FINANCIAL INFORMATION

You should read the following discussion of our results of operations and financial condition in conjunction with our audited consolidated financial information as of and for each of the three years ended December 31, 2006, 2007 and 2008 and as of and for the six months ended June 30, 2009, including the notes thereto, included in Appendix IA to this document. Our consolidated financial statements have been prepared in accordance with HKFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions. The following discussion contains forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed in such forward-looking statements as a result of various factors, including those set forth under the section entitled "Risk Factors" and elsewhere in this document.

OVERVIEW

We are one of the few integrated property developers in China well recognized for its leadership position in the development of centrally located high-end commercial properties and mid-to-high-end residential properties in top tier cities. Leveraging on our core competency in our dual-focused approach, we are well positioned to pursue a vigorous growth strategy that maximizes our profitability.

As of June 30, 2009, we were the largest non-government developer of commercial properties, including Grade A office buildings, in the Shenzhen CBD, with a total GFA of 831,081 square meters of commercial properties either completed or under development. We have a substantial land bank for office properties under development and further land parcels which we expect to acquire in the Shenzhen CBD, which (based on information currently available to us) is expected to account for a major proportion of the expected total saleable GFA of office properties in the Shenzhen CBD in the next five years. We continually expand our land bank at competitive costs primarily through non-auction-based channels. Targeting high-growth cities in China with highest GDP and focusing on developing sites located in such cities, we have penetrated seven of the top 10 cities in China ranked in terms of GDP, including Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, Chongqing and Qingdao, and have successfully replicated the model of our commercial properties and residential product series in Shenzhen into some of these cities.

While pursuing vigorous growth, our business model has proven to be sustainable, as we have successfully weathered the challenges brought about by the 2008 financial crisis. We believe that such success is attributable to our dual-focused approach to commercial and residential property development. Moreover, the management decision not to accept structured financing helped insulate us from the undesirable financial impact that may otherwise result in material adverse effect on our financial condition and results of operations. Our diversified product portfolio also contributes to the sustainability of our business model. Such portfolio not only enables our businesses to maintain flexibility within the rapidly growing real estate market in China, but also help us mitigate cyclical risks of the economy.

We believe that we have established a business model capable of effectively mitigating cyclical risks of the economy as a result of our dual-focused property development, premium project locations, competitive land cost, prudent financial policies, and absence of any structured financing. During the year ended December 31, 2008, our Shenzhen Victoria Harbour was the best-selling single residential project in China according to statistics compiled by Soufun.com. We have been expanding our business on the basis of prudent operations and maximization of the investment return for our shareholders.

As of June 30, 2009, we completed development of commercial and residential properties with a total GFA of approximately 1.9 million square meters. As of the same date, we had 14 property projects under development or held for future development in eight cities with an estimated total GFA of approximately 11.3 million square meters, among which approximately 1.3 million square meters were for commercial properties and 8.4 million square meters for residential properties. The remaining estimated GFA of 1.6 million square meters include common facilities, public areas, underground carparks and hotels. In September 2009, we further expanded into Shanghai and acquired the Shanghai Chengbang Villa Project, which is a residential project under development with a total GFA of approximately 83,356 square meters.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue was Rmb 1,369.9 million, Rmb 990.8 million, Rmb 2,149.6 million and Rmb 2,178.7 million, respectively. Our sales of commercial properties accounted for 99.0%, 19.1%, 16.7% and 7.2% of our total revenue from property development and our sales of residential properties accounted for 0.4%, 79.4%, 82.4% and 92.8% of our total revenue from property development during the same periods. Our net profit attributable to our equity holders for the same periods was Rmb 205.8 million, Rmb 323.7 million, Rmb 184.5 million and Rmb 382.9 million, respectively. We had a gain of Rmb 230.0 million in 2007 from our disposal of a 40% interest in a property project. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our property management services contributed approximately 3.1%, 6.9%, 4.0% and 1.9% of our total revenue, respectively. We also hold certain properties for investment purposes, and the fair value gain on our investment properties contributed approximately 34.4%, 25.7%, 22.1% and 9.2% of our profit for the same respective periods on an after-tax basis.

The decrease of the percentage of the sales of commercial properties in our total revenue from property development during the Track Record Period was primarily due to fluctuations caused by our project construction schedules and the relevant accounting rules governing the recognition of revenue rather than a trend of change in property development focus. For example, our sales and pre-sales of commercial properties of Shenzhen Excellence Century Center constituted approximately 44.2% of our total sales and pre-sales from property development for the six months ended June 30, 2009, but none of these sales and pre-sales had been recognized as of June 30, 2009. We expect that the percentage of the sales of commercial properties will increase in line with the progress of our commercial projects.

BASIS OF PREPARATION OF OUR FINANCIAL STATEMENTS

Our financial information has been prepared to reflect our Reorganization of businesses under common control, in which all the companies comprising our group are ultimately controlled by Li Wa and Li Xiaoping and are thereby prepared using the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants. Therefore, our consolidated financial information present our results of operations, cash flows and financial position as if our structure had been in existence since January 1, 2006 or since the respective dates of incorporation/establishment or acquisition, whichever is later. All intragroup transactions and balances have been eliminated on consolidation. We have prepared our consolidated financial information in accordance with HKFRS, under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss at their fair value pursuant to HKFRS.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Economic Growth, Rate of Urbanization and Demand for Residential and Commercial Properties in China

Economic growth, urbanization and the rising standard of living in China have been the main driving forces behind the increasing market demand for both residential and commercial properties. Currently, while the real estate industry is regarded by the PRC government as one of China's pillar industries, the industry is significantly dependent on China's overall economic growth and the resultant demand for both residential and commercial properties. Starting from the middle of 2008, the global economic slowdown and financial market crisis materially and adversely impacted the PRC economy, including the PRC property industry. The PRC property market experienced declines in prices and transaction volumes in major cities and provinces during late 2007 and 2008 before rebounding in the first half of 2009. Overall economic conditions and demand for properties in China have had, and are expected to continue to have, a significant impact on our business, financial condition and results of operations. Because we target mid-to-high-end corporate and individual property buyers in the cities with highest regional GDP, we believe that urbanization in China and the overall economic growth of the country are especially important to our operations. These factors will continue to have a significant, and increasing, impact on our results of operations.

Regulatory Measures in the Real Estate Industry in China

Policies and measures on property development and related industries implemented by the PRC government have a direct impact on our business and results of operations. From time to time, the PRC government adjusts its macroeconomic control policies to encourage or restrict development in the private property sector through regulating, among others, land grants, pre-sales of properties, bank financing and taxation. In the past several years, the PRC government implemented a series of measures with a view to slowing down the growth of the economy, including the property markets. Since the middle of 2008, the PRC government has adopted various temporary measures to combat the global economic slowdown and financial market crisis. We have disclosed further information in the section entitled "Risk Factors — Risks Relating to the Property Industry in China — The PRC government may adopt further measures to slow down the growth in the property sector" in this document. PRC regulatory measures in the real estate industry will continue to impact our business and results of operations.

Ability to Acquire Suitable Land and to Complete and Sell Properties Developed

Our continuing growth will depend in large part on our ability to acquire quality land at prices that can yield reasonable return and our ability to complete and sell our properties developed. As the PRC economy weathers the recent global economic slowdown and continues to grow at a relatively high speed, and as demand for residential and commercial properties remains relatively strong, we expect that competition among developers for land bank will continue to intensify and land acquisition costs continue to increase.

Property development is time consuming and capital intensive. It may take many months or years before pre-sale of our properties may begin, and no revenue is recognized with respect to such pre-sold properties until they have been completed and delivered to our customers. Our ability to complete our development projects on time and on budget is crucial to our results of operations, while delays in construction, regulatory approval processes and other factors can adversely affect the timetable of our projects. In addition, pre-sale proceeds constitute the most important source of our operating cash inflow during our project development process. PRC laws and regulations allow us to pre-sell properties before their completion upon satisfaction of certain requirements and require us to use the pre-sale proceeds to develop such pre-sold property projects. The amount and timing of cash inflows from pre-sales are affected by a number of factors, including timing and other restrictions on pre-sales imposed by the PRC government, market demand for our properties subject to pre-sale and the number of properties we have available for pre-sale. Reduced cash flow from pre-sale of our properties will increase our reliance on alternative financing and will impact our ability to complete our property developments.

Timing of Property Development

The pre-sale of a property generates positive cash flow for us in the period in which such pre-sale occurs, but we do not recognize revenue with respect to such property until it has been completed and delivered to its purchaser. Thus the timing of our property development and delivery may substantially impact our results of operations and operating cash flow from year to year, as significant time is required before a property development reaches the stage that meets all the pre-sale conditions. Delays in construction, regulatory approval processes and other factors can also adversely affect the timetable of our projects. Moreover, as market demand does not stay constant, cash flow and revenue in a particular period can also depend on our ability to match the market demand at the time of our planned pre-sale or completion of a particular project. As a result, our results of operations have fluctuated in the past and are likely to continue to fluctuate in the future due to the timing of our property development.

Timing of property development also causes the revenue breakdown between our commercial and residential properties to fluctuate between reporting periods as the completion of a substantial residential or commercial development can largely impact such breakdown in a particular period. As a result, our revenue breakdown between commercial and residential properties has fluctuated in the past and is likely to continue to fluctuate in the future. Such fluctuations in the Track Record Period did not indicate or reflect any shift in our focus or strategy.

Land and Construction Costs

Our results of operations are affected by land and construction costs. Land and construction costs constitute the most important items in our cost of sales. Over the years, land premiums have generally been steadily increasing in China. For our urban redevelopment projects in Shenzhen, the costs of demolition, relocation and resettlement, including construction costs of redevelopment projects, replacement properties as compensation and monthly stipend to original residents, are accounted for as construction costs or land acquisition costs, as the case may be. It is widely expected that land premiums will continue to rise as the PRC economy continues to grow. Key construction materials such as steel and cement are included in the fees payable to our construction contractors because our construction contracts include them as a part of the construction service. Although short-term price volatility of these materials does not affect us immediately, prolonged rising costs in construction materials will cause contractors to increase their fee quotes, thus impacting our cost of sales and overall project costs. If we cannot sell our properties at a price level sufficient to cover all the increased costs, we will not be able to achieve our target profit margin and our profitability will be adversely impacted.

Access to and Cost of Financing

Borrowings from financing institutions are an important source of funding for our property developments. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our outstanding borrowings amounted to Rmb 2,623.0 million, Rmb 5,142.9 million, Rmb 5,720.4 million and Rmb 6,276.1 million, respectively. As commercial banks in China link the interest rates on their loans to benchmark lending rates published by the PBOC, any increase in such benchmark lending rates will increase the interest costs for our developments. Our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC government on bank lending for property developments.

LAT

Our property development business activities are subject to LAT, levied at progressive rates ranging from 30% to 60% on the appreciation of land value. LAT applies to both domestic and foreign investors in real estate in China. The PRC tax authorities have not enforced the LAT regulations on a consistent basis and the determination of the amount of the assessable LAT can sometimes be unclear. Since 2006, we have made provisions for LAT with regard to our recognized revenue from the sale of our properties in accordance with the various rates and pronouncements of the relevant PRC tax authorities. However, we cannot assure you that our provisions have been sufficient to cover all our LAT obligations that tax authorities may ultimately impose on us. Our financial condition may be materially adversely affected if our LAT liabilities as calculated by the relevant PRC tax authorities are substantially higher than our provisions. We have provided more details on the PRC regulations on LAT in the section entitled "Taxation — Mainland China Taxation — Our operations in mainland China — Land appreciation tax" in Appendix V to this document.

