RISK FACTORS

RISKS RELATING TO OUR BUSINESS

Our financial results for each of the three financial years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 included the changes in fair value of investment properties and our results may fluctuate due to such changes in the fair value of our investment properties.

We reassess the fair value of our investment properties at every reported statement of financial position date based on the market value for which the property could be exchanged between knowledgeable and willing parties in an arm’s-length transaction. For the financial years ended December 31, 2006, 2007 and 2008 and for the six months ended June 30, 2009, we had revaluation surplus on our investment properties representing 57.3%, 62.8%, 25.8% and 26.4%, respectively, of the net profit attributable to equity holders of the Company for the respective period after taking into account relevant deferred income tax and minority interests. During the Track Record Period, the Group has recorded upward fair value adjustments on investment properties that amounted to approximately RMB482.2 million, RMB901.1 million, RMB125.1 million and RMB561.0 million, respectively, in its combined statements of comprehensive income. According to IAS 40, the International Accounting Standard for investment properties issued by the IASB, investment properties may be recognized by using either the fair value model or the cost model. The directors have selected the fair value model to report the value of investment properties because they are of the view that periodic fair value adjustments in accordance with the then prevailing market conditions, irrespective of whether such market trend moves upwards or downwards, should be recorded so that the Group’s financial statements present a more updated picture of the fair value of the Group’s investment properties. However, an upward change in the fair value, which reflects unrealized capital gain of the Group’s investment properties at the relevant statement of financial position dates and not profit generated from day to day rentals of the investment properties of the Group, are largely dependent on the prevailing property markets and do not generate cash inflow to the Group for dividend distribution to Shareholders until such investment properties are disposed of. Moreover, prospective investors should be aware that property values are subject to market fluctuation and there can be no assurance that the Group will continue to record an upward change in the fair value of investment properties in the future. Should there be any material downward change in the fair value of the Group’s investment properties in the future, the Group’s results may be adversely affected.

We are heavily dependent on the performance of the PRC property market, particularly in Chongqing, Chengdu, Beijing, Shanghai and Xi’an. Any market downturn or implementation of government regulations or control measures affecting medium to high-end properties in the PRC may have an adverse impact on us.

Although we have been pursuing and will continue to pursue opportunities in different regions of the PRC, as of August 31, 2009, our projects were primarily located in six cities, namely, Chongqing, Chengdu, Beijing, Shanghai, Xi’an and Wuxi. We entered the markets of Shenyang and Changzhou in September 2009 and October 2009, respectively. As such, our business is heavily affected by the state of the PRC property market, particularly in the cities where we operate. Over the two years before the global economic crisis in the second half of 2008, the PRC Government had announced a series of measures designed to slow down the rapid economic growth of certain sectors of the PRC economy, including the property market, to a more sustainable level. Even though in the past year the PRC Government has relaxed some of these measures, announced a series of policies and measures to cope with the global economic crisis and to assist PRC real property developers to weather the impact of the crisis, there is no assurance that the PRC Government will continue to implement the same policies. Any economic adjustment aiming to regulate the pace of economic growth in China may affect the real estate markets where we operate.

We focus primarily on the medium to high-end sector of property markets in the PRC. As the future demand for different types of properties in the PRC is uncertain, any change in customer preferences and market conditions may adversely affect our financial condition if we fail to respond to such changes in a timely manner. Any adverse development in the supply of or demand for properties and any measures that the PRC Government may take in restricting the growth of the property market in the PRC, particularly in the cities where our projects are located, may adversely affect our financial condition and operational performance. For example, our main sources of land for development are public tender, auction or listing for sale. Any change in the regulations or policies related to such processes, or our ability to participate in any such processes, may materially and adversely affect our financial condition and results of our operations.

Our operations could be affected by the global economic crisis and the slowdown in world markets.

The recent economic crisis has caused a slowdown in world markets. As financial institutions, companies, investors and consumers attempt to retrench in an effort to reduce exposure, save capital and weather the economic contraction, the demand for and hence value of real estate and the supply of credit have decreased. Any economic slowdown could affect our property investment and property development projects. In addition, banks in the PRC have been tightening credit in recent months after extensive lending in the first half of 2009. This may cause an increase in the interest expense on our bank borrowings, or banks may reduce the amount of, or discontinue, banking facilities currently available to us.

It is difficult to determine the likely impact of the global financial crisis on the real estate industry in China due to its unprecedented nature. The crisis has affected and will continue to affect the domestic economy in the PRC, as a substantial portion of China’s GDP is derived from exports to the United States and other countries more directly impacted by the current slowdown. While the PRC Government and governments around the world have taken actions to address this financial crisis, we cannot assure you that such actions will have the intended effects. Notwithstanding that some economists believe that the United States is on the verge of an economic recovery and that GDP of China for the second quarter of 2009 will surpass general economists’ expectations, there is no assurance that any economic recovery is sustainable or that the earlier economic crisis and slowdown have come to an end. If market conditions deteriorate or market downturn occurs and becomes more severe, longer lasting or broader than expected, we could face a material loss of revenue and shareholder value and our business prospects could be materially and adversely affected.

Our future growth depends on our ability to develop our business in other areas of the PRC.

A substantial portion of our revenue during the Track Record Period was derived principally from the sale of properties in Chongqing, Chengdu, Beijing, Shanghai and Xi’an. We expanded into the markets of Chengdu and Beijing in 2005, Shanghai and Xi’an in 2007, and Wuxi, Shenyang and Changzhou in 2009. Our business is expanding and we continue to seek development opportunities in selected regions in the PRC where we see a potential for growth. However, our experience as primarily a residential property developer in Chongqing, Chengdu and Beijing may not be applicable in other regions. When we enter new markets, we may face intense competition from local developers with established experience or presence in those markets, and from other developers with similar expansion plans. In addition, expansion or acquisition requires a significant amount of capital investment and human resources, and may divert the resources and time of our management. We may not be able to hire or train sufficient talent to manage our operations in new markets. Our possible inability to manage and integrate new projects and businesses may affect our operating efficiency. The possible failure of our expansion plans may adversely affect our business, financial condition, operational performance and future prospects.

Our business relies on the availability of suitable land sites at commercially acceptable prices and our ability to identify and acquire suitable sites for future development.

