acquired the land through a court-organized auction, a land grant contract was not required under PRC laws and regulations and, therefore, no land grant contract was entered into by us and there is no commencement due date for Phase IV of Yuzhou Jinqiao International. However, as advised by our PRC legal advisor, the local government may exercise discretion in interpreting the commencement due date for this project phase and it is possible that the local government may use September 7, 2006, the date on which we received

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the land use rights certificate, or a subsequent date, as the commencement due date for this project phase. The land for Phase IV of Yuzhou Jinqiao International consists of two plots, Plot A and Plot B, with GFA of approximately 18,666 sq.m. and 51,137 sq.m., respectively. At the time of purchase, the land use purpose of Plot A was research use, which is designated for research uses by companies and institutions, and the land use purpose of Plot B was office use, which is designated for general office uses. The local government, at the time of our purchase of the land, intended to change, within the district in which the land for Phase IV of Yuzhou Jinqiao International is located, all plots designated for research use from research use to office and commercial uses. We subsequently applied to change the land use purpose for Plot A of Phase IV of Yuzhou Jinqiao International from research use to office and commercial uses to be in compliance with the local government's intended change of land use purposes. However, in August 2009, the local government informed us that it decided not to make the proposed change and the land use purpose of Plot A of Phase IV of Yuzhou Jinqiao International remains as for research use. Shortly thereafter, we submitted the application for the construction land planning permit for Phase IV of Yuzhou Jinqiao International on September 15, 2009 and intend to apply for and obtain other permits required for the commencement of construction of such project in accordance with normal procedures. We expect to obtain all required permits, including the work commencement permit, and commence construction prior to the end of 2009. We do not foresee any legal obstacles to obtaining the permit for commencement of construction. We have not received any warning notice or been fined any idle land fee for our delay in commencing construction from the local land bureau. Based on the timetable set forth above, its understanding of current PRC laws and regulations and its consultation with the relevant government authorities, our PRC legal advisor is of the opinion that we have begun the application process for the permits required for the commencement of construction of Phase IV of Yuzhou Jinqiao International in accordance with normal procedures and will not be required to pay idle fees or forfeit the land for such project. Accordingly, the Directors consider that no provision for idle land fees or land forfeiture is required in connection with Phase IV of Yuzhou Jinqiao International. However, we cannot assure you that the relevant government authorities will not require us to pay idle fees, the maximum amount of which is approximately RMB8.7 million (20% of the auction price), or forfeit land for the delays in the construction of Phase IV of Yuzhou Jinqiao International in the future. If such land were to be forfeited to the government, we would have to write off, partially or in full, our investments made to Phase IV of Yuzhou Jinqiao International and would not be able to develop any properties on such land. As of June 30, 2009, our investment cost in the project was RMB102.1 million.

We have not commenced construction of Phase III of Oriental Venice due to uncertainty over the plot ratio of the land. We acquired the land for Phase III of Oriental Venice through the acquisition of a then Independent Third Party company, the land premium of which was RMB222 million. The construction commencement due date stated in the land grant contract is October 15, 2008. The plot ratio stated in the land grant contract designates the land to be used for low density residences. In May 2008, we applied to change the plot ratio of the land to build high density residences. In April 2009, the local government passed a resolution to maintain the original plot ratio for the land for Phase III of Oriental Venice. Subsequently, we engaged a third party design firm in August 2009 to revise the project design for such project in accordance with the original plot ratio and expect to submit in October 2009 the project design documents to the government for approval as required for the construction works planning permit. The construction land planning permit for Phase III of Oriental Venice was obtained by Dashijie Co. in 2005 prior to our acquisition of Yingfeng Co., the parent company of Dashijie Co., in 2007. We intend to apply for and obtain other permits required for the commencement of construction of such project in accordance with normal procedures, and expect to

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obtain all the required permits, including the work commencement permit, and commence the construction of Phase III of Oriental Venice prior to the end of 2010. We do not foresee any legal obstacles to obtaining the permit for commencement of construction. We have not received any warning notice or been fined any idle land fee for our delay in commencing construction from the local land bureau. Based on the timetable set forth above, its understanding of current PRC laws and regulations and its consultation with the relevant government authorities, our PRC legal advisor is of the opinion that we have begun the application process for the permits required for the commencement of construction of Phase III of Oriental Venice in accordance with normal procedures and will not be required to pay idle fees or forfeit the land for such project. Accordingly, the Directors consider that no provision for idle land fees or land forfeiture is required in connection with Phase III of Oriental Venice. However, we cannot assure you that the relevant government authorities will not require us to pay idle fees, the maximum amount of which is approximately RMB44.4 million (20% of the land premium), or forfeit land for the delays in the construction of Phase III of Oriental Venice in the future. If such land were to be forfeited to the government, we would have to write off, partially or in full, our investments made to Phase III of Oriental Venice and would not be able to develop any properties on such land. As of June 30, 2009, our investment cost in the project was RMB461.3 million.