Fair Value of Investment Properties

Our investment properties include Guangzhou Diwang Shopping Arcade and certain carparks, which we hold for rental income and/or capital appreciation. Our investment properties are stated at their fair value on our consolidated balance sheets as non-current assets as of each balance sheet date on the basis of valuations by an independent property valuer. Gains or losses arising from changes in the fair value of our investment properties are accounted for as gain or loss upon revaluation in our consolidated income statements, which may have a substantial effect on our profits. The property valuation involves the exercise of professional judgment and requires the use of certain bases and assumptions. The fair value of our investment properties may have been higher or lower if the valuer uses a different set of bases or assumptions or if the valuation is conducted by other qualified independent professional valuers using a different set of bases and assumptions. In addition, upward revaluation adjustments reflect unrealized capital gains on our investment properties as of the relevant balance sheet dates and do not generate any cash inflow for our operations or potential dividend distribution to our shareholders. The amounts of fair value adjustments have been, and may continue to be, significantly affected by the prevailing property market conditions in China and may increase or decrease. If similar levels of fair value gains cannot be sustained in the future, our results of operations can be adversely impacted.

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements under the historical cost convention as modified for the revaluation of investment properties and certain financial instruments and in accordance with HKFRS, which requires us to make judgments, estimates and assumptions that affect (i) the reported amounts of our assets and liabilities at the end of each fiscal period, (ii) the disclosure of our contingent assets and liabilities at the end of each fiscal period and (iii) the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and our best assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates and expectations. Some of our accounting policies require a higher degree of judgment than others in their application.

When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of properties and services in the ordinary course of our business. Revenue is shown net of discount and after eliminating intra-group sales. We recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to us and when specific criteria have been met for each of our activities as described below:

(i) *Sales of properties*

Revenue from sales of properties is recognized when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to our sales and purchase agreements and collectibility of related receivables is reasonably certain. Deposits and installments received on properties sold prior to the date of revenue recognition are included in our consolidated balance sheets as advanced proceeds received from customers under current liabilities.

(ii) *Property management services*

Revenue arising from property management services is recognized in the accounting period in which the services are rendered.

(iii) *Rental income*

Rental income from property leasing under operating leases is recognized on a straight-line basis over the lease terms. When we provide incentives to our customers, the aggregate cost of incentives is recognized on a straight-line basis over the lease terms as a reduction of rental income.

Completed Properties Held for Sale and Properties Under Development

Completed properties held for sale and properties under development are stated at the lower of cost and net realizable value. Cost comprises development costs attributable to unsold properties. In turn, development costs of property comprise construction costs, amortization of land use rights, capitalized borrowing costs and professional fees incurred during the development period. Net realizable value takes into account the price ultimately expected to be realized, less applicable variable selling expenses and cost of sales or anticipated cost to completion.

We estimate the net realizable value of completed properties held for sale by reference to the available market data, including the most recent sale transactions and market survey reports available from independent property valuers, after taking into account the costs anticipated to incur in the course of developing and selling these properties.

We estimate the net realizable value of properties under development by reference to the estimated future discounted cash flow to be derived from such properties. The estimates require judgment as to the anticipated sale prices by reference to recent sale transactions in nearby locations, rate of sales of newly completed properties, the legal and regulatory framework and general market conditions. Our estimates may need to be adjusted subsequently.

If there is an increase in costs for the completion of properties or a decrease in anticipated selling price, the net realizable value will decrease and this may result in provision for completed properties held for sale and properties under development for sale. Such provision requires the use of judgment and estimates by our management. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method, or capitalized as appropriate. Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the respective balance sheet date.

Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Investment Properties

Properties held for long-term rental yields or capital appreciation or both and not occupied by us are classified as investment properties. Investment properties are carried at fair value, representing open market value determined annually by a qualified independent professional valuer. We supply the independent professional valuer with various information, including the leases existing on our investment properties and our estimate as to when and whether the lease terms may be extended, for the valuer to use as a basis of its valuation. The property valuation involves the exercise of professional judgment and requires the use of certain basis and assumptions with respect to factors including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) discounted cash flow projections based on reliable estimates of future cash flow, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flow.

Our investment properties as of December 31, 2006, 2007 and 2008 and June 30, 2009 were valued by an independent professionally qualified valuer, DTZ Debenham Tie Leung Limited. Valuations are based on capitalization of net rental income from the existing tenancies with due allowance for the reversionary income potential of the properties. The net rental income from the existing tenancies is a property's contractual rental income for the relevant period. The reversionary income potential is derived by capitalizing the property's market rental for the rest of its remaining life after the expiry of existing leases.

The basis and assumptions that the valuer uses for the valuation typically include references to values realized in comparable precedent transactions in the market for properties of similar size, characteristics and location. The fair value of our investment properties may have been higher or lower if the valuer used a different set of bases or assumptions or if the valuation was conducted by other qualified independent professional valuers. In addition, upward revaluation adjustments reflect unrealized capital gains of our investment properties at the relevant balance sheet dates and are not profit generated from the sales or rentals of our investment properties, and do not generate any cash inflow to us for potential dividend distribution to our shareholders until such investment properties are disposed of at similarly revalued amounts. The amounts of revaluation adjustments have been, and may continue to be, significantly affected by the prevailing property markets and may fluctuate.

Income Taxes and Deferred Taxation

We are subject to enterprise income tax in China and Hong Kong profits tax. Before and up to December 31, 2007, the companies established in the Shenzhen Special Economic Zone were subject to PRC enterprise income tax at a rate of 15% and the other companies established outside the Shenzhen Special Economic Zone were subject to PRC enterprise income tax at a rate of 33%. Effective January 1, 2008, all enterprises with operations in China are subject to the same statutory income tax rate at 25%. However, companies in the Shenzhen Special Economic Zone are allowed an extension period of five years to phase into this new tax regime. As a result, the transition income tax rates of our PRC subsidiaries established in Shenzhen Special Economic Zone before March 16, 2007 are 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012, respectively. Hong Kong profits tax has been provided at 17.5% on the assessable profit of our Hong Kong subsidiaries.

Our management is required to exercise its judgment in determining certain expenses which are deductible for income tax purpose, including certain costs incurred in the acquisition of assets or subsidiaries during our ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers it to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

LAT

LAT is recognized as an expense to the extent that it is probable that we have the obligation to pay the tax to the PRC tax authorities. For the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we made LAT provisions in accordance with relevant government regulations. However, the implementation and settlement of LAT varies among various tax jurisdictions in China, and we have not finalized our LAT calculation and payments with any local tax authorities in China. Because at the time we deliver property we may not have completed the entire phase of a project or the project as a whole, our estimate of LAT provisions at such time requires us to use significant judgment with respect to, among other things, the total proceeds to be derived from the sale of the entire phase of the project or the entire project, the total appreciation of land value and the various deductible items. The ultimate amount of tax liabilities may differ from the amounts that were initially recorded, and such differences will affect our net profits in the relevant periods.

CERTAIN INCOME STATEMENT ITEMS

Revenue

We derive our revenue primarily from sales of properties that we develop, providing property management services and property rental. We recognize our revenue after the properties have been sold and delivered. As is customary in the residential property industry, we pre-sell our properties prior to their completion in accordance with PRC pre-sale regulations. We do not, however, recognize the proceeds from pre-sales until we have completed the construction of these properties and delivered the properties to the purchasers. Typically there is a time gap of 12 months or more between the time we commence pre-sale of the properties under development and the delivery of the properties. We record the proceeds received from the pre-sold properties as advance proceeds received from customers, an item of current liabilities on our balance sheet, and as a part of cash inflows from operating activities on our cash flow statements.

Cost of Sales

Cost of sales comprises primarily costs incurred directly for our property development, including construction costs, land acquisition costs, capitalized borrowing costs and business taxes.

Construction costs. Construction costs represent costs for the design and construction of a property project, consisting primarily of fees paid to our contractors, including contractors responsible for civil engineering construction, landscaping, equipment installation and interior fittings, as well as infrastructure construction costs and design costs, with costs of our key construction materials such as steel and cement included in our fees paid to our construction contractors. Our construction costs are affected by a number of factors such as price of construction materials, location and types of properties, choices of materials and investments in ancillary facilities. Substantially all of the costs of construction materials, whether procured by ourselves or by our contractors, are accounted for as part of the contractor fees upon settlement with the relevant contractors.

Land acquisition costs. Land acquisition costs represent costs relating to the acquisition of the rights to occupy, use and develop land, including land premiums, deed taxes and government surcharges as well as demolition and resettlement costs associated with certain urban redevelopment projects. The land acquisition costs are recognized as part of cost of sales upon the completion and delivery of relevant properties.

Capitalized borrowing costs. Our borrowing costs are capitalized to the extent that such costs are directly attributable to the acquisition or construction of a project. Such capitalized borrowing costs are included as part of the cost of sales for the relevant property when we recognize the sales revenue.

Business taxes. Our revenue from property development and property rental is subject to a business tax at 5% of such revenue, and our revenue from property management is subject to a business tax at 3% and surcharges at various rates payable to local tax authorities.

Other Income

Other income comprises (i) refund of enterprise income tax arising from reinvestment and (ii) forfeited customer deposits. The tax refund is an incentive granted by the PRC government to encourage profit reinvestment by foreign-invested companies. If a foreign-invested company with over five years of operating history in China has reinvested its distributable profit to increase its registered capital, the relevant tax authority will refund such company 40% of the income tax paid on the portion of the profit that has been reinvested. We received such tax refund during the Track Record Period when we reinvested our distributable profit in the registered capital of our PRC subsidiaries. Such tax incentive is no longer available under the new PRC Enterprise Income Tax Law effective January 1, 2008. The forfeited customer deposits are the non-refundable initial deposits, typically in the amount between Rmb 10,000 and Rmb 50,000, made by our customers upon entering provisionary purchase contracts but forfeited to us when such customers fail to finalize the purchases. You may find additional information under the section entitled "Business — Property Development — Payment Arrangements" in this document.

Other Gains - Net

Other gains - net primarily comprise fair value gain on investment properties, gains from business combination or acquisition, gains from disposal of assets and fair value gain on financial assets through profit or loss. We hold certain properties such as Guangzhou Diwang Shopping Arcade and carparks for rental income and/or capital appreciation. Our investment properties are revalued on balance sheet dates on an open market value or existing use basis by an independent property valuer. Any appreciation or depreciation in our investment property value is recognized as fair value gains or losses in our consolidated income statements.

Selling and Marketing Costs

Selling and marketing expenses comprise primarily advertising and promotional expenses, sales commissions and other expenses relating to sales of our properties.

Administrative Expenses

Administrative expenses comprise primarily staff salaries, travel expenses, entertainment expenses, rental payments, office expenses, depreciation expenses and provision for bad debts.

Finance Costs - Net

Finance costs - net comprise primarily the net of interest costs and foreign exchange gains/losses. Since the construction period for a project does not necessarily coincide with the interest payment periods of the relevant loan, not all of the interest costs related to a project can be capitalized. The foreign exchange rates also fluctuate. As a result, our finance costs fluctuate from period to period.

Income Tax Expenses

Income tax expenses represent PRC enterprise income tax payable and LAT payable by our PRC subsidiaries and Hong Kong profits tax payable by our Hong Kong company. Currently, we are not subject to any Cayman Islands income tax pursuant to an undertaking obtained from the Governor in Cabinet. You should refer to section entitled "Summary of the Constitution of the Company and Cayman Company Law — 3. Cayman Islands Company Law — (j) Taxation" in Appendix VII to this document for more details.