Our revenue is dependent upon our ability to identify and acquire suitable sites at affordable prices and our ability to sell our projects. Our revenue is mainly derived from the sale of properties that we have developed. 94.8%, 95.3%, 94.2% and 97.3% of our revenue for the financial years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively, were generated from the sale of properties. We need to build up our land reserve in order to grow our business and we may incur significant costs in identifying, evaluating and acquiring suitable new sites for future development. Our future growth prospects and operational performance may be adversely affected should we fail to identify and acquire sufficient and appropriate new sites for development at commercially acceptable prices so as to achieve reasonable returns upon sale or lease to our customers.

The PRC Government's policies on land supply may affect our land acquisition costs and our ability to acquire land use rights for future developments. The PRC Government controls land supply and regulates the ways in which property developers obtain land for property development. In July 2002, regulations were introduced to require land use rights for residential and commercial property developments be granted by public tender, auction or listing for bidding effective from July 1, 2002. In addition, the PRC Government may limit the supply of land available for commodity housing development in the PRC generally or in cities in which we conduct or intend to conduct business. For example, on May 30, 2006, the Ministry of Land and Resources announced that the overall land supply for low density, large sized housing would be restricted and, in particular, the supply of new land for villa projects would be discontinued. When supplying residential land, the minimum plot ratios, the number of residential units on unit land area and the model of residential constructions shall be indicated in the land use right grant contracts or land transfer certificates, so as to ensure that no less than 70% of the residential land shall be used for the construction of low rental housing, economic housing, restricted price housing and medium and small ordinary commodity housing of under 90 sq.m. Financial institutions should be cautious in extending loans and approving financings for enterprises, the real estate projects of which have exceeded one full year from the construction commencement dates as agreed in the land use right grant contracts, and which have completed development of less than 1/3 of the total land area to be developed or which have invested less than 1/4 of any given building's total investment directly in the construction of the building, and should also strictly control loan extensions and rolling credit. Such measures and any other similar measures in the future may limit our ability to develop a wide variety of products in our future property developments. Changes in government policy which reduce land supply for our future projects and failure in tendering for land may materially and adversely affect our future financial conditions and operational performance.

Our business is capital intensive. We had negative operating cashflow for the financial years 2006 and 2008 and may not be able to obtain sufficient funding for our business expansion.

Property development usually requires substantial capital outlay during the construction period and it is not unusual for a property developer to generate negative operating cashflow over a particular period when the cash outlay for land acquisition and construction expenditures (as reflected by the increase in the number of properties under development) during that period, after offsetting changes in other working capital items, exceeds the cash inflow from property sales over the same period.

The Company experienced negative operating cash flow during the financial years ended December 31, 2006 and December 31, 2008 because the Group had been growing its land bank as reflected by the increase in the number of properties under development during those periods. In 2007 and for the six months ended June 30, 2009, the Company generated substantial positive operating cash flow as some of the Company's investments began to bear fruits. During the Track Record Period, the negative cash flow was properly funded by the Group's internal resources and external financing means. For further information, please refer to the section headed "Financial Information — Cash Flows from the Operating Activities". We cannot assure you that we will not experience negative cash flow in the future or that external financing means will be available for funding any of such negative operating cash flow.

We require funding to expand our business in acquiring land and in developing our property development projects. Our property development projects are generally funded through bank loans, shareholders' contributions and internally generated funds. Our PRC subsidiary, Chongqing Longhu Development, raised gross proceeds of RMB1.4 billion in May 2009 by issuing the RMB Bonds, to fund our development projects in Chongqing and Chengdu. As of June 30 2009, our aggregate borrowings were RMB12,498.0 million. For further information on our indebtedness, please refer to the sections headed "Financial Information — Liquidity and Capital Resources — Indebtedness" and "Financial Information — Liquidity and Capital Resources — Contingent Liabilities". We expect to continue to fund our projects through such sources. We cannot assure you that additional financing can always be obtained on satisfactory or commercially acceptable terms, or at all.

A number of factors such as general economic conditions, our financial strength and performance, credit availability from financial institutions and monetary policies in the PRC may affect our ability to obtain adequate financing for our projects on favourable terms and to achieve a reasonable return on such projects.

According to guidelines issued by the CBRC, commercial banks are prohibited from offering loans to projects that have less than 35% of capital funds (proprietary interests), or that fail to obtain State-owned Land Use Rights Certificates, Planning Permit for Construction Land, Planning Permit for Construction Works and Permit for Commencement of Construction Works. On May 25, 2009, the State Council issued the Circular on Adjusting the Capital Ratio of Fixed-assets Investment Projects «國務院關於調整固定資產投資項目資本金比例的通知», which altered the capital ratio for welfare residential premises and ordinary commodity residential premises to not less than 20%, and the capital ratio for other types of property development to not less than 30%.

As one of the PRC Government's economic adjustment measures to cool down an increasingly overheated PRC economy, before the global economic crisis in the second half of 2008, the PBOC had increased the reserve requirement ratio (i.e., the amount of funds that banks must hold in reserve against deposits made by their customers) for commercial banks from 13% to 17.5% over the period from November, 2007 to June, 2008. As one of the PRC Government's economic stimulus package, the PBOC lowered the reserve requirement ratio for commercial banks (excluding the Industry and Commerce Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communication and Postal Savings Bank of China) by 1% from 17.5% to 16.5% with effect from September 25, 2008, and further lowered 0.5% for all financial institutions on October 15, 2008, and again on December 5, 2008, further lowered 1% for large financial institutions (including the Industry and Commerce Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communication and Postal Savings Bank of China), and from 16% to 14% for medium and small financial institutions.

Notwithstanding the above stimulus policies of the PRC Government, there can be no assurance that the PRC Government will continue to implement such policies. If the PRC economy is perceived to be overheated and measures are adopted to cool down the economy by limiting the amount that commercial banks can make available for lending, our ability to obtain such financing from commercial banks may be adversely affected.

Our revenue depends on the availability of mortgages to our prospective customers and their ability to procure mortgages.

Many of our customers rely on mortgages to finance their property purchases. A number of factors that are beyond our control may affect the market for and the availability of mortgages in the PRC.

Interest rates in the PRC had been relatively stable during the past decade. However, from October 2004 to December 2007, the PBOC took a series of actions to cool down the then overheated PRC economy by, among other things, raising its benchmark interest rates. On October 28, 2004, the PBOC raised both its benchmark lending and deposit interest rates to 5.58% for one-year Renminbi loans and 2.25% for one-year deposits. The PBOC also abolished the upper limit on Renminbi lending rates and permitted banks to offer deposit rates below the PBOC benchmark rate. In March 2005, the PBOC cancelled the preferential mortgage loan rate for individuals and restricted the minimum mortgage loan rate to 0.9 times of the benchmark lending rate. The PBOC further raised its benchmark lending interest rates for one-year Renminbi loans to 7.29% on September 15, 2007 and to 7.47% on December 21, 2007. Even though the PBOC then subsequently lowered the benchmark one-year lending rate for Renminbi loans to 5.31% on December 23, 2008 and also permitted banks to offer deposit rates below the PBOC benchmark deposit rate, there is no assurance that the PBOC will not raise the benchmark rates in the future. Any increase in interest rates will decrease the affordability and attractiveness of mortgage financing to our customers, and this may in turn affect demand for our properties.