We also cannot assure you that circumstances leading to forfeiture of land or delays in the completion of a property development may not arise in the future. If we are required to forfeit land, pay idle land fees, or pay appreciation land premium, we do not expect to be able to continue our property development on the forfeited land or recover the costs incurred for the initial acquisition of the land or recover development costs and other costs incurred, and our business, financial condition and results of operations may be materially and adversely affected.

### **Potential liability for environmental problems could result in substantial costs.**

We are subject to a variety of laws and regulations concerning the protection of health and the environment. Please see “Regulatory Overview — Environmental Protection” in Appendix IV to this document for more details. The particular environmental laws and regulations which apply to any given project development site vary greatly according to the site’s location, the site’s environmental condition, the present and former uses of the site, as well as adjoining properties. Environmental laws can prohibit or severely restrict activity in environmentally-sensitive regions or areas. Compliance with environmental laws and conditions, and any change thereof, may result in delays, may cause us to incur substantial compliance and other costs and can prohibit or severely restrict project development activity in environmentally-sensitive regions or areas.

As required by PRC law, each project we develop is required to undergo environmental assessments and an environmental impact assessment document is required to be submitted to the relevant government authorities for approval before commencement of construction. The local authorities may request a developer to submit the environmental impact documents, issue orders to suspend the construction and impose a penalty amounting to RMB50,000 to RMB200,000 for a project that has not received the approval of the environmental impact assessment documents before construction commenced. We cannot assure you that the environmental investigations on our projects conducted to date have revealed all environmental liabilities, or that there are no material environmental liabilities of which we are unaware. Please see “Business — Environmental Matters” for more details.

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### **RISKS RELATING TO BUSINESS OPERATIONS IN THE PRC**

Substantially all of our assets are located in China, and substantially all of our revenue is derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject to the risks of future economic, political and legal developments in China.

#### **PRC economic, political and social conditions as well as government policies could affect our business.**

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

- its structure;
- the level of government involvement;
- the level of development;
- its growth rate;
- government policies relating to foreign exchange; and
- the allocation of resources.

While the PRC economy has grown significantly in the past 20 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC Government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also negatively affect our operations. For example, our financial condition and results of operations may be adversely affected by the PRC Government’s control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to us.

The PRC economy has been transitioning from a planned economy to a market oriented economy. For the past two decades the PRC Government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in the PRC’s political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

#### **Restrictions on currency exchange may limit our ability to utilize our revenue effectively.**

Substantially all of our revenue and operating expenses are denominated in Renminbi, which is currently not a freely convertible currency. The PRC Government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under our current structure, our source of funds will primarily consist of dividend payments

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from our PRC subsidiaries and other payments. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other amounts to us, or to satisfy their foreign currency denominated obligations.

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from appropriate PRC Government authorities is required where Renminbi are to be converted into foreign currency and remitted out of China to pay capital account items, such as the repayment of bank loans denominated in foreign currencies.

Currently, our PRC subsidiaries may purchase foreign exchange for settlement of current account transactions, including payment of dividends to us, without the prior approval of the SAFE. Our PRC subsidiaries may also retain foreign exchange in their current accounts to satisfy foreign exchange liabilities or to pay dividends. Since foreign exchange transactions on the capital account are still subject to limitations and require approval from the SAFE, this could affect our subsidiaries’ ability to obtain required foreign exchange through equity financing, including by means of capital contributions from us. We also cannot assure you that the PRC Government will not impose further restrictions on the convertibility of the Renminbi.

### **We are subject to risks presented by fluctuations in foreign currencies.**

Most of our revenue is generated from our PRC operating subsidiaries and denominated in Renminbi. Please see “Financial Information — Quantitative and Qualitative Disclosures about Market Risks — Foreign exchange”. From 1994 until 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set by the PBOC, which were set daily based on the previous day’s PRC interbank foreign exchange market rate and then current exchange rates on the world financial markets. The PRC Government has since made and in the future may make further adjustments to the exchange rate system. On July 21, 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. Since then and up to the Latest Practicable Date, the Renminbi has appreciated by approximately 18.8% against the U.S. dollar. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies would make any new RMB-denominated investments or expenditures more costly to us, to the extent that we need to convert foreign currencies into Renminbi for such purposes. Any significant depreciation in the exchange rates of the Renminbi against the U.S. dollar or the Hong Kong dollar could adversely affect the value of our dividends, which would be funded by Renminbi but paid in Hong Kong dollars.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

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### **Interpretation of PRC laws and regulations involves uncertainty.**

Our core business is conducted within China and is governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be used as a reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty. Some of these laws may be changed without being immediately published or may be amended with retroactive effect. Depending on the government agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors, particularly if a competitor has long been established in the locality of, and has developed a relationship with, such agency. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under its permits, and other statutory and contractual rights and interests.