The reconciliation of income tax and our profit before income tax is set out below:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(unaudited)	
	(Rmb in thousands)				
Profit before income tax	389,448	434,000	596,342	152,274	782,998
Add: share of loss of an associate	10	—	—	—	—
share of loss of jointly controlled entities	—	—	—	—	2,687
	389,458	434,000	596,342	152,274	785,685
Calculated at PRC enterprise income tax rates (2006 and 2007: 15%, 2008 and 2009: 25%)	58,419	65,100	149,086	38,069	196,421
Effect of different tax rates [(1)]	2,984	2,772	(6,887)	(5,454)	(1,635)
Effect of change in tax rates [(2)]	—	(20,679)	—	—	—
Income not subject to tax	(2,905)	—	—	—	—
Tax losses not recognized	2,654	860	48,066	22,842	21,553
Utilization of previously unrecognized tax losses	(358)	(4,476)	(2,866)	(2,533)	(40)
Expenses not deductible for income tax purposes	600	611	508	—	1,317
Withholding tax on the earnings expected to be remitted by subsidiaries	—	—	10,000	1,300	20,000
PRC land appreciation tax deductible for PRC enterprise income tax purposes [(3)]	(22,388)	(11,952)	(71,031)	(24,402)	(54,313)
	39,006	32,236	126,876	29,822	183,303
PRC land appreciation tax	149,256	79,678	284,123	97,606	217,252
Income tax expenses	188,262	111,914	410,999	127,428	400,555

(1) Before and up to December 31, 2007, companies established in the Shenzhen Special Economic Zone of the PRC were subject to PRC enterprise income tax at a rate of 15%, while other companies established outside the Shenzhen Special Economic Zone were subject to PRC enterprise income tax at a rate of 33%. Effective January 1, 2008, all companies with operations in China are subject to the same statutory income tax rate at 25%, but the income tax rates for companies established in Shenzhen Special Economic Zone before March 16, 2007 are 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012, respectively. The amount represented the effect of such different tax rates.

(2) Pursuant to the PRC enterprise income tax law passed by the NPC in March 2007, the new enterprise income tax for domestic and foreign enterprises are uniformly set at 25%, which is effective from January 1, 2008. The amount represented the impact on carrying amount of the deferred tax assets and liabilities from the change in tax rates.

(3) The LAT can be treated as deducible expenses when determining the PRC enterprise income tax. The amount represented the impact on the enterprise income tax from the deduction of the LAT at the applicable tax rate (2006 and 2007: 15%, 2008 and 2009: 25%).

RESULTS OF OPERATIONS

The table below summarizes our consolidated results in absolute terms and as a percentage of our revenue for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009.

Consolidated Income Statements

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
							(unaudited)			
	(Rmb in millions, except percentages)									
Revenue	1,369.9	100.0%	990.8	100.0%	2,149.6	100.0%	745.0	100.0%	2,178.7	100.0%
Cost of sales	(871.5)	(63.6)	(590.0)	(59.5)	(1,132.2)	(52.7)	(393.7)	(52.8)	(1,198.5)	(55.0)
Gross profit	498.4	36.4	400.8	40.5	1,017.4	47.3	351.4	47.2	980.1	45.0
Other income	19.7	1.4	1.4	0.1	3.6	0.2	1.0	0.1	1.2	0.1
Other gains — net	72.8	5.3	317.5	32.0	60.9	2.8	59.4	8.0	35.5	1.6
Selling and marketing costs	(58.9)	(4.3)	(58.6)	(5.9)	(109.8)	(5.1)	(50.8)	(6.8)	(57.0)	(2.6)
Administrative expenses	(82.2)	(6.0)	(112.7)	(11.4)	(157.8)	(7.3)	(88.9)	(11.9)	(76.2)	(3.5)
Operating profit	449.8	32.8	548.3	55.3	814.3	37.9	272.0	36.5	883.7	40.6
Finance income	18.0	1.3	9.9	1.0	9.0	0.4	5.6	0.8	8.7	0.4
Finance costs	(78.3)	(5.7)	(124.2)	(12.5)	(227.0)	(10.6)	(125.3)	(16.8)	(106.8)	(4.9)
Finance costs — net	(60.3)	(4.4)	(114.3)	(11.5)	(218.0)	(10.1)	(119.7)	(16.1)	(98.0)	(4.5)
Share of loss of jointly controlled entities	—	—	—	—	—	—	—	—	(2.7)	(0.1)
Share of loss of an associate	—	—	—	—	—	—	—	—	—	—
Profit before income tax	389.4	28.4	434.0	43.8	596.3	27.7	152.3	20.4	783.0	35.9
Income tax expenses	(188.3)	(13.7)	(111.9)	(11.3)	(411.0)	(19.1)	(127.4)	(17.1)	(400.6)	(18.4)
Profit for the year/period	201.2	14.7	322.1	32.5	185.3	8.6	24.8	3.3	382.4	17.6
Profit/(loss) attributable to:										
Equity owners of our company	205.8	15.0	323.7	32.7	184.5	8.6	25.4	3.4	382.9	17.6
Minority interests	(4.6)	(0.3)	(1.6)	(0.2)	0.9	0.0	(0.6)	(0.1)	(0.5)	(0.0)
	201.2	14.7%	322.1	32.5%	185.3	8.6%	24.8	3.3%	382.4	17.6%

Business Segments

We are organized into three business segments: property development, property management and property rental.

The following table sets forth our revenue breakdown by business segment during the Track Record Period.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(unaudited)	
	(Rmb in millions)				
Property development	1,305.2	867.7	1,995.8	673.2	2,101.3
Property management	43.1	68.3	86.1	36.4	42.3
Property rental	21.7	54.8	67.7	35.5	35.0
Total	1,369.9	990.8	2,149.6	745.0	2,178.7

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Revenue. Our revenue increased by Rmb 1,433.7 million, or 192.4%, to Rmb 2,178.7 million for the six months ended June 30, 2009 from Rmb 745.0 million for the same period in 2008. The increase in revenue was primarily due to the increase in our revenue from property development.

- ***Property Development***. Our revenue generated from property development increased by Rmb 1,428.1 million, or 212.1%, to Rmb 2,101.3 million in the six months ended June 30, 2009 from Rmb 673.2 million in the same period in 2008, primarily due to (i) an increase in the total GFA we delivered from approximately 69,346 square meters in the six months ended June 30, 2008 to approximately 166,071 square meters in the same period in 2009, attributable to our two major projects Shenzhen Victoria Harbour and Qingdao Azure Archipelagoes (Phases 1A and 1B) and (ii) an increase in the average selling price from Rmb 9,707 per square meter in the six months ended June 30, 2008 to Rmb 12,653 per square meter in the same period in 2009 primarily as a result of the sale of our high-end residential properties of Shenzhen Victoria Harbour, which constituted approximately 67.4% of our total revenue from property development for the six months ended June 30, 2009, partially offset by the lower average selling prices for residential properties outside Shenzhen.

We set out in the table below the revenue breakdown for property development and other relevant data for the periods as indicated.

			Six months ended June 30,			
			2008		2009	
Project	**Type**	**Completion date**	**Revenue**	**Average selling price**	**Revenue**	**Average selling price**
			(unaudited) (Rmb in millions, except average selling price being Rmb/m^2)			
Shenzhen Excellence Times Plaza (Phase 1)	Commercial	Oct 2006	166.7	109,121	138.1	33,923
Shenzhen Repulse Bay	Residential	Apr 2007	245.6	16,869	51.0	20,821
Changsha Cote d'Azur (Phase 1A)	Commercial/ Residential	Dec 2006	68.5	3,430	88.6	3,862
Shenzhen Cote d'Azur	Commercial/ Residential	Nov 2004	68.3	39,368	12.5	25,859
Shenzhen Victoria Harbour (South Part)	Commercial/ Residential	Dec 2008	—	—	1,417.1	27,680
Wuhan Cote d'Azur (Phase 1)	Commercial/ Residential	Jan 2008	117.1	3,709	44.3	3,071
Qingdao Azure Archipelagoes (Phases 1A and 1B)	Commercial/ Residential	Dec 2008	—	—	333.6	4,372
Others	—	—	6.9	—	16.2	—
Total			673.2		2,101.3	

- ***Property Management***. Our revenue generated from property management increased by Rmb 5.9 million, or 16.2%, to Rmb 42.3 million in the six months ended June 30, 2009 from Rmb 36.4 million in the same period in 2008, primarily due to an increase in the cumulative GFA for which we provided property management services with respect to property projects we managed for third parties.

- ***Property Rental***. Our rental revenue decreased by Rmb 0.5 million, or 1.4%, to Rmb 35.0 million in the six months ended June 30, 2009 from Rmb 35.5 million in the same period in 2008, primarily due to a decrease in retail space we rented out in Shenzhen Cote d'Azur.

Cost of sales. Our cost of sales increased by Rmb 804.8 million, or 204.4%, to Rmb 1,198.5 million in the six months ended June 30, 2009 from Rmb 393.7 million in the same period in 2008. The increase was in line with our increased property sales as discussed above.

Gross profit margin. Our gross profit margin decreased to 45.0% in the six months ended June 30, 2009 from 47.2% in the same period in 2008, primarily due to our sale of retail properties of Shenzhen Excellence Times Plaza (Phase 1) in the six months ended June 30, 2008, which constituted approximately 24.8% of our total revenue from property development for the same period. The sale of these retail properties had a much higher gross profit margin as compared with our sale of other properties, including our sale of the high-end residential properties and office buildings in the six months ended June 30, 2009.

Other gains — net. Our net other gains decreased by Rmb 23.9 million, or 40.2% to Rmb 35.5 million in the six months ended June 30, 2009 from Rmb 59.4 million in the same period in 2008 primarily because we received Rmb 15.8 million in the six months ended June 30, 2008 as reimbursement for the cost incurred for the ancillary facilities located in a property previously developed by us, but did not receive any similar payment in the same period in 2009. Moreover, the fair value gain on our investment properties decreased by Rmb 6.0 million to Rmb 35.0 million in the six months ended June 30, 2009 as compared to Rmb 41.0 million in the same period in 2008.

Other income. Our other income increased by Rmb 0.2 million, or 20.0%, to Rmb 1.2 million in the six months ended June 30, 2009 from Rmb 1.0 million in the same period in 2008. The increase was primarily due to an increase in our forfeiture income primarily as a result of our customers' cancellation of their property purchase options and forfeiture of their deposits in line with the increase in our property sales and pre-sales.

Selling and marketing costs. Our overall selling and marketing costs increased by Rmb 6.2 million, or 12.2%, to Rmb 57.0 million in the six months ended June 30, 2009 from Rmb 50.8 million in the same period in 2008. The increase was primarily due to an increase in our promotional expenses, sales commissions and other expenses in connection with our increased property sales.

Administrative expenses. Our administrative expenses decreased by Rmb 12.7 million, or 14.3%, to Rmb 76.2 million in the six months ended June 30, 2009 from Rmb 88.9 million in the same period in 2008. The decrease was primarily due to a decrease in the number of our administrative staff, our tightened control over administrative expenses and our decreased amount of donation.

Finance costs — net. Our net finance costs decreased by Rmb 21.7 million, or 18.1%, to Rmb 98.0 million in the six months ended June 30, 2009 from Rmb 119.7 million in the same period in 2008, primarily due to a decrease in our interest rates.

Income tax expenses. Our income tax expenses increased by Rmb 273.2 million, or 214.4%, to Rmb 400.6 million in the six months ended June 30, 2009 from an income tax of Rmb 127.4 million in the same period in 2008, primarily due to an increase in both our LAT provisions and enterprise income tax payments. Our LAT increased from Rmb 97.6 million in the six months ended June 30, 2008 to Rmb 217.3 million in the same period in 2009 primarily due to our increased property sales and the relatively low land cost of such properties, particularly with respect to our sales of high-end residential properties of Shenzhen Victoria Harbour, which constituted approximately 67.4% of our total revenue from property development for the six months ended June 30, 2009. The current portion of our enterprise income tax increased from Rmb 17.6 million in the six months ended June 30, 2008 to Rmb 153.2 million in the same period in 2009 primarily due to (i) the increase in profit before tax, particularly the profit generated from our sale of properties of Shenzhen Victoria Harbour, and (ii) to a lesser extent, the increase of income tax rate by 2% to 20% in 2009 from 18% in 2008 in Shenzhen Special Economic Zone. For more information, please refer to the section entitled "— Significant Accounting Policies — Income Taxes and Deferred Taxation." For the same reasons, our total enterprise income tax also increased from Rmb 29.8 million in the six months ended June 30, 2008 to Rmb 183.3 million in the same period in 2009.

Profit for the period. As a result of the cumulative effect of the factors discussed above, our profit increased by Rmb 357.6 million, or 1,441.9%, to Rmb 382.4 million in the six months ended June 30, 2009 from Rmb 24.8 million in the same period in 2008.