In addition, the PRC Government and commercial banks may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. The CBRC issued a regulation on August 30, 2004 to limit mortgage loans on properties to 80% of the sale price of the underlying properties. On March 16, 2005, the PBOC set forth the minimum property mortgage loan rates, each of which is 0.9 times the corresponding benchmark lending rates. As a result, for example, the minimum rate for property mortgages with a term of over five years was increased to 5.51%. In May 2006, the PRC Government increased the minimum amount of down payment to 30% of the purchase price of the underlying property if such property has a GFA of 90 sq.m. or more. However, if individual purchasers purchase apartments with a GFA of 90 sq.m. or less for residential purposes, the existing requirement of 20% of the purchase price as down payment remains unchanged. In addition, in September 2007, the PBOC and the CBRC jointly issued the "Notice on Strengthening the Administration of Commercial Real Estate Credit Loans" (《關於加強商業性房地產信貸管理的通知》) to increase the minimum amount of down payment to 40% of the purchase price of the underlying property and the interest rate of mortgage loans to 110% of the benchmark rate promulgated by the PBOC for residential property purchasers who already have outstanding residential mortgage loans for the first residential property they purchased. Chinese banks are prohibited from making additional loans based on the increased value of the underlying property prior to the full repayment of existing loan.

On December 5, 2007, the PBOC and the CBRC jointly issued the "Supplementary Notice regarding Enhancing Credit Management in Commerical Real Estates" (Yin Fa [2007] No. 452) (關於加強商業性房地產信貸管理的補充通知), which created supplementary requirements for the relevant situations in the "Strict Management on Housing Consumption Loans" under section 3 of the "Notice on Strengthening the Administration of Commercial Real Estate Credit Loans (關於加強商業性房地產信貸管理的通知)" jointly issued by the PBOC and the CBRC on September 27, 2007, specifying that the recognized unit for repeated housing loans shall be the family of the borrower (including the borrower, spouse and minor children), and requiring that, for families which have utilized bank loans to purchase their first home, if the per capita dwelling area is lower than the local average level, and if the family is making further application to commercial banks for housing loans, the application may be treated with the interest rate policy used for first home loans.

In addition, we provide guarantees to banks for the mortgages they offer to our customers. If there are changes in laws, regulations, policies and practices that would prohibit property developers from providing such guarantees, and if these banks would not accept any alternative guarantees by other third parties, or if no third party is available in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks during pre-sales.

Any disruption to, or change in, the banking sector in the PRC that affects our customers' ability to obtain mortgages, or our ability to provide guarantees to such mortgages, may adversely affect our liquidity and operational performance. Although we are not aware of any such impending changes in laws, regulations, policies or practices, we cannot assure you that such changes will not occur in the future.

We guarantee the mortgages provided by financial institutions to our purchasers and, consequently, we are liable to the mortgagees if our purchasers default.

We arrange for various banks to provide mortgage services to the purchasers of our properties. In accordance with market practice, domestic banks require us to provide guarantees in respect of these mortgages. We generally provide guarantees until the purchasers of our properties obtain the relevant strata-title Building Ownership Certificate (分戶產權證) and the mortgage is registered in favour of the bank. The guarantees cover the full value of mortgages that purchasers of our properties obtained to finance their purchases and in addition, any additional payment or penalty imposed by mortgagee banks for any defaults in mortgage payment by purchasers. The typical guarantee period is 24 months. We deposit with the mortgage banks an amount which typically represents less than 10% of the mortgage to which the guarantee relates. If a customer defaults on payment of its mortgage, the bank holding the mortgage may deduct the payment due from the funds that have been deposited and require that we immediately repay the entire outstanding balance pursuant to the guarantee. Upon satisfaction of our obligations under the guarantee, the mortgagee bank would then assign its rights under the loan and the mortgage to us and we would have full recourse to the property.

We rely on credit checks conducted by the mortgagee banks on our customers and do not conduct our own credit checks. We have in the past experienced a number of cases of defaults by our customers of their mortgage loans, although, as at the Latest Practicable Date, we are not aware of any default by our customers which have resulted in any bank foreclosure of any mortgaged properties. For the financial years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our outstanding guarantees over the mortgage loans of our customers amounted to approximately RMB686.2 million, RMB1,609.3 million, RMB2,204.7 million and RMB1,847.0 million, respectively. As of December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, defaults in relation to the mortgage loans taken out by our customers and secured by our guarantees amounted to approximately RMB280,000, RMB258,000, RMB241,000 and RMB210,000, respectively. We cannot assure you that the purchaser default rate will not increase in the future. If a significant amount of our guarantees are called upon at the same time or in close succession, our operational performance and financial condition may be materially and adversely affected to the extent that there is a material depreciation in the value of the relevant properties from the price paid by the customers or that we cannot sell such properties due to unfavourable market conditions or other reasons.

We generate revenue principally from the sale of properties which in turn depends on the schedule of development of our property projects. Our operational performance may therefore vary significantly from period to period.

At present, we derive our revenue principally from the sale of properties that we have developed and derive a relatively small portion from returns on investment properties including leasing income and property management fees. For the financial year ended December 31, 2008, we generated approximately 94.2% of our revenue from the sale of properties and 5.8% from leasing income and property management fees.

Our operational performance may fluctuate due to factors such as the schedule of development of our property projects, the level of acceptance of our properties by prospective customers, the timing of the sale of properties that we have developed and any fluctuation in expenses such as land costs and construction costs. Any delay in or failure to obtain the relevant necessary PRC governmental approvals or permits for any of our development projects may delay the time for completing such property development and this may adversely affect our operational performance. Please refer to the paragraph headed "Our business, operational performance and financial condition may be adversely affected if we fail to obtain, or there is any material delay in obtaining, any of the relevant PRC governmental approvals for our development projects" below in this section.