### **The discontinuation of any preferential tax treatment currently available to us and the increase in the PRC enterprise income tax could decrease our net income and materially and adversely affect our financial condition and results of operations.**

Prior to January 1, 2008, our subsidiaries located in Xiamen and property project companies in Shanghai Pudong New District enjoyed a preferential income tax rate of 15% pursuant to then applicable PRC national and local tax laws. Our subsidiary Fujian Yanhai Co. has been entitled to income tax exemption for the first two years commencing in 2004, which was the first year of profit-making, and income tax reduction by 50% for the subsequent three years pursuant to then applicable PRC national tax laws and approvals received from local tax authorities. Our other subsidiaries were subject to the standard enterprise income tax rate of 33% prior to January 1, 2008 pursuant to then applicable PRC tax laws.

On December 26, 2007, the State Council issued the Circular to Implement the Transition Preferential Policies for the Enterprise Income Tax (《關於實施企業所得稅過度優惠政策的通知》), or the Transition Preferential Policy Circular, which became effective upon promulgation. According to the EIT Law, its Implementation Rules and the Transition Preferential Policy Circular, a uniform income tax rate of 25% is applied for all enterprises (including foreign-invested enterprises) and income tax exemptions, reductions and preferential treatments then applicable to foreign-invested enterprises are revoked. However, within a transition period as stipulated by the EIT Law and the Transition Preferential Policy Circular, our subsidiaries established before March 16, 2007 and located in Xiamen and Shanghai Pudong New District were subject to a tax rate of 18% in 2008 and will be subject to a tax rate of 20% in 2009, 22% in 2010, 24% in 2011 and the uniform rate of 25% in 2012, and Fujian Yanhai Co. continued to enjoy its tax reduction treatment until the end of 2008. Furthermore, according to the Transition Preferential Policy Circular, the taxable income of PRC entities still enjoying preferential tax treatments after January 1, 2008 shall be calculated in accordance with the new EIT Law and its Implementation Rules. The reduction or elimination of the preferential tax

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treatments we currently enjoy or the imposition of additional taxes on us or our subsidiary in China may significantly increase our income tax expense and materially reduce our net income.

### **We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income.**

Under the EIT Law, enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate as to their global income. Under the Implementation Rules for the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Substantially all of our management is currently based in China and may remain in China. In April 2009, the PRC State Administration of Taxation promulgated a circular to clarify the definition of “de facto management bodies” for enterprises incorporated overseas with controlling shareholders being PRC enterprises. However, it remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by individual permanent residents of Hong Kong, as in our case. Therefore, we may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. The tax consequences of such treatment are currently unclear, as they will depend on how PRC finance and tax authorities apply or enforce the EIT Law and the Implementation Rules.

### **PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations.**

Pursuant to the State Administration of Foreign Exchange’s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), or Circular No. 75, issued on October 21, 2005, (i) a PRC resident, including a PRC resident natural person or a PRC company, must register with the local branch of SAFE before he establishes or controls an overseas special purpose vehicle, or SPV, for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or his equity interests in a domestic enterprise into a SPV, or engages in overseas financing after contributing assets or equity interests into a SPV, such PRC resident must register his interest in the SPV and the change thereof with the local branch of SAFE; and (iii) when the SPV undergoes a material event outside of China, such as a change in share capital or merger and acquisition, the PRC resident must, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. Under Circular No. 75, failure to comply with the registration procedures set forth above may result in penalties, including restrictions on a PRC subsidiary’s foreign exchange activities and its ability to distribute dividends to the SPV. The Directors and our PRC legal advisor believe, based on our inquiries with the Xiamen Branch of the SAFE, our Controlling Shareholders are not required to register with the Xiamen Branch of the SAFE under Circular No. 75. However, if the relevant SAFE authority subsequently determines that our Controlling Shareholders are required to effect the registration procedures under Circular No. 75 or any of its new interpretations, clarifications, or its new implement rules and otherwise requires our Controlling Shareholders to register, and if our Controlling Shareholders fail to comply with, or fail to comply in a timely manner with, such

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requirements, our Controlling Shareholders may be subject to fines and legal sanctions and our business operations may be adversely affected.

**The national and regional economies in China may be adversely affected by an outbreak of epidemics such as swine or avian flu and Severe Acute Respiratory Syndrome, thereby affecting our prospects.**

China may be susceptible to epidemics such as swine or avian-influenza and Severe Acute Respiratory Syndrome. If these or similar infections continue to escalate and in particular if the virus transforms to one capable of human-to-human transmission, or if there is an outbreak of any other disease in China, such outbreak could result in material disruptions to the construction schedule of our property developments and to our sale and pre-sale processes, and reduce the price and value of our commercial, retail and residential properties, which in turn would adversely affect our financial condition and results of operations.