Profit attributable to our equity holders. Profit attributable to the equity holders of our company increased by Rmb 357.5 million, or 1,407.5%, to Rmb 382.9 million in the six months ended June 30, 2009 from Rmb 25.4 million in the same period in 2008.

Minority interests. Our minority shareholders shared a loss of Rmb 0.5 million in the six months ended June 30, 2009 as compared to a loss of Rmb 0.6 million in the same period in 2008.

2008 Compared to 2007

Revenue. Our revenue increased by Rmb 1,158.8 million, or 117.0%, to Rmb 2,149.6 million in 2008 from Rmb 990.8 million in 2007. The increase in revenue was primarily due to the increase in our revenue from property development.

- ***Property Development***. Our revenue generated from property development increased by Rmb 1,128.1 million, or 130.0%, to Rmb 1,995.8 million in 2008 from Rmb 867.7 million in 2007, primarily due to (i) an increase in the total GFA we delivered from approximately 69,909 square meters in 2007 to approximately 157,407 square meters in 2008, attributable to our three major developments, Shenzhen Victoria Harbour, Wuhan Cote d'Azur (Phase 1) and Changsha Cote d'Azur (Phase 1A) and (ii) to a lesser extent, an increase in the average selling price from Rmb 12,411 per square meter in 2007 to Rmb 12,679 per square meter in 2008 primarily as a result of the increased GFA sold in Shenzhen as retail properties and the sale of our high-end residential properties of Shenzhen Victoria Harbour, partially offset by a decrease in GFA sold as office properties and the lower average selling prices for residential properties outside Shenzhen.

We set out in the table below the revenue breakdown for property development and other relevant data for the periods as indicated.

			Year ended December 31,			
			2007		2008	
Project	**Type**	**Completion date**	**Revenue**	**Average selling price**	**Revenue**	**Average selling price**
			(Rmb in millions, except average selling price being Rmb/m²)			
Shenzhen Excellence Times Plaza (Phase 1)	Commercial	Oct 2006	158.3	16,454	206.5	113,221
Shenzhen Repulse Bay	Residential	Apr 2007	608.5	16,496	313.8	17,695
Changsha Cote d'Azur (Phase 1A)	Commercial/ Residential	Dec 2006	68.9	3,515	214.2	4,321
Shenzhen Cote d'Azur	Commercial/ Residential	Nov 2004	11.4	6,130	125.8	35,351
Chongqing Excellence Mart (Phase 1)	Commercial	Aug 2006	2.7	2,361	—	—
Shenzhen City Central Garden	Commercial/ Residential	May 2003	4.8	5,905	—	—
Shenzhen Victoria Harbour (South Part)	Commercial/ Residential	Dec 2008	—	—	900.2	26,790
Wuhan Cote d'Azur (Phase 1)	Commercial/ Residential	Jan 2008	—	—	180.7	3,988
Qingdao Azure Archipelagoes (Phases 1A and 1B)	Commercial/ Residential	Dec 2008	—	—	35.2	6,063
Others	—	—	13.1	—	19.4	—
Total			867.7		1,995.8	

- ***Property Management***. Our revenue generated from property management increased by Rmb 17.8 million, or 26.1%, to Rmb 86.1 million in 2008 from Rmb 68.3 million in 2007, primarily due to an increase in the cumulative GFA for which we provided property management services, in particular with respect to the newly completed Changsha Cote d'Azur (Phase 1A) and an increasing number of property projects we managed for third parties. Moreover, our increased revenue generated from property management was also attributable to the increased management fees charged for ancillary services.

- ***Property Rental***. Our rental revenue increased by Rmb 12.9 million, or 23.5%, to Rmb 67.7 million in 2008 from Rmb 54.8 million in 2007, primarily due to (i) an increase in retail space we rent out in Guangzhou Diwang Shopping Arcade and (ii) to a lesser extent, an increase of our rental rates.

Cost of sales. Our cost of sales increased by Rmb 542.2 million, or 91.9%, to Rmb 1,132.2 million in 2008 from Rmb 590.0 million in 2007. This increase was in line with our increased property sales in 2008 as discussed above.

Gross profit margin. Our gross profit margin increased to 47.3% in 2008 from 40.5% in 2007 primarily because our average selling prices in the Shenzhen and Neighboring Area increased at a higher rate than our cost of sales, particularly for our sales of high-end residential properties and retail properties.

Other gains - net. Our other gains - net decreased by Rmb 256.6 million, or 80.8%, to Rmb 60.9 million in 2008 from Rmb 317.5 million in 2007 primarily because we received a gain in the amount of Rmb 230.0 million from the disposal of our entire 40% interest in Shenzhen Central Walk in 2007, but did not receive any similar gain on disposal of assets in 2008. Moreover, the fair value gain on our investment properties decreased to Rmb 41.0 million in 2008 as compared to Rmb 82.6 million in 2007. The decrease in our other gains - net was partly offset by Rmb 15.8 million we received as reimbursement for the cost incurred for the ancillary facilities located in a property previously developed by us.

Other income. Our other income increased by Rmb 2.2 million, or 157.1%, to Rmb 3.6 million in 2008 from Rmb 1.4 million in 2007 due to an increase in our forfeiture income primarily as a result of our customers' cancellation of their property purchase options and forfeiture of their deposits in line with the increase in our property sales and pre-sales.

Selling and marketing costs. Our selling and marketing costs increased by Rmb 51.2 million, or 87.4%, to Rmb 109.8 million in 2008 from Rmb 58.6 million in 2007. The increase was primarily due to an increase in our advertising costs of Rmb 49.9 million, particularly for the properties completed and delivered in 2008, Shenzhen Victoria Harbour and Qingdao Azure Archipelagoes, as well as the retail properties of Shenzhen Excellence Times Plaza (Phase 1) and retail properties of Shenzhen Cote d'Azur.

Administrative expenses. Our administrative expenses increased by Rmb 45.1 million, or 40%, to Rmb 157.8 million in 2008 from Rmb 112.7 million in 2007. The increase was primarily due to (i) an increase in general office expenses and staff salaries resulting from our full year operations for our projects in Qingdao and Dongguan in 2008 as compared with our operation for only part of the year in 2007 for these projects; and (ii) an increase in the number of our administrative and management staff hired in connection with our business expansion.

Finance costs - net. Our finance costs - net increased by Rmb 103.7 million, or 90.7%, to Rmb 218.0 million in 2008 from Rmb 114.3 million in 2007, primarily due to an increase in our bank borrowings to finance our property development activities and an increase in our interest rates.

Income tax expenses. Our income tax expenses increased by Rmb 299.1 million, or 267.3%, to Rmb 411.0 million in 2008 from Rmb 111.9 million in 2007, primarily due to an increase in both our LAT provisions and enterprise income tax payments. Our LAT increased from Rmb 79.7 million in 2007 to Rmb 284.1 million in 2008 primarily due to our increased property sales in 2008 and the relatively low land cost of such properties in the Shenzhen and Neighboring Area as compared with our selling prices, particularly with respect to our sales of properties of Shenzhen Victoria Harbour, Shenzhen Excellence Time Plaza (Phase 1), Shenzhen Repulse Bay and Shenzhen Cote d'Azur. The current portion of our enterprise income tax increased from Rmb 93.7 million in 2007 to Rmb 134.4 million in 2008 in line with the increase in profit, and the total enterprise income tax also increased from Rmb 32.2 million in 2007 to Rmb 126.9 million in 2008 primarily because (1) our profit before tax increased and (2) the impact from changes in enterprise tax rates of Rmb 20.7 million pursuant to the PRC income tax law has been reflect in 2007. For more information, please refer to the section entitled "— Significant Accounting Policies — Income Taxes and Deferred Taxation."

Profit for the year. As a result of the cumulative effect of the factors discussed above, our profit decreased by Rmb 136.8 million, or 42.5%, to Rmb 185.3 million in 2008 from Rmb 322.1 million in 2007. In particular, our property management recorded an operating loss of Rmb 0.8 million in 2008 as compared with an operating profit of Rmb 17.1 million in 2007 primarily due to two reasons. First, we incurred a sizeable amount of expenses to hire more staff and set up offices in connection with the completion and delivery of Shenzhen Victoria Harbour (South Part) in 2008. Second, due to the aging of some project properties under our management, we conducted a major maintenence for such projects in 2008, which substantially increased the costs for our property management.

Profit attributable to our equity holders. Profit attributable to our equity holders decreased by Rmb 139.2 million, or 43.0%, to Rmb 184.5 million in 2008 from Rmb 323.7 million in 2007.

Minority interests. Our minority shareholders shared a gain of Rmb 0.9 million in 2008 as compared to a loss of Rmb 1.6 million in 2007.

2007 Compared to 2006

Revenue. Our revenue decreased by Rmb 379.1 million, or 27.7%, to Rmb 990.8 million in 2007 from Rmb 1,369.9 million in 2006. The decrease in revenue was primarily due to a decrease in our revenue from property development.

- ***Property Development.*** Our revenue generated from property development decreased by Rmb 437.5 million, or 33.5%, to Rmb 867.7 million in 2007 from Rmb 1,305.2 million in 2006, primarily due to (i) a substantial decrease in the average selling price from Rmb 18,305 per square meter in 2006 to Rmb 12,411 per square meter in 2007, due to the sale of a commercial property project, Shenzhen Excellence Times Plaza (Phase 1), which accounted for 97.7% of our revenue from property development in 2006, while a majority of our revenue in 2007 came from the sale of residential properties; and (ii) to a lesser extent, a decrease in the total GFA we delivered from 71,301 square meters in 2006 to 69,909 square meters in 2007.

We set out in the table below the revenue breakdown for property development and other relevant data for the periods as indicated.

Project	Type	Completion date	2006 Revenue	2006 Average selling price	2007 Revenue	2007 Average selling price
			(Rmb in millions, except average selling price being Rmb/m²)			
Shenzhen Excellence Times Plaza (Phase 1)	Commercial	Oct 2006	1,274.9	18,435	158.3	16,454
Excellence Mansion	Commercial	—	9.7	14,632	—	—
Shenzhen Repulse Bay	Residential	Apr 2007	—	—	608.5	16,496
Changsha Cote d'Azur (Phase 1A)	Commercial/ Residential	Dec 2006	—	—	68.9	3,515
Shenzhen Cote d'Azur	Commercial/ Residential	Nov 2004	9.5	18,230	11.4	6,130
Chongqing Excellence Mart (Phase 1)	Commercial	Aug 2006	2.8	2,873	2.7	2,361
Shenzhen City Central Garden	Commercial/ Residential	May 2003	—	—	4.8	5,905
Others	—	—	8.3	—	13.1	—
Total			1,305.2		867.7	

- ***Property Management.*** Our revenue generated from property management increased by Rmb 25.2 million, or 58.5%, to Rmb 68.3 million in 2007 from Rmb 43.1 million in 2006, primarily due to an increase in the cumulative GFA for which we provided property management services, in particular the newly added office space from Shenzhen Excellence Times Plaza (Phase 1), and an increase in the number of property projects we managed for third parties.

- ***Property Rental.*** Our rental revenue increased by Rmb 33.1 million, or 152.5% to Rmb 54.8 million in 2007 from Rmb 21.7 million in 2006, primarily due to an increase of approximately 20,000 square meters of retail space in our rental properties after we acquired the operating rights in Guangzhou Diwang Shopping Arcade in August 2006.

Cost of sales. Our cost of sales decreased by Rmb 281.5 million, or 32.3%, to Rmb 590.0 million in 2007 from Rmb 871.5 million in 2006. The decrease was in line with our decreased property sales in 2007 as discussed above.

Gross profit margin. Our gross profit margin increased to 40.5% in 2007 from 36.4% in 2006, primarily due to the higher profit margin for Shenzhen Repulse Bay, which is a high-end residential development.