Furthermore, we recognize revenue from a sale of property only upon the completion and delivery of the property to the buyer, which is when we believe the significant risks and rewards of ownership are transferred to the buyer. For further details, please refer to the section headed "Financial Information — Critical Accounting Policies — Revenue Recognition". Since the completion and delivery of our properties varies according to our construction timetable, our revenue and results of operations may vary significantly from period to period depending on the timing of the completion and delivery of our projects. In light of the above, our period-to-period comparisons of results of operations and cash flow positions discussed in "Financial Information" may not be consistent with each other or with future periods and may not be as meaningful as they would be for a company with a greater proportion of recurring revenues. Furthermore, the completion and delivery of any project development may be adversely affected by a combination of factors, including adverse weather conditions, delays in obtaining requisite permits and approvals from relevant government authorities, as well as other factors beyond our control. Any of these factors may affect the timing of completion and delivery of our projects, as well as our cash flow position and recognition of revenue from our projects, thus adversely affecting our financial condition.

Due to capital requirements for acquiring land and for construction and due to limited supply of land and the time required for completing a project, we can only undertake a limited number of property development projects at any one time. Any delay in the schedule of completion of our property development may materially and adversely affect our financial condition and operational performance. If our operational performance in one or more periods does not meet market expectations, the price of our Shares could be adversely affected.

We rely on external contractors for the construction of our property development projects. Our operational performance and financial condition may be adversely affected by the breach of their contractual obligations.

We engage external contractors to provide various services, including the construction of our property development projects. We select external contractors through competitive bids and also through our assessment of their capabilities and their reputation for quality and price. Completion of our projects is subject to the performance of these external contractors of their obligations under contracts entered with us, including the pre-agreed schedule for completion, and we cannot assure you that the services rendered by any of these external contractors will always be satisfactory or match our requirements for quality. If the performance of any external contractor is unsatisfactory, or they are in breach of their contractual obligations, we may need to replace such contractor or take other actions to remedy the situation, which could materially and adversely affect the cost and construction progress of our projects. The completion of our property developments may be delayed, and we may incur additional costs due to a contractor's financial or other difficulties. Any of these factors may have a material adverse effect on our operations and financial condition.

If our provisions for LAT prove to be insufficient, our financial results would be adversely affected.

Our properties developed for sale are subject to LAT collectible by the local tax authorities. Under PRC tax laws and regulations, all income derived from the sale or transfer of land use rights, buildings and their ancillary facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value. LAT is calculated based on proceeds received from the sale of properties less deductible expenditures as provided in the relevant tax laws. According to the Provisional Regulations of the People's Republic of China on Land Appreciation Tax《中華人民共和國土地增值税暫行條例》, sales of ordinary residential properties (that is, residential properties built in accordance with the local standard for general civilian residential properties, excluding buildings such as deluxe apartments, villas and resorts which are not under the category of ordinary standard residential properties) may be exempted from LAT where the appreciation of land value does not exceed 20% of the total deductible items including acquisition cost of land use rights, development cost of land and construction cost of new buildings and facilities or assessed value for used properties and buildings as provided in the relevant tax laws. Pursuant to the Detailed

Rules for the Implementation of Provisional Regulations of the People's Republic of China on Land Appreciation Tax《中華人民共和國土地增值稅暫行條例實施細則》for property developers, an additional 20% of deductible expenses including the sum paid for acquiring land use rights and costs for developing land and constructing new buildings and facilities may be deducted in calculating land appreciation amount. There are, however, no exemptions for sales of commercial properties.

We make provisions for the full amount of applicable LAT in accordance with the relevant PRC tax laws and regulations from time to time pending settlement of the same with the relevant tax authorities. As we often develop our projects in phases, deductible items for calculation of LAT, such as land costs, are apportioned amongst such different phases of development. Provisions for LAT are made on our own estimates based on, among others, our own apportionment of deductible expenses which is subject to final confirmation by the relevant tax authorities upon settlement of the LAT. We believe that our overall provisions for LAT are sufficient. However, given the time gap between the point at which we make provision for and the point at which we settle the full amount of LAT payable, the relevant tax authorities may not necessarily agree with our own apportionment of deductible expenses or other bases on which we calculate LAT. Hence, our LAT expenses as recorded in our financial statements of a particular period may require subsequent adjustments. If we substantially underestimated LAT for a particular period, a payment of the overdue LAT we owe to the tax authorities could adversely affect our financial results for a subsequent period.

We are financially dependent on distributions of dividends from our subsidiaries. Any changes in PRC policies on dividend distributions and enterprise income tax may adversely affect our ability in paying dividends and financial condition.

We are an investment holding company incorporated in the Cayman Islands and we conduct our core business operations through our subsidiaries and associated companies in the PRC, Hong Kong and the BVI. We are financially dependent on dividends received from these subsidiaries and associated companies to enable us to pay dividends to our Shareholders and to service the Company's indebtedness. Therefore, we may face difficulties should our subsidiaries and associated companies incur debt or losses affecting their ability to pay us dividends and other distributions.

According to the PRC regulations, our subsidiaries may distribute their after-tax profits, as determined in accordance with the PRC accounting principles (which differ in many aspects from the generally accepted accounting principles in other jurisdictions), to their shareholders according to their capital contribution only after they have made appropriate contributions to the relevant statutory reserves. Furthermore, we or our subsidiaries and associated companies may enter into certain agreements such as bank credit facilities and joint venture agreements which may contain restrictive covenants restricting our subsidiaries and associated companies' ability in making contributions to us and thereby restricting our ability in receiving distributions. These factors may affect our ability in paying dividends to our Shareholders and in servicing the Company's indebtedness, which could materially and adversely affect our business, operational performance and financial condition.

Our subsidiaries are incorporated in the PRC, Hong Kong, or the BVI. On March 16, 2007, the new PRC Enterprise Income Tax Law ("New Income Tax Law") was issued and on December 6, 2007, the Rules on the Implementation of Enterprise Income Tax Law of the PRC ("Rules on the Implementation") were issued, both of which became effective on January 1, 2008. Under the New Income Tax Law and the Rules on the Implementation, enterprises established under the laws of or within the territory of the PRC, or established under the laws of a foreign country (region), but whose "de facto management body" is located in the PRC are treated as resident enterprises for PRC tax purposes. It is currently unclear in which situations a non-PRC enterprise's "de facto management body" is located in the PRC. Substantially all of our management is currently based in the PRC. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which may, unless otherwise provided in the New Income Tax Law, include any dividend income we receive from our subsidiaries. Although the New Income Tax Law provides that dividend income between qualified resident enterprises is exempted income, it is not clear what is considered as a qualified resident enterprise under the New Income Tax Law. If we are required under the New Income Tax Law to pay PRC income tax with respect to any dividends we receive from our subsidiaries, it will materially and adversely affect the amount of dividends we may pay to the Shareholders.