Other gains - net. Our other gains - net increased by Rmb 244.7 million, or 336.1%, to Rmb 317.5 million in 2007 from Rmb 72.8 million in 2006, primarily due to the gain from the disposal of our entire 40% interest in Shenzhen Central Walk and the fair value gain on our investment properties.

Shenzhen Central Walk is a large-scale commercial complex located in the Shenzhen CBD. We acquired a 40% equity interest in this project in 2004 in order to receive the economic benefit from its development. This investment was classified as available-for-sale financial assets on the acquisition date. We decided to make the disposal because the sale would result in a satisfactory yield on our investment in Shenzhen Central Walk. We disposed of our entire interests in it to the controlling shareholder in Shenzhen Central Walk for a consideration of Rmb 330.0 million on an arm's-length basis. Except for sharing the interests in Shenzhen Central Walk, the controlling shareholder had no other relationship with us and the consideration it offered to us was based on commercial negotiation taking into account of then market conditions in Shenzhen, its location, uniqueness and prospects. We did not have any independent valuation of the project conducted prior to or at the time of the disposal. At the time of the disposal, we were aware of the intent of the controlling shareholder to further sell Shenzhen Central Walk to a third party once it secured a 100% interest in the project. Our total investment in Shenzhen Central Walk was Rmb 100.0 million, and the disposal resulted in a gain of Rmb 230.0 million in 2007.

The fair value gain on our investment properties increased to Rmb 82.6 million in 2007 as compared to Rmb 69.2 million in 2006 primarily due to the overall property price appreciation in Guangzhou and Shenzhen markets.

Other income. Our other income decreased by Rmb 18.3 million, or 93.0%, to Rmb 1.4 million in 2007 from Rmb 19.7 million in 2006. The decrease was primarily due to our receipt of Rmb 19.4 million as refund of our enterprise income tax payments as a result of our reinvestment of our distributable net profit in 2006 while we received no such enterprise income tax refund in 2007. The tax refund is an incentive granted by the PRC government to encourage profit reinvestment by foreign-invested companies. If a foreign-invested company with over five years of operating history in China has reinvested its distributable profit to increase its registered capital, the relevant tax authority will refund 40% of the income tax paid on the portion of the profit that has been reinvested. Such tax incentive is no longer available under the new PRC Enterprise Income Tax Law effective January 1, 2008.

Selling and marketing costs. Our selling and marketing costs decreased by Rmb 0.3 million, or 0.5%, to Rmb 58.6 million in 2007 from Rmb 58.9 million in 2006. The decrease was primarily due to a decrease in our marketing and advertising costs of Rmb 10.2 million because we incurred most of such costs in 2006 for the properties delivered and revenue recognized in 2007, including Shenzhen Excellence Times Plaza (Phase 1), Shenzhen Repulse Bay, Changsha Cote d'Azur. The decrease in our marketing and advertising costs was mostly offset by the increases in the staff salaries and office expenses relating to selling and marketing as a result of our property development in Qingdao and Changsha.

Administrative expenses. Our administrative expenses increased by Rmb 30.5 million, or 37.1%, to Rmb 112.7 million in 2007 from Rmb 82.2 million in 2006. The increase was primarily due to (i) our increased general office expenses and staff salaries resulting from our business expansion in Qingdao and Changsha and additional development projects in Shenzhen; and (ii) an increase in the number of our administrative and management staff in connection with our business expansion and our acquisition of Guangzhou Guixin, which holds the operating rights in Guangzhou Diwang Shopping Arcade.

Finance costs - net. Our finance costs - net increased by Rmb 54.0 million, or 89.6%, to Rmb 114.3 million in 2007 from Rmb 60.3 million in 2006, primarily due to an increase in our bank borrowings to finance our property development activities.

Income tax expenses. Our income tax expenses decreased by Rmb 76.4 million to Rmb 111.9 million in 2007 from Rmb 188.3 million in 2006. The decrease was primarily due to a decrease in LAT from Rmb 149.3 million in 2006 to Rmb 79.7 million in 2007, which was in line with our decreased property sales in 2007. While the current portion of our enterprise income tax increased from Rmb 74.0 million in 2006 to Rmb 93.7 million in 2007 in line with the increase in profit (after deduction of LAT), the total enterprise income tax decreased from Rmb 39.0 million in 2006 to Rmb 32.2 million in 2007, primarily because we recognized additional deferred income tax assets of Rmb 20.7 million in 2007 as a result of the change of enterprise income tax rates pursuant PRC enterprise income tax laws. For more information, please refer to the section entitled "— Significant Accounting Policies — Income Taxes and Deferred Taxation."

Profit for the year. As a result of the cumulative effect of the factors discussed above, our profit increased by Rmb 120.9 million to Rmb 322.1 million in 2007 from Rmb 201.2 million in 2006.

Profit attributable to our equity holders. Profit attributable to our equity holders increased by Rmb 117.9 million to Rmb 323.7 million in 2007 from Rmb 205.8 million in 2006.

Minority interests. Our minority shareholders shared a loss of Rmb 1.6 million in 2007 as compared to a loss of Rmb 4.6 million in 2006.

CERTAIN BALANCE SHEET ITEMS

Land Use Rights

Land use rights consist of our costs of acquiring rights to use the relevant parcels of land for the purpose of developing commercial and residential properties. We divide our land use rights into current and non-current assets. Land use rights are classified as current assets unless the construction of the relevant property development projects is expected to complete beyond a normal operating cycle. One normal cycle typically means one to two years. We had aggregate land use rights of Rmb 1,216.6 million, Rmb 2,463.1 million, Rmb 3,268.4 million and Rmb 3,133.1 million as of December 31, 2006, 2007 and 2008 and June 30, 2009, which were divided into land use rights of current assets of Rmb 445.3 million, Rmb 1,276.2 million, Rmb 1,947.5 million and Rmb 1,820.7 million, respectively, and land use rights of non-current assets of Rmb 771.4 million, Rmb 1,186.9 million, Rmb 1,320.9 million and Rmb 1,312.5 million, respectively. The fluctuation of our land use rights during the Track Record Period was primarily attributable to our development schedule.

Property under Development

Properties under development as classified under our consolidated financial statements include properties in respect of which we have obtained the relevant land use rights certificates as well as the construction permits. We had properties under development of Rmb 255.5 million, Rmb 616.9 million, Rmb 1,770.7 million and Rmb 1,938.5 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. The increase of our properties under development during the Track Record Period was primarily attributable to the timing of our project completion and commencement of construction. Property projects upon completion will be taken out of the properties under development and moved to the category for completed properties held for sale, and the commencement of project construction will add to the properties under development. The significant increase of project under development during the Track Record Period was consistent with our increased construction costs and capital expenditures in new projects during such period.

Completed Properties Held for Sale

Completed properties held for sale represent completed properties remaining unsold at the end of each financial period stated at the lower of cost and net realizable value. Net realizable value is determined by reference to sale proceeds of properties sold in the ordinary course of business by management estimates based on prevailing market conditions, less applicable variable selling expenses and cost of sales. We had completed properties held for sale of Rmb 550.0 million, Rmb 750.8 million, Rmb 1,933.0 million and Rmb 1,517.1 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. The increase from 2006 to 2007 was primarily due to the completion of Shenzhen Repulse Bay. The increase from 2007 to 2008 was primarily due to the completion of Shenzhen Victoria Harbour (South Part), Qingdao Azure Archipelagoes (Phases 1A and 1B) and Wuhan Cote d'Azur (Phase 1A). The higher amount of completed properties held for sale as of December 31, 2008 reflected the completion of our projects in Shenzhen and Qingdao at the end of the year. The decrease of the amount of completed properties held for sale from December 31, 2008 to June 30, 2009 was primarily due to the sale and delivery of such properties and the recognition of the revenue from such sale.

Trade and Other Receivables

We had trade and other receivables of Rmb 1,776.1 million, Rmb 2,280.2 million, Rmb 2,062.6 million and Rmb 3,094.7 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. The following table sets out the breakdown of our trade and other receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(Rmb in thousands)			
Non-current assets				
Other receivables:				
Third parties	—	—	—	300,000
Current assets				
Trade receivables:				
Related parties	1,299	—	—	—
Third parties	147,230	24,256	65,295	97,701
Other receivables:				
Related parties	233,237	184,964	215,615	845,350
Third parties	774,020	580,621	635,120	649,897
Prepayments:				
Prepayment for land use rights	588,409	1,318,274	1,043,899	1,063,899
Others	31,953	172,042	102,699	137,803
Total as current assets	1,776,148	2,280,157	2,062,628	2,794,650
Total	1,776,148	2,280,157	2,062,628	3,094,650

Our other receivables of non-current nature as of June 30, 2009 represent the bank entrustment loans in the amount of Rmb 300 million we made to Dabaihui Group related to our Shenzhen Gangxia Project. For more information on Shenzhen Gangxia Project, see the section entitled "Business — Other Land-related Contractual Arrangements — Shenzhen Gangxia Project" in this document.

Our trade receivables mainly arise from our sales of properties. Our credit policy to our customers is largely reflected in our sale and purchase agreements with our customers. Our customers generally have 15 days to pay their down-payments and three months to pay the remaining purchase price, with or without a mortgage loan. We do not provide installment payment plans to purchasers of our properties. Our credit policy is in line with the market practice of the PRC property industry. It is generally effective and we have not experienced any difficulties.

Our trade receivables from third parties decreased to Rmb 24.3 million as of December 31, 2007 from Rmb 147.2 million as of December 31, 2006 primarily because (i) the outstanding trade receivable amounts as of December 31, 2006 from Shenzhen Excellence Times Plaza (Phase 1) were settled in 2007, and (ii) the sales of Shenzhen Repulse Bay were finalized in August 2007 when the project was completed and delivered, and customer payments for most of the sales were settled prior to the balance sheet date. Our trade receivables from third parties increased from Rmb 24.3 million as of December 31, 2007 to Rmb 65.3 million as of December 31, 2008 mainly due to the commencement of sales for Shenzhen Victoria Harbour (South Part) and Wuhan Cote d'Azur as well as the continued sale for Changsha Cote d'Azur in 2008. Our trade receivables from third parties increased from Rmb 65.3 million as of December 31, 2008 to Rmb 97.7 million as of June 30, 2009 primarily due to the sale of retail properties of Shenzhen Excellence Time Plaza (Phase 1) in the second quarter of 2009. The sale of such retail properties generally took approximately three months to complete due to the requirement of relevant mortgage loan procedures.

Our other receivables due from related parties primarily consist of receivables of short-term financing nature. Our other receivables from related parties increased from Rmb 215.6 million as of December 31, 2008 to Rmb 845.4 million as of June 30, 2009 mainly due to our advance payment made on behalf of Jindi Dabaihui relating to the resettlement work conducted on the relevant land of Shenzhen Gangxia Project. For more information on Shenzhen Gangxia Project, see the section entitled "Business — Other Land-related Contractual Arrangements — Shenzhen Gangxia Project" in this document.

Our other receivables due from third parties primarily consist of preliminary project-related investments including down-payment or deposits paid to third parties prior to our receiving the relevant interest in the project. The deposits, down-payments or other considerations we paid under our other land-related contractual arrangements as disclosed in the section entitled "Business — Our Property Projects — Other Land-related Contractual Arrangements" in this document have been accounted for as other receivables or prepayments for land use rights in our financial statements. Normally, we recognize and record the deposits and down-payments paid as "other receivables" initially in accordance with the terms and conditions of the contractual agreements. Afterward, we continue to assess the possibility to obtain the relevant land use rights from time and time, and transfer the deposits and down-payments from "other receivables" to "prepayments" if we believe that it is more likely than not that we will receive the land use rights through such contractual agreements. The aggregate amount of down-payments, land premium or other considerations paid for such contractual arrangements was approximately Rmb 1,287.7 million as of June 30, 2009, which represented 89.8% of our net assets as of December 31, 2008. These payments are unsecured and paid directly to the counterparty or to the project company as share capital instead to an escrow account. Although the recoverability of these payments, if in the form of down-payment or deposit, was stipulated in the contracts, the timeframe and method for the refund were not specified and there is no mechanism in place to prevent any potential misuse of these funds by the counterparty or to ensure funds available when refund is due. During the Track Record Period, we did not experience any material default by our counterparties under similar arrangements. At the present time, we do not foresee any significant difficulties in recovering our deposits and down payments based on the contractual provisions. However, we cannot assure you that any refund will be provided in a timely manner or at all.