Furthermore, the New Income Tax Law and the Rules on the Implementation provide that withholding tax at a rate of 10% will normally apply to dividends payable to non-PRC investors which are derived from sources within the PRC. Moreover, any gain realized on the transfer of shares by investors is also subject to 10% tax if such gain is regarded as income derived from sources within the PRC. We are a Cayman Islands holding company and substantially all of our income may come from dividends we receive from our subsidiaries, primarily those located in the PRC. If we declare dividends from such income, it is unclear whether any dividends we pay or whether any gain our non-PRC shareholders realize from the transfer of our ordinary shares would be treated as PRC-sourced income subject to PRC withholding tax at a rate of 10%. If we are required under the New Income Tax Law to withhold PRC income tax on our dividends payable to our non-PRC shareholders, or if non-PRC shareholders are required to pay PRC income tax on the transfer of their ordinary shares, the value of their investment may be materially reduced.

Furthermore, the Notice of the State Administration of Taxation on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of "de facto management body"(Guo shuifa No.82[2009])(《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) currently in force has only clarified the conditions under which a foreign company whose majority shareholder is a Chinese enterprise or a group of Chinese enterprises would be considered as a PRC tax resident enterprise that has its "de facto management body" located in the PRC. However, the relevant PRC tax rules have not clarified whether and under what conditions a foreign company whose majority shareholders are PRC individuals may also be considered as a PRC tax resident enterprise having its "de facto management body" located in the PRC, and currently, it is uncertain whether the PRC local tax authority will make such determination. As of the date hereof, the PRC local tax authorities have not certified our Company as a PRC tax resident enterprise. However, we cannot assure you that our Company will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in which case the tax consequences described above may apply.

Our engagement as the provider of property management services may be terminated by property owners at their discretion.

We provide post-sales property management services to the owners of all of our residential and commercial projects that we have developed through our property management subsidiaries. We believe that property management is an integral part of our business and is critical to the successful marketing and promotion of our property developments. Under the PRC laws and regulations as of the Latest Practicable Date, owners have a right to change a property management company if owners together holding exclusive parts within the managed area representing more than half of the total area of buildings and owners representing more than half of the total number of owners agree. If homeowners of the projects that we have developed choose to terminate our property management services, or if property buyers dislike our property management services, our revenue and our reputation may be adversely affected.

We have entered into two letters of intent and a framework agreement with local governments in the PRC, and the land developments contemplated under such letters of intent and framework agreement may not be implemented.

As of the Latest Practicable Date, we have entered into two letters of intent and a framework agreement with local governments in the PRC in respect of the development of parcels of land with total site areas of approximately 1,333,333 sq.m, 492,000 sq.m. and 182,000 sq.m. in Qingdao, Changzhou and Hangzhou, respectively. Pursuant to such letters of intent and framework agreement, we and the relevant local governments agreed to co-operate in the development of the relevant parcels of land whereby the local governments will attend to the preparatory work for the tender, auction or listing for sale of the lands and we will participate in such tender, auction or listing for sale process and, if we succeed in our bid and acquire the land, develop the land. In spite of such letters of intent and framework agreement, we expect to go through the public tender, auction or listing for bidding process, and if we succeed in our bid, enter into a land grant contract and pay the relevant land premium as required by the relevant laws and regulations in order to obtain the title to the land.

We cannot assure you that there will not be changes to the manner of implementation of the letters of intent and framework agreement we have entered into. We cannot assure you that that we will succeed in the relevant tenders, auctions or listings for sale or in securing the land grant contracts and obtaining the titles in respect of such lands and that the development plans contemplated under such letters of intent and framework agreement will be implemented.

If we fail to develop land according to the land use right grant terms, our land use right may be subject to repossession by the PRC Government.

Under PRC law, if a developer fails to develop land in accordance with the terms of the relevant land use right granting contract (including those relating to payment of fees, designated use of the land and time for commencement and completion of the development), the relevant government authorities may issue a warning to or impose a penalty on the developer or in the worst case scenario, resume possession of the land. On January 3, 2008, the State Council issued the “Notice on Promoting Land Saving and Intensive Use of Land” (Guo Fa [2008] No. 3), which emphasized the strict implementation of the policy for handling idle land. According to this notice, land which has laid idle for two years and which should be repossessed pursuant to the laws, shall be repossessed by the government at no consideration for reuse; for land which does not meet all the legal requirements for repossession, their use shall be altered, or the idle land shall be exchanged for another piece of land of equal value, or it shall be temporarily used for alternative purposes or be treated as government land reserve temporarily pending further consideration on its use. For land which has laid idle for one full year but less than two years, a land idle fee shall be charged at 20% of the land grant or allocation premium. In respect of idle land, a land value-added premium will be imposed. The PRC Ministry of Land and Resources is working on legislation with respect to the value-added premium with relevant government authorities. No specific rules and regulations have been promulgated by the PRC government as at the Latest Practicable Date. Accordingly, it is still unclear as to how the PRC Government will enforce its policy in relation to the land value-added premium on idle land as provided in the said notice. The PRC governmental authorities of various provinces, autonomous regions and municipalities were expected to make specific reports on the clearance and handling of idle land to the State Council before the end of June 2008. The notice also emphasizes the optimization of the structure of residential land, and continues the suspension of land supplies for villa real estate projects. For further information, please refer to the section headed "Appendix V — Summary of Principal PRC Legal and Regulatory Provisions".

We have not in the past experienced any circumstances leading to repossession of land by the relevant PRC governmental authorities. We cannot assure you, however, that circumstances leading to repossession of land or delays in completion of a property development will not arise in the future. As at the Latest Practicable Date, we have not commenced construction of Azure Chianti because the demolition and resettlement works on the land had not been completed as scheduled and agreed by the local authorities. Under the Measures on Disposing Idle Land and relevant land grant contracts, if the date for commencement of construction is later than September 30, 2009, it may lead to our obligation to pay idle land fees equal to 20% of the relevant land premiums which, according to advice given by Commerce & Finance Law Offices, our PRC legal counsel, could be a maximum of RMB99,508,320. Alternatively, in the worst case scenario, if the date for commencement of construction is later than September 30, 2010, it may lead to repossession of the land if we are unable to obtain governmental approval for any non-compliance on or before the latest date for commencement of construction. The amount of investments to be written off should the land be repossessed is approximately RMB221 million. However, based on the advice of our PRC legal counsel, the chance for the relevant PRC land bureau to regard the land as idle and impose idle land fees is relatively small as the delay in commencement of construction was due to delay by the local authorities in completing the demolition and resettlement works. For further information, please refer to "Business - Our Property Development Projects - Azure Chianti". If our land is repossessed, we will be unable to continue our property development on the repossessed land or recover the costs incurred in the initial acquisition or development of the repossessed land or such other costs incurred up to the date of repossession. In addition, in the event that the PRC Government exercises its administrative authority to revoke any land use rights granted to us, we may not be compensated for the full market value of the land and hence, our financial condition and operational performance may be materially and adversely affected.

Our business, operational performance and financial condition may be adversely affected if we fail to obtain, or if there is any material delay in obtaining, any of the relevant PRC governmental approvals for our development projects.

In developing and completing a property development, we are required to obtain various permits, licenses, certificates and other approvals including, but not limited to, the State-owned Land Use Rights Certificates (國有土地使用權證), Planning Permit for Construction Land (建設用地規劃許可證), Planning Permit for Construction Works (建設工程規劃許可證), Permit for Commencement of Construction Works (建設工程施工許可證), Pre-sale Permit for Commodity Housing (商品房預售許可證) and certificates or confirmation of completion and acceptance from the relevant administrative authorities at various stages of the development of the property project. In particular, we are required to obtain State-owned Land Use Rights Certificates before commencing any property development and such certificates would generally only be issued after certain conditions have been satisfied. Such conditions include the relevant project company having executed the State-owned Land Use Right Granting Contracts (國有土地使用權出讓合同) with the relevant authorities whereby the land use right is obtained by grant, provided we have paid the land grant premium in full and relocated the local residents from the site area if so required.

As of the Latest Practicable Date, we have signed land use right grant or transfer documents in respect of a total site area of approximately 2,759,670 sq.m. and a total gross floor area of approximately 8,705,840 sq.m. for future development purposes but have not obtained the relevant State-owned Land Use Rights Certificates. We cannot assure you that we will obtain all necessary certificates and permits for our projects in a timely manner, or at all, and we cannot assure you that we will not encounter problems in fulfilling all or any of the conditions imposed for the grant of the necessary certificates or permits, or that we will be able to expeditiously adapt to new laws, regulations or policies that may come into effect from time to time with respect to the granting of such items. There may also be significant delays in the granting of such items to us by the relevant PRC administrative bodies. If we fail to obtain, or are considered by relevant governmental authorities to have failed to obtain, or experience significant delays in obtaining, the requisite governmental approvals, penalties could be levied on us and our schedule of property development could be substantially disrupted. This could materially and adversely affect our business, financial condition and operational performance.

Failure on the part of any of our project companies to obtain or renew their qualification certificates on time or at all may adversely affect our business, operational performance and financial condition.

As property developers in the PRC, we are required to obtain a formal qualification certificate for real estate development enterprise before we conduct any property development business in the PRC. We are also required to produce a valid qualification certificate when we apply for a Pre-sale Permit for Commodity Housing (商品房預售許可證). Entities engaged in property management or interior decoration are also required to obtain qualification certifications before commencing their business. All qualification certificates are required to be renewed annually except qualification certificate in respect of property management.

According to the Provisions on Administration of Qualification Certificates of Real Estate Developers《房地產開發企業資質管理規定》(the "Provisions on Qualification Certificates"), any property developer whose business is newly established must first apply for a Temporary Qualification Certificate (暫定資質證書) with a one-year term, which can be renewed for a maximum of two years. Thereafter, the developer must apply for a formal qualification certificate under one of the four grades set out in the Provisions on Qualification Certificates. In reviewing an application for the renewal of a qualification certificate, the local authority considers the property developer's registered capital, property development investments, history of property development, quality of property construction, expertise of the developer's management, and whether the real estate developer has any illegal or improperly certified operations. For further information, please refer to the section headed "Appendix V - Summary of Principal PRC Legal and Regulatory Provisions". Our project companies are responsible for monitoring their annual renewal application. Should any of them, developing and operating the real estate business, fail to meet any requirement in obtaining its qualification certificate or surpass the approved qualification, a deadline would normally be given for meeting such requirements, and in addition there would also be a penalty of between

RMB50,000 and RMB100,000. Failure to meet the requirements within the specified timeframe could result in the revocation of the qualification certificate (if available) and the business licence of the relevant project company. We cannot assure you that the qualification certificates of any of our project companies will continue to be successfully renewed or that formal qualification certificates will be obtained in a timely manner, or at all, as and when they expire. Should any of our projects or project companies fail to obtain or renew their qualification certificates, they may be prohibited from continuing to engage in real estate development or to conduct any pre-sales for that development and this would in turn materially and adversely affect our business and financial condition.

Compliance with PRC laws and regulations regarding environmental protection or preservation of antiquities and monuments could result in substantial costs.

We are subject to extensive PRC laws and regulations concerning environmental protection and preservation of antiquities and monuments which impose fines for violation and authorizes government authorities to shut down any construction sites that fail to comply with governmental orders requiring the cessation or cure of certain activities causing environmental damage. Such laws and regulations, which apply to any given project development site, vary greatly according to the site's location, the site's environmental condition, present and former use, as well as adjoining properties. Such laws and regulations may result in delays in our completion of property development projects and may cause us to incur substantial compliance and other costs and prohibit or severely restrict project development activities in environmentally-sensitive regions or areas.

As required by PRC laws and regulations, each project we develop is required to undergo environmental assessments and the related assessment document must be submitted to the relevant government authorities for approval before commencement of construction. The local authorities may require us to submit such assessment documents and issue orders to suspend the construction and impose a penalty in the range of RMB50,000 to RMB200,000 for each of our projects that has not received the relevant environmental impact assessment approval documents before commencing construction. We cannot assure that we will be able to comply with all such requirements on environmental assessments. In the event of a suspension of construction and/or a fine is imposed as a result of any non-compliance with such requirements on our part, our financial condition may be materially and adversely affected.

To commence project development, environmental impact assessment documents must be submitted and relevant government approvals must be obtained. We cannot assure you that the local authorities will not, in the future, impose a penalty upon us if we fail to complete these steps. Any environmental liability may materially and adversely affect our financial condition and operational performance.