Our prepayments during the Track Record Period primarily related to our prepayments for land use rights and, to a lesser extent, to prepayments to third-party construction contractors. Our prepayment for land use rights increased to Rmb 1,318.3 million as of December 31, 2007 from Rmb 588.4 million as of December 31, 2006 primarily due to the prepayments for the land use rights relating to Lianyungang Cote d'Azur and Shenzhen Excellence Century Center, and the deposits for a Qingdao project. The decrease in our prepayment for land use rights from Rmb 1,318.3 million as of December 31, 2007 to Rmb 1,043.9 million as of December 31, 2008 was primarily because we obtained the land use rights certificates for our Wuhan Houhu Village Project and Shenzhen Excellence Century Center, partially offset by an increase in our prepayments for the land use rights with respect to land for which we have existing acquisition contractual arrangements, particularly for our projects in Hangzhou and Qingdao. Our prepayment for land use rights slightly increased to Rmb 1,063.9 million as of June 30, 2009 from Rmb 1,043.9 million as of December 31, 2008 primarily due to our prepayment made in connection with our contractual arrangement to acquire land use rights for Shenzhen Zhenbao Project. For more information on Shenzhen Zhenbao Project, see the section entitled "Business — Other Land-related Contractual Arrangements — Shenzhen Zhenbao Project" in this document.

Our other prepayments consist primarily of prepaid utility costs and supplies for construction, and prepaid advertising expenses. These prepayments increased to Rmb 172.0 million as of December 31, 2007 as compared to Rmb 32.0 million as of December 31, 2006 primarily due to prepaid construction costs for Wuhan Cote D'Azur and Dongguan Azure Polis. The prepayments further decreased to Rmb 102.7 million as of December 31, 2008 primarily because we continued to recognize prepaid construction costs as properties under development in line with the progress of our property developments. Our other prepayments increased to Rmb 137.8 million as of June 30, 2009 primarily due to the increase of our prepaid construction cost in connection with the progress of our property development.

The aging analysis of our trade receivables as of the dates indicated is as follows:

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(Rmb in thousands)			
Within 90 days	144,247	19,855	33,180	68,613
Over 90 days and within 180 days	3,444	315	6,255	12,073
Over 180 days and within 365 days	—	3,662	18,131	2,735
Over 365 days	838	424	7,729	14,280
Total	148,529	24,256	65,295	97,701

Our trade receivables turnover days was 21 days, 32 days, 7.6 days and 6.8 days in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. Trade receivable turnover (days) = (beginning balance of trade receivables for the period + ending balance of trade receivables for the period) / 2 / revenue x 365 days for a year or 183 days for six months.

The significant decrease in trade receivables turnover days from 2007 to 2008 was primarily because we shortened our customers' payment period in 2008 as compared with previous years.

Investment Properties

We hold certain amount of properties for long-term rental yields or for capital appreciation or both, but not for our occupation. As of June 30, 2009, we held investment properties at a valuation of Rmb 741.0 million based on revaluation by DTZ Debenham Tai Leung Limited, an independent valuer. The increase in our investment properties as of December 31, 2007 as compared to December 31, 2006 was primarily due to the overall property price appreciation in Guangzhou and Shenzhen markets in 2007, and the increased number of carparks we owned. The increase in our investment properties as of December 31, 2008 as compared to December 31, 2007 was primarily due to the appreciation based on the revaluation of such investment properties. The increase in our investment properties as of June 30, 2009 as compared to December 31, 2008 was also due to appreciation based on revaluation of such investment properties.

Deferred Tax Assets

Deferred tax assets relate primarily to the temporary differences on recognition of sales and related cost of sales and tax losses recognized when management considers it probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized.

The deferred income tax assets for recognition of sales and related cost of sales is provided in full, using the liability method, on temporary differences arising between the tax bases of advanced proceeds received from customers and their carrying amounts in the financial statements (normally the advanced proceeds received from customers are deemed as sales under the tax regulations, and we are required to prepay the related income tax, while under our accounting methods, such advance proceeds are treated as liabilities until we deliver the relevant properties to the buyer). Therefore, the amount fluctuates in line with the movement of advanced proceeds received from customers. Due to our expansion and the increase in advanced proceeds received from customers over the Track Record Period, the amount of deferred income tax assets for recognition of sales and related cost of sales increased accordingly.

Advance Proceeds Received from Customers

We record our pre-sale proceeds as "advance proceeds received from customers" within our current liabilities in our consolidated balance sheets. We do not recognize these advance proceeds from pre-sale or sale of properties as revenue until we have completed the construction of the relevant projects and issued notices to our customers of completion and delivery of properties pursuant to our sales and purchase agreements. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our aggregate advance proceeds received from customers amounted to Rmb 598.5 million, Rmb 558.1 million, Rmb 1,217.7 million and Rmb 1,725.1 million, respectively. The increase in pre-sale proceeds as of December 31, 2008 as compared to December 31, 2007 was primarily due to pre-sales of our Shenzhen Victoria Harbour and Qingdao Azure Archipelagoes. The increase in pre-sale proceeds as of June 30, 2009 as compared to December 31, 2008 was primarily due to pre-sales of our Shenzhen Excellence Century Center.

Trade and Other Payables

We had trade and other payables of Rmb 1,137.5 million, Rmb 711.4 million, Rmb 1,775.3 million and Rmb 1,764.0 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. The following table sets out the breakdown of our trade and other payables as of the dates indicated.

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(Rmb in thousands)			
Trade payables				
Third parties	370,967	313,763	1,066,976	914,049
Notes payable	—	—	—	59,726
Other payables				
Related parties	412,265	75,203	100,211	110,920
Third parties	282,446	319,013	514,941	586,691
Accrued expenses	435	1,944	279	253
Other taxes payable	71,355	1,474	92,938	92,367
Total	1,137,468	711,397	1,775,345	1,764,006

Our trade payables represent mainly payables to third parties including suppliers and contractors. We do not have uniform settlement terms with our suppliers and contractors. For general suppliers, we typically settle our payments within 90 days of receiving the goods and services. For our construction contractors, we typically settle in the current month a portion of the estimated construction costs during the previous month based on a schedule negotiated at the contracting stage. Typically our arrangements with the contractors allow us to withhold a warranty fee of up to 5% of the aggregate construction costs, the settlement of which will be made within three years from the completion.

Our trade payables to third parties increased as of December 31, 2008 as compared to December 31, 2007 primarily because we extended the payment period for both our existing and new trade payables to third parties. We were able to agree on such extended payment periods with third parties under the tightened credit market in 2008 as a result of our mutual intention to maintain a long-term relationship with such third parties. Our trade payables to third parties slightly decreased as of June 30, 2009 as compared to December 31, 2008 primarily due to our continued payment of the trade payables in the six months ended June 30, 2009 related to Shenzhen Victoria Harbour (South Part) and Qingdao Azure Archipelagoes (Phases 1A and 1B), both of which were completed in December 2008.

Our notes payable represent mainly acceptance bills payable. Our notes payable as of June 30, 2009 were the acceptance bills payable in connection with the construction payment for Shenzhen Excellence Century Center.

Our other payables to third parties include various deposits from third parties, payable amounts to transferors with respect to our acquisition of project companies and other miscellaneous payables. The other payables to third parties increased from Rmb 282.4 million as of December 31, 2006 to Rmb 319.0 million as of December 31, 2007 primarily due to (i) amounts payable to the transferor for our acquisition of Lianyungang Tianxingjian and Lianyungang Ruihao; (ii) deed tax payable on land acquired; and (iii) certain contract deposits. The other payables to third parties increased to Rmb 514.9 million as of December 31, 2008 due to amounts payable to the transferor of Lianyungang Tianqian, Lianyungang Tianjun, Lianyungang Tianxingjian and Lianyungang Ruihao for preliminary development of the land for our project in Lianyungang. The other payables to third parties slightly increased to Rmb 586.7 million as of June 30, 2009 due to the increase of payables of short-term financing nature related to our Hangzhou Binjiang Project.

The aging analysis of our trade payables as of the dates indicated is as follows:

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(Rmb in thousands)			
Within 90 days	307,333	149,649	882,993	61,957
Over 90 days and within 180 days	1,727	2,118	1,546	127,744
Over 180 days and within 365 days	333	22,697	83,860	592,513
Over 365 days	61,574	139,299	98,577	131,835
Total	370,967	313,763	1,066,976	914,049

Our trade payables turnover days was 96 days, 212 days, 223 days and 151 days in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. The trade payables turnover is calculated using the following formula:

Trade payables turnover (days) = (beginning balance of trade payables for the period + ending balance of trade payables for the period) / 2 / cost of sales x 365 days for a year or 183 days for six months.

Our lower trade payable turnover days of 96 in 2006 was primarily because of the significant increase in our cost of sales from the previous year resulting from our substantially increased revenue in 2006, which in turn translated into shorter turnover days for the period per our formula disclosed above. Our trade payable turnover days decreased from 223 in 2008 to 151 in the six months ended June 30, 2009 primarily because we sped up our payment of trade payables with our cash generated from the sales and presales of our properties

LIQUIDITY AND CAPITAL RESOURCES

Our operations require cash primarily for acquisition of land and construction of our properties. To date, we have primarily financed our expenditures through cash generated from our operating activities, including proceeds from pre-sales and sales of properties, and borrowings from commercial banks. During the Track Record Period, we utilized substantial amount of cash from financing activities to fund our operations. We recorded net cash used in operating activities of Rmb 2,133.4 million for 2007, Rmb 1,132.5 million for the six months ended June 30, 2008 and Rmb 327.3 million for 2008. We recorded net cash generated from operating activities of Rmb 437.4 million for 2006 and Rmb 646.1 million for the six months ended June 30, 2009. In 2007 and 2008, our negative operating cash flow was primarily due to increased amount of expenditures in line with our fast expansion in property development. While we had negative operating cash flow in the amount of Rmb 1,132.5 million in the first half of 2008, our operating cash flow improved substantially in the second half of 2008, resulting in a lower negative operating cash flow in the amount of Rmb 327.3 million for the whole year of 2008. This was primarily due to the advance proceeds we received from the pre-sale of Shenzhen Victoria Harbour and the extension of payment period for our trade payables to third parties. As we had negative operating cash flows in 2007 and 2008, the cash inflows from financing activities were important to ensure our business expansion and property development as planned. For a detailed analysis of our cash flow during the Track Record Period, please refer to the discussion below in this section; for a detailed analysis of our borrowings during the Track Record Period, please refer to the section entitled "— Indebtedness and Contingent Liabilities — Borrowings." We plan to meet our future funding obligations and commitments with the proceeds from the [●], bank borrowings and cash flow generated from our operating activities.

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

	Year ended December 31,			Six months ended June 30,	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
	(Rmb in millions)				
Net cash generated from/(used in) operating activities	437.4	(2,133.4)	(327.3)	(1,132.5)	646.1
Net cash (used in)/from investing activities	(420.8)	5.8	(93.9)	(43.2)	7.9
Net cash from/(used in) financing activities	833.2	2,229.6	(219.1)	680.1	367.6
Cash and cash equivalents at end of the year/period	1,159.8	1,261.7	621.4	766.1	1,642.9

Operating Activities

Six months ended June 30, 2009. We had net cash generated from operating activities of approximately Rmb 646.1 million for the six months ended June 30, 2009. The net operating cash flow primarily reflected our profit of Rmb 382.4 million for the six months ended June 30, 2009, as adjusted by income statement items with non-cash effect of Rmb 482.1 million, and cash from the following factor:

- an increase of approximately Rmb 1,032.0 million in our trade and other receivables (including prepayments), which was primarily due to (i) the advance payment in the approximate amount of Rmb 535.1 million we made to Jindi Dabaihui relating to the resettlement work conducted on the relevant land of Shenzhen Gangxia Project and (ii) the bank entrustment loans in the amount of Rmb 300 million we made to Dabaihui Group related to our Shenzhen Gangxia Project. For more information on Shenzhen Gangxia Project, see the section entitled "Business — Other Land-related Contractual Arrangements — Shenzhen Gangxia Project" in this document.