There is a growing awareness of environmental issues and we may sometimes be expected to meet a standard higher than the requirement under the environmental laws and regulations. We have not adopted any special environmental protection measures other than the measures generally taken in the ordinary course of business by comparable companies in our industry. There is no assurance that more stringent requirements on environmental protection will not be imposed by the relevant PRC governmental authorities in the future. If we fail to comply with existing or future environmental laws and regulations or fail to meet the expectations of the public, our reputation may be damaged or we may even be required to pay penalties or fines or take remedial actions, any of which could have a material adverse effect on our business, financial condition, and operational performance. Please refer to the section headed "Business - Environmental Matters" for a description of environmental matters.

Final GFA of any of our completed property development projects that exceeds the permitted GFA is subject to governmental approvals and may result in additional payments on our part.

The local government authorities inspect property development projects after their completion and issue Construction of Properties and Municipal Infrastructure Completed Construction Works Certified Reports (房屋建築工程和市政基礎設施工程竣工驗收備案証明) ("Completion Certificate") if the development complies with the relevant laws and regulations. If the total constructed GFA of a property development project exceeds the GFA originally authorized in the relevant land use right grant contracts or construction permit, the property developer may be required to pay additional payments before a Completion Certificate can be issued. The local government authorities may find that the total constructed GFA of our existing projects under development or any future property developments exceed the relevant authorized GFA upon completion. If we fail to obtain Completion Certificates due to such non-compliance, we are not allowed to deliver the relevant properties or recognize revenue from the relevant pre-sold properties and may also be subject to liabilities under the pre-sale contracts.

We may encounter delay in issuance and delivery of title documents after sale and such delay may in turn give rise to claims from our customers.

The sale contracts relating to our property projects are prepared in accordance with applicable legal requirements and if applicable, local regulations and practices prescribed by local governmental authorities. Under PRC laws, sale contracts must be properly registered with the relevant authorities in order for the property transfer to be effective, and the failure to so register may result in delay of the property transfer. We generally undertake to attend to all filing and registration procedures required of property developers so as to facilitate subsequent applications by our customers for issuance of strata-title Building Ownership Certificates (分戶產權證). If there are any changes in practice of the relevant government authorities or interpretation of the applicable rules and regulations, we may be under legal obligations to procure delivery of strata-title Building Ownership Certificates for our customers and we may experience delays which are beyond our control, such as time-consuming examination and approval processes at various government agencies, in completing certain deliverables. In such circumstances, we may be subject to claims from our customers for breaching the terms of the sale contracts or otherwise and our business and financial condition may be materially and adversely affected and our reputation may be damaged in the case of serious delays of one or more of our property projects.

We do not have adequate insurance to cover certain kinds of losses and claims in our operations.

We maintain what we consider are commercially adequate levels of insurance against certain risks, such as insuring our projects under development against damage and destruction by fire, flood, lightning, explosions and other hazards during construction periods and insuring our assets against certain natural disasters. We also maintain third party liability insurance and profit insurance protecting us against unexpected profit declines. However, we do not maintain insurance against all risks associated with our industry, either because we have deemed it commercially unfeasible to do so, or because our insurers have carved certain risks out of their standard policies. We may incur losses, damages or liabilities during any stage of our property development which are uninsured, and we may not have sufficient funds to cover the same or to rectify or replace any property or project that has been damaged or destroyed. In addition, any payments we make to cover any losses, damages or liabilities may materially and adversely affect our business, financial condition and operational performance.

Third party infringement of our intellectual property rights may damage our reputation and adversely affect our business, operational performance and financial condition. Registration in Hong Kong of certain trademarks is still pending.

We regard our copyrights, service marks, trademarks, patents, design patents, trade secrets and other intellectual property as critical to our success. Unauthorized use of our intellectual property by third parties may adversely affect our business and reputation. We rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without authorization. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Future litigation could result in substantial costs and diversion of resources.

Under Hong Kong law, a person or entity may acquire statutory protection in a trademark by registering the same with the Trade Marks Registry. As at the Latest Practicable Date, we have made one application to the Trade Marks Registry for the registration of the following trademark which is still pending (application no. 301132550):

(A) Longfor 龙湖地产

(B) Longfor 龙湖地产

(C) LongFor 龙湖地产

(D) LongFor 龍湖地產

As at the Latest Practicable Date, we are not aware of any threatened or pending claims by any third parties against the Company for use of such trademark.

However, the Trade Marks Registry issued an examination report to our application for registration of the above trademark upon the first instance of our submission of an application on the grounds that:

1) some of the marks in the application were considered not to form a series of trademarks and the said application should be divided into two separate divisional applications as follows:

(A) Longfor 龙湖地产	(A) LongFor 龙湖地产
(B) Longfor 龙湖地产	(B) LongFor 龍湖地產

and

2) there were queries by the Trade Marks Registry as to the use that the Company has made of the trademark and the variety of goods and services in respect of which the trademark was proposed to be registered.

   In response to such queries, we have applied to divide the original application into two separate divisional applications and made subsequent submissions to the Trade Marks Registry in respect of their queries. We have received legal advice that there is a good chance that we can successfully register the said trademarks.

However, we cannot assure you that such pending application(s) will be approved by the Trade Marks Registry, and the Group may not be granted the exclusive rights to use such mark(s) as registered trademark(s) in Hong Kong. Should the Company fail to secure the registration of any of the trademarks under application or should we be held by any court or tribunal to be infringing or have infringed any trademark or intellectual property rights of others, our business operation and our general reputation may be adversely affected. An adverse ruling in any such litigation or proceedings could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or subject us to injunctions prohibiting the use of such trademarks.

We depend on our management team for our continuous development.

Our success and growth depends on our ability to identify, hire, train and retain suitably skilled and qualified employees, including management personnel with relevant professional skills. Our directors and members of senior management (see the section headed "Directors, Senior Management and Employees") are important to our success and we depend on them for our continuous business development. The loss of a significant number of our directors and senior management or Madam Wu could have a material adverse effect on our business if we are unable to find suitable replacements in a timely manner. As competition for such personnel is intense in the property sector in the PRC, any failure to recruit and retain the necessary management personnel at any time could harm our business and prospects.

The interests of our Controlling Shareholders may not align with those of our other Shareholders.