The effect of this factor was partially offset by cash inflows from the following:

- a decrease of approximately Rmb 124.5 million in our land use rights, which was primarily as a result of transfer to cost of sales upon sales of relevant properties in the six months ended June 30, 2009, primarily the sale of properties of Shenzhen Victoria Harbour and Qingdao Azure Archipelagoes (Phases 1A and 1B);

- a decrease of approximately Rmb 328.9 million in our property under development and completed properties held for sale, which was primarily due to transfer to cost of sales upon sales of relevant properties in the six months ended June 30, 2009, primarily the sale of properties of Shenzhen Victoria Harbour and Qingdao Azure Archipelagoes (Phases 1A and 1B); and

- an increase of approximately Rmb 507.4 million in advanced proceeds from customers, which was primarily due to the pre-sales of properties of Shenzhen Victoria Harbour and Shenzhen Excellence Century Center, which were partially offset by the recognition of advanced proceeds as revenue upon delivery of relevant properties.

2008. We had net cash used in operating activities of approximately Rmb 327.3 million for 2008. The net operating cash flow primarily reflected our profit of Rmb 185.3 million for 2008, as adjusted by income statement items with non-cash effect of Rmb 620.3 million, and cash outflows from the following factors:

- an increase of approximately Rmb 826.0 million in our land use rights. The increase was primarily due to (1) our acquisition of land for the development of Huizhou Luofushan Project, (2) the increase in land use rights as a result of transfer from prepayment for Wuhan Houhu Village and Shenzhen Excellence Century Center. The increase was partially offset by the decrease in land use rights as a result of transfer to cost of sales upon sales of relevant properties in 2008; and

- an increase of approximately Rmb 2,118.8 million in our property under development and completed properties held for sale, which was primarily due to the additional construction of Shenzhen Victoria Harbour, Qingdao Azure Archipelagoes (Phase 1A and 1B), Shenzhen Excellence Times Plaza (Phase 2), Shenzhen Excellence Century Center, Dongguan Azure Polis and Changsha Valley Villa.

The effect of these factors was partially offset by cash inflows from the following:

- an increase of approximately Rmb 659.6 million in advanced proceeds from customers, which was primarily due to our pre-sale of Shenzhen Victoria Harbour and Qingdao Azure Archipelagoes;

- a decrease of approximately Rmb 330.0 million in our trade and other receivables (including prepayments), which was primarily due to a decrease in prepayments for land use rights as a result of transfer to land use rights upon obtaining land certificates for Wuhan Houhu Village Project and Shenzhen Excellence Century Center. This decrease was partially offset by an increase in prepayments for land use rights in accordance with the payment terms of existing land contracts; and

- an increase of approximately Rmb 938.1 million in our trade and other payables, which was primarily due to our extended payment period for our trade payables to our contractors and suppliers under the tightened credit market conditions in 2008.

2007. We had net cash used in operating activities of approximately Rmb 2,133.4 million for 2007. The net operating cash flow primarily reflected our profit of Rmb 322.1 million for 2007, as adjusted by income statement items with non-cash effect of negative Rmb 67.7 million, and cash outflows from the following factors:

- an increase of approximately Rmb 505.4 million in our trade and other receivables primarily due to our prepaid land acquisition costs for land use rights in connection with our development projects in Dongguan and Qingdao;

- an increase of approximately Rmb 860.8 million in our land use rights primarily from our acquisition of land for the development of Dongguan Azure Polis, Qingdao Azure Archipelagoes and Lianyungang Cote d'Azur (Phase 1);

- a decrease of approximately Rmb 429.3 million in our trade and other payables primarily due to payments to contractors and suppliers for the construction of Shenzhen Excellence Times Plaza (Phase 2), Changsha Cote d'Azur (Phase 1B) and Wuhan Cote d'Azur (Phase 1); and

- an increase of approximately Rmb 516.1 million in our property under development and completed properties held for sale, primarily due to the additional construction of Shenzhen Excellence Times Plaza (Phase 2), Shenzhen Excellence Victoria Harbor, Qingdao Azure Archipelagoes and Changsha Cote d'Azur (Phase 1B).

2006. We had net cash generated from operating activities of approximately Rmb 437.4 million in 2006. The net operating cash flow primarily reflected our profit of Rmb 201.2 million in 2006, as adjusted by income statement items with non-cash effect of Rmb 186.4 million, and cash inflows from the following:

- an increase of approximately Rmb 351.3 million in the advance proceeds from customers. The increase was primarily due to our pre-sale of Shenzhen Excellence Times Plaza (Phase 1), Shenzhen Repulse Bay and Changsha Cote d'Azur; and

- a decrease of approximately Rmb 324.3 million in our trade and other receivables (excluding trade and other receivables arising from acquisition, which is reflected in acquisition of subsidiaries). The decrease was primarily due to that we did not need to make as much prepayments for land use rights in 2006.

The effect of these factors was partially offset by cash outflows from the following:

- an increase of approximately Rmb 47.6 million in our land use rights. The increase was primarily due to that we acquired land primarily for the development of Shenzhen Excellence Century Center and Shenzhen Victoria Harbour;

- a decrease of approximately Rmb 170.7 million in our trade and other payables. The decrease was primarily due to our payments to contractors and suppliers; and

- an increase of approximately Rmb 324.5 million in our property under development and completed properties held for sale. The increase was primarily due to the construction of Shenzhen Excellence Times Plaza (Phases 1 and 2) and Shenzhen Repulse Bay, and the completion of Chongqing Excellence Mart (Phase 1) and the retail shops at Changsha Cote d'Azur (Phase 1A).

Investing Activities

Six months ended June 30, 2009. Our net cash generated from investing activities was Rmb 7.9 million for the six months ended June 30, 2009, which was mainly attributable to the interest of Rmb 8.7 million received on our bank deposits.

2008. Our net cash used in investing activities was Rmb 93.9 million for 2008, which was mainly attributable to approximately Rmb 46.5 million for the acquisition of a 70% interest in Hangzhou Hengxing and a 51% interest in Shenzhen Dabaihui from independent third parties, and approximately Rmb 47.7 million for the acquisition of a 10% interest in Guangzhou Guixin and a 10% interest in Hunan Lushan from independent third parties. Cash inflow from investing activities in 2008 was the interest of Rmb 9.0 million received on our bank deposits.

2007. Our net cash generated from investing activities was Rmb 5.8 million for 2007, which was mainly attributable to the proceeds of Rmb 330.0 million from our disposal of our 40% interest in Shenzhen Central Walk and our interest income of Rmb 20.2 million, which was mostly offset by approximately Rmb 171.7 million for the acquisition of certain subsidiaries and approximately Rmb 160.1 million for purchase of additional interest in subsidiaries. The reason for the disposal of our interest in Shenzhen Central Walk was because we achieved satisfactory return on our investment in Shenzhen Central Walk.

2006. Our net cash used in investing activities was Rmb 420.8 million in 2006, which was mainly attributable to approximately Rmb 400.1 million for the acquisition of a 90% interest in Guangzhou Guixin Industry Co., Ltd, a 60% interest in Hunan Lushan Villas Investment & Development Co., Ltd. from an independent third party, and a 60% interest in Shenzhen Excellent Century Development Co., Ltd. Cash inflow from investing activities in 2006 was the interest of Rmb 9.2 million received on our bank deposits.

Financing Activities

Six months ended June 30, 2009. Our net cash from financing activities was Rmb 367.6 million for the six months ended June 30, 2009, which was mainly attributable to the net proceeds of Rmb 1,418.8 million from our borrowings primarily for the development of Shenzhen Excellence Century Center as well as other properties under development, partially offset by our repayment of borrowings of Rmb 863.4 million and interest payment of Rmb 187.8 million.

2008. Our net cash used in financing activities was Rmb 219.1 million for 2008, which was mainly attributable to our repayment of borrowings of Rmb 2,188.5 million, the increase of Rmb 350.0 million in our restricted bank deposits for bank borrowings and interest payment of Rmb 446.6 million, partially offset by the net proceeds of Rmb 2,766.0 million from our borrowings primarily for the development of Shenzhen Victoria Harbour, Qingdao Azure Archipelagoes and Shenzhen Excellence Century Center.

2007. Our net cash from financing activities was Rmb 2,229.6 million for 2007, which was mainly attributable to the net proceeds of Rmb 4,141.9 million from our borrowings primarily for the development of Qingdao Azure Archipelagoes and Wuhan Cote d'Azur, partially offset by our repayment of borrowings of Rmb 1,749.2 million.

2006. Our net cash from financing activities was Rmb 833.2 million for 2006, which was mainly attributable to the net proceeds of Rmb 2,049.0 million from our borrowings primarily for the development of Changsha Cote d'Azur, Shenzhen Excellence Times Plaza (Phase 1) and Shenzhen Repulse Bay, partially offset by our repayment of borrowings of Rmb 1,170.0 million.

Net Current Asset Position

Our net current assets as of August 31, 2009 were approximately Rmb 4,006.7 million, comprising current assets of approximately Rmb 11,960.9 million and current liabilities of approximately Rmb 7,954.2 million. As of the same date, our current assets consisted of land use rights of Rmb 1,817.4 million, properties held for sale or under development of Rmb 3,831.5 million, trade and other receivables of Rmb 3,441.6 million, prepaid taxation of Rmb 169.5 million and cash of Rmb 2,701.0 million. Our current liabilities consisted of advances from pre-sale of properties of Rmb 3,089.9 million, trade and other payables of Rmb 1,578.4 million, current income tax liabilities of Rmb 955.7 million and borrowings of Rmb 2,330.3 million.

Working Capital

As of December 31, 2006, 2007 and 2008 and June 30, 2009, our aggregate cash and cash equivalents amounted to Rmb 1,159.8 million, Rmb 1,261.7 million, Rmb 621.4 million and Rmb 1,642.9 million, respectively, substantially all of which were subject to PRC foreign exchange controls if such cash and cash equivalents were to be exchanged into foreign currencies or remitted outside of China.

Based on the estimated net proceeds from the [●], our cash on hand and available banking facilities, and our future cash flows from operations, we are of the opinion that we have sufficient working capital for our present requirements and for the next 12 months from the date of this document.

INDEBTEDNESS AND CONTINGENT LIABILITIES

Borrowings

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

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(Rmb in thousands)			
Borrowings included in non-current liabilities:				
Bank borrowings	1,963,000	4,405,000	4,645,500	5,572,842
Less: current portion of non-current borrowings	(230,000)	(1,240,000)	(1,061,000)	(1,587,000)
Total	1,733,000	3,165,000	3,584,500	3,985,842
Borrowings included in current liabilities:				
Bank borrowings	660,000	737,892	1,074,895	703,276
Current portion of non-current borrowings	230,000	1,240,000	1,061,000	1,587,000
Total	890,000	1,977,892	2,135,895	2,290,276

Our outstanding bank borrowings amounted to Rmb 2,623.0 million, Rmb 5,142.9 million, Rmb 5,720.4 million and Rmb 6,276.1 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. The increase in our bank borrowings was primarily due to additional funds needed for new and existing development projects. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the average interest rate on our borrowings was 5.09%, 6.30%, 7.09% and 5.61%, respectively. Approximately Rmb 320.0 million, Rmb 1,634.0 million, Rmb 1,702.0 million and Rmb 2,814.8 million of our total borrowings as of December 31, 2006, 2007 and 2008 and June 30, 2009, respectively, were guaranteed by Li Wa or Li Xiaoping. Such guarantees will be released immediately prior to [●].

As conditions for these borrowings, some of our subsidiaries, including Excellence Century City, Shenzhen Excellence and Excellence China, are restricted from distributing any or certain level of profits or dividends.

Pursuant to our HK$ 780 million facilities with ICBC Asia, we have pledged certain equity interest, including the related rights to dividends, in some of our major subsidiaries including Excellence Hong Kong, Excellence China and Excellence Century City to ICBC Asia. As a result, these subsidiaries are restricted in their ability to make distribution to the Company until we have fully repaid the loans. However, we intend to repay all the borrowings under the ICBC Asia loan facilities from the proceeds of the [●] within one month after [●], and we have no current intention to pay out any dividend after the [●] and before mid 2010. We do not expect the ICBC Asia loan facilities will hinder our ability to distribute dividends to public shareholders or affect our flexibility in utilizing internal funds or affect the ability of our subsidiaries to transfer their net income to us in the form of dividends or otherwise after the [●]. We have not drawn down the remaining unutilized HK$112 million under the ICBC Asia loan facilities and the drawdown period of such facilities has already expired.

Additionally, some of our subsidiaries, including Excellence China, Shenzhen Qi'nian and Dongguan Zhongtian, are subject to restrictions for further debt financing from third-party banks unless bank consents or certain financial ratios have been obtained or met.

Pursuant to our HK$780 million facilities with ICBC Asia, we are also subject to certain restrictions for further debt financing. However, as we intend to repay all the borrowings under the ICBC loan agreement from the proceeds of the [●] within one month after [●], we do not expect the ICBC Asia loan facilities will hinder our ability to obtain further debt financing after the [●].

According to the relevant laws and regulations governing PRC banking industry and real estate industry, PRC property developers can apply for project loans up to 65% of the estimated total project investment after obtaining the land use rights certificate, construction land planning permit, construction permit and construction works planning permit for the relevant project.

The table below sets forth the maturity profiles of our bank borrowings as of the dates indicated:

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(Rmb in thousands)			
Within 1 year	890,000	1,977,892	2,135,895	2,290,276
Between 1 and 2 years	1,008,000	896,000	2,356,500	3,183,842
Between 2 and 5 years	725,000	2,215,000	1,186,000	802,000
Over 5 years	—	54,000	42,000	—
Total	2,623,000	5,142,892	5,720,395	6,276,118

As of June 30, 2009, we have available unutilized banking facilities in the total amount of approximately Rmb 5.8 billion. On October 6, 2009, we further entered into a US$50 million facility with Superb Miles Limited, a subsidiary of ICBC International Holdings Limited and an associated company of ICBC International Capital Limited. Under this facility, we may draw down loans up to US$50 million within six months of October 6, 2009 at the interest rate of LIBOR plus 3%. This facility is also guaranteed by Li Wa and Li Xiaoping. Such guarantees will be released immediately prior to [●] and replaced by the guarantee given by us. Pursuant to this facility agreement, if either of the following conditions, among others, occur, it would constitute an event of default under the facility and the loan will, become immediately due and payable: (a) before [●], Mr. Li Wa and Mr. Li Xiaoping, collectively, do not or cease to own 100% interest in Excellence Hong Kong; (b) [●] for [●]; or (c) Mr. Li Wa or Mr. Li Xiaoping dies or by reason of any physical condition or incapacity becomes incapable of managing his own affairs or becomes a patient under any mental health legislation. As of the Latest Practicable Date, we had drawn down loans in the total amount of US$20.0 million under this facility.

Gearing Ratio

We monitor our capital on the basis of our gearing ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowing (including current and non-current borrowings, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The following table sets out our gearing ratio as of the dates indicated.

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(Rmb in thousands, except for gearing ratios)			
Total borrowings	2,623,000	5,142,892	5,720,395	6,276,118
Less: cash and bank balances	(1,209,684)	(1,289,782)	(1,009,027)	(2,043,479)
Net debt	1,413,316	3,853,110	4,711,368	4,232,639
Total equity	1,254,897	1,284,944	1,434,222	1,816,665
Total capital	2,668,213	5,138,054	6,145,590	6,049,304
Gearing ratio(1)	53.0%	75.0%	76.7%	70.0%

(1) Gearing ratio = net debt/total capital.

The increase in our gearing ratio in 2007 was primarily due to our increased borrowing for property development projects including Qingdao Azure Archipelagoes, Shenzhen Victoria Harbour and Wuhan Cote d'Azur. Our gearing ratio in 2008 remained at the 2007 level as a result of our repayment of our previous borrowings of Rmb 2,188.5 million and incurrence of new borrowings in an amount of Rmb 2,766.0 million primarily for our development of Shenzhen Victoria Harbour, Qingdao Azure Archipelagoes and Shenzhen Excellence Century Center. Our gearing ratio decreased slightly from 76.7% as of December 31, 2008 to 70.0% as of June 30, 2009 due to the increase in our cash and cash equivalents. We monitor our indebtedness level generally through monthly review of our management accounts including balance sheets, income statements and cash flow statements to assess our financial condition and keep our leverage at a reasonable level in light of the cost of capital, business opportunities and market conditions at the time. We believe that our gearing ratio of 70.0% as of June 30, 2009, although higher than the previous years, is reasonable for a company of our size and development stage.

Contingent Liabilities

We make arrangements with various PRC banks to provide mortgage facilities to purchasers of our pre-sold properties. In accordance with market practice, we are required to provide guarantees to these banks in respect of mortgages provided to our customers. Guarantees for mortgages on pre-sold residential properties are generally discharged at the earlier of: (i) the submission of property ownership certificates to the mortgagee banks, or (ii) the payment of the total amount of mortgages by purchasers. If a purchaser defaults on the mortgage loan, we are typically required to repurchase the underlying property by paying off the mortgage loan. If we fail to do so, the mortgagee banks will auction the underlying property and recover the balance from us if the outstanding loan amount exceeds the net foreclosure sale proceeds. In line with industry practice, we do not conduct independent credit checks on our customers but rely on the credit checks conducted by the mortgagee banks. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our outstanding guarantees for mortgage loans of the purchasers of our pre-sold properties were approximately Rmb 908.2 million, Rmb 606.5 million, Rmb 533.4 million and Rmb 1,287.7 million, respectively. During the Track Record Period, we did not encounter any material mortgage loan defaults.

Except as disclosed above, as of the Latest Practicable Date, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, charged, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

We confirm that, other than disclosed in this document, there has been no material change in our indebtedness or contingent liabilities since June 30, 2009.

Capital Expenditures and Commitments

We incurred capital expenditures of Rmb 354.0 million, Rmb 13.9 million, Rmb 17.6 million and Rmb 0.9 million in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. We had no significant capital commitments as of December 31, 2006, 2007 and 2008 and June 30, 2009.

Our capital expenditures in 2006 primarily consisted of Rmb 330.2 million for acquiring operating rights in Guangzhou Diwang and the goodwill of Rmb 0.3 million associated with the acquisition of 90% equity interest in Guangzhou Guixin, Rmb 16.1 million of goodwill arising from the acquisition of additional 60% equity interest in Excellence Century City, and Rmb 7.4 million for acquiring additional fixed assets. Our capital expenditure for 2007 was Rmb 13.9 million, most of which was for the acquisition of fixed assets including motor vehicles, office furniture and equipment. Our capital expenditures in 2008 primarily consisted of approximately Rmb 17.6 million for acquiring the goodwill of Rmb 7.9 million associated with the acquisition of 70% equity interest in Hangzhou Hengxing and the fixed assets of Rmb 9.7 million including motor vehicles, office furniture and equipment. Our capital expenditures in the six months ended June 30, 2009 primarily consisted of approximately Rmb 0.9 million for acquiring fixed assets.

As a property developer, we need funds primarily for acquisition of land and construction of our properties. By contrast, the amount of our capital expenditures, which mainly involve acquisition of project operating rights, goodwill, motor vehicles, office furniture and equipment, is relatively limited. We currently do not have any specific capital expenditure plan and expect to incur capital expenditures in the future in line with our operations and business expansions.

Lease Payments

Our future aggregate minimum lease payments under non-cancellable operating leases in respect of properties are as follows:

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(Rmb in thousands)			
Not later than one year	1,041	653	1,661	1,412
Later than one year and not later than five years	40	173	2,982	2,400
Later than five years	—	—	—	—
Total	1,081	826	4,643	3,812

OFF-BALANCE SHEET ARRANGEMENTS

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

MARKET RISKS

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

Interest Rate Risk

We are exposed to interest rate risks, primarily relating to our bank borrowings, which totaled Rmb 2,623.0 million, Rmb 5,142.9 million, Rmb 5,720.4 million and Rmb 6,276.1 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. We undertake debt obligations to support our property development and general working capital needs. Upward fluctuations in interest rates increase the cost of our financing. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations. The benchmark one-year lending rate published by the PBOC effective as of December 31, 2006, 2007 and 2008 was 6.12%, 7.47% and 5.31%, respectively. We do not currently use any derivative instruments to modify the nature of our debt to manage our interest rate risk.

Commodity Risk

We are exposed to fluctuations in the prices of raw materials for our property developments, including primarily steel and cement. Such purchase costs are generally accounted for as part of the contractor fees pursuant to our arrangements with our construction contractors. Accordingly, rising prices for construction materials will affect our construction costs in the forms of increased fees payable to our contractors and suppliers. As a result, fluctuations in the prices of construction materials have a significant impact on our results of operations.

Foreign Exchange Risk

All of our revenues and expenses are denominated in Renminbi, and therefore, we have not had exposure to foreign exchange rate fluctuations. Subsequent to this [●], a depreciation of Renminbi would adversely affect the value of any dividends we pay to our offshore shareholders. We currently do not engage in hedging activities designed or intended to manage such currency risk. Also see the section entitled "Risk Factors — Risks Relating to China — Fluctuations in the value of Renminbi will affect the value of, and dividends payable on, our Shares in foreign currency terms and affect the amount of our foreign debt service in Renminbi terms" in this document.

Inflation

China has not experienced significant inflation or deflation in recent years. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 1.5% in 2006, 4.8% in 2007, and 5.9% in 2008, respectively. Recent inflation and deflation have not materially affected our business. Deflation could negatively affect our business as it might be a disincentive for prospective property purchasers to make a purchase.

DIVIDENDS AND DISTRIBUTABLE RESERVES

In accordance with PRC laws and our Articles of Association, appropriations to the statutory surplus reserve and statutory public welfare fund should be based on the profits after taxation and minority interests. The amount of profits available for distribution to our shareholders is determined based on the lower of post-appropriated profits determined in accordance with PRC accounting standards and financial regulations, or HKFRS.

Declaration of dividends is proposed by our Board of Directors. Our Board of Directors has the authority to decide whether to propose the declaration of dividends for any year and, if they decide to propose the declaration of dividends, how much dividend to declare. Any dividends, if declared, are distributed in Renminbi with respect to our Shares on a per Share basis and will be paid in Hong Kong Dollar. The declaration of dividends is subject to the approval by our shareholders, and the amounts of dividends actually declared and paid will also depend on the following factors:

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

On October 17, 2009, we declared a special dividend of Rmb 400 million to our existing shareholders as of that date, being Sparkle Century and Broad Ocean. Before the completion of the [●], such special dividend will be fully settled out of our internally generated cash flow. Based on the estimated net proceeds from the [●], our cash on hand and available banking facilities, and our future cash flows from operations, and taking into account the distribution of this special dividend of Rmb 400 million, we are of the opinion that we have sufficient working capital for our present requirements and for the next 12 months from the date of this document. Our past dividend payment history is not, and should not be taken as, an indication of our potential future practice on dividend payments. There is no assurance that dividends of any amount will be declared or distributed in any year.

Distributable Reserves

As of June 30, 2009, our reserves available for distribution to our equity holders amounted to approximately Rmb 1,645.7 million.

NO MATERIAL ADVERSE CHANGE

We confirm that there has not been any material adverse change in our financial or trading position since June 30, 2009.