Our founders, Madam Wu and Mr. Cai, have transferred their respective controlling shareholding interests in our Group to Charm Talent and Precious Full, respectively, in contemplation of the establishment of the Wu Family Trust and the Cai Family Trust, being discretionary trusts, the beneficiaries of which include family members of, respectively, Madam Wu and Mr. Cai. The Wu Family Trust and the Cai Family Trust were duly set up on June 11, 2008. Thereupon, Charm Talent and Precious Full became our Controlling Shareholders which are in turn indirectly controlled by HSBC International Trustee as trustee of the said two trusts. Upon completion of the [●], Charm Talent and Precious Full will, in aggregate, hold approximately an 80% interest (assuming that the [●] is not exercised) in our issued share capital. Accordingly, they will be able to exert significant control and influence over our business and on matters of significance to us and other Shareholders by voting at the general meetings of Shareholders.

Notwithstanding that the Wu Family Trust and the Cai Family Trust are of discretionary nature and that HSBC International Trustee as trustee is entitled to make decisions regarding any matters relating to the trusts at its own discretion and based on its own judgement, HSBC International Trustee as trustee is bound by fiduciary duties of a trustee in making any decisions regarding corporate actions to be taken by Charm Talent and Precious Full and the interests of Charm Talent or Precious Full may not be aligned with those of the other Shareholders. There is no assurance that Charm Talent, Precious Full or HSBC International Trustee will not prevent us from taking actions or exercising our rights under agreements to which we are a party including the agreements we entered into with our founders (also as founders of the Wu Family Trust and the Cai Family Trust) or our Controlling Shareholders. When conflicts of interest arise between our founders, Controlling Shareholders and other Shareholders, our Controlling Shareholders may prevent or delay us from entering into transactions that might be desirable to other Shareholders, such as takeovers or changes in our control or management, causing loss of opportunities on the part of other Shareholders.

We cannot assure you that our Controlling Shareholders and HSBC International Trustee will act entirely in our interest or that conflicts of interest will be resolved in our favour. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders and our Controlling Shareholders are free to vote according to their interests.

Disputes with our joint venture partners may adversely affect our operations.

We have developed certain projects through joint venture with our PRC or foreign partners. We have five projects which are being developed jointly with other entities through cooperation arrangements, and are in discussions with our partners regarding other new projects. Our joint venture partners or project development partners may have economic or business interests or goals that are inconsistent with ours, take actions contrary to our instructions or requests or contrary to our policies or objectives, may be unable or unwilling to fulfill their obligations under the relevant joint venture or cooperation agreements, or have financial difficulties.

Disagreement with any of our joint venture partners or project development partners in connection with the scope or performance of our respective obligations under the project or joint venture or cooperation arrangement could affect our ability to develop or operate a property. Our joint venture partners or project development partners may be unable or unwilling to perform their obligations under the relevant agreements, including their obligation to make required capital contributions and shareholder loans, whether as a result of financial difficulties or otherwise. Our joint venture partners or project development partners may interpret the obligations of the parties under the project or joint venture or cooperation arrangement differently from us. A dispute with our joint venture partners or project development partners or the early termination of our joint venture or cooperation arrangements could adversely affect our business, financial condition and operational performance. If a situation arises in which we cannot complete a project being jointly developed with our joint venture partners or project development partners or we are required to pay a substantial sum to resolve such dispute, due to one of the above reasons or for any other reason, the rights and obligations of each party with respect to the incomplete project will be determined by the relevant joint venture or cooperation agreements. If such agreements are silent or inconclusive with regard to such rights and obligations, the resolution of any dispute may require arbitration or, failing that, litigation, which could have an adverse effect on our business, operational performance and financial condition.

The valuation attached to our property interests contains assumptions that may or may not materialize.

Under the IFRS, gains or losses arising from changes in the fair value of our investment properties are included in our combined statements of comprehensive income in the period in which they arise. According to the IFRS, investment properties can be recognized by using either the fair value model or the cost model.

Our directors have selected the fair value model to report the value of investment properties because they are of the view that periodic fair value adjustments in accordance with the then prevailing market conditions, irrespective of whether such market trend moves upwards or downwards, help present a more updated picture of the fair value of our investment properties in our financial statement. The valuation of our properties as of August 31, 2009, prepared by Savills, is detailed in the section headed "Appendix IV — Property Valuation". The valuations are based on certain assumptions which, by their nature, are subjective and uncertain and may differ materially from actual results. For example, with respect to properties under development and planned for future development, the valuations are based on assumptions that (1) the properties will be developed and completed in accordance with the development proposals, (2) regulatory and governmental approvals for the proposals have been obtained and (3) all premiums in connection with the properties have been paid and the properties are free from encumbrances and other restrictions. For properties owned by the project companies in which we have an attributable interest of less than 100%, the valuation assumes that the interest of the relevant project companies in the aggregate value of the property or business is equal to our proportionate ownership interest in the relevant company or business. Accordingly, the valuations are not a prediction of the actual value we expect to realize from these properties. Unanticipated results or changes in particular property developments, or changes in general or local economic conditions or other relevant factors, including changes in government regulations, could affect such values. In addition, valuation differences of investment properties are recognized in our combined statement of comprehensive income. Accordingly, a decrease in the value of our investment properties would reduce the amount of our net income and could result in a net loss during a particular period.

Our forecast of the net profit attributable to equity holders of the Company for the year ending December 31, 2009 will involve gains that may arise due to revaluation of our investment properties, and our profit forecast involves estimates and assumptions in this regard as well as other assumptions and estimates which may prove to be incorrect.

The profit forecast of RMB2,015 million for the year ending December 31, 2009 reflects an estimated fair value gains on our investment properties of RMB568 million (net of deferred tax effect and minority interests). The extent of any fair value gains or losses on our investment properties for the year ending December 31, 2009 depends on market conditions and other factors that are beyond our control. While we have considered for the purposes of our profit forecast what we believe is the best estimate of the fair value gains on our investment properties as of December 31, 2009, the actual amount of fair value gains or losses on investment properties as of that date may differ materially from our estimate. Furthermore, we expect the fair value of our investment properties as of December 31, 2009 to continue to be based on the valuation performed by an independent professional property valuer, involving the use of assumptions that are, by their nature, subjective and uncertain, including those described in the section headed "— The valuation attached to our property interests contains assumptions that may or may not materialize."

Certain leased properties occupied by us have defective titles.

The lessors of certain properties leased by members of our Group for office or ancillary use do not have proper title documents to the relevant properties and certain of our leases have not been registered with the relevant PRC governmental authorities. For further information, please refer to the section headed "Business — Properties For Self-Occupation". Though members of our Group have been occupying these leased premises in accordance with the terms of the relevant lease agreements, in the unlikely event that any of our Group members are required to vacate from such properties during the respective terms of their lease agreements as a result of adverse legal issues concerning the validity of such leases, the business operations of our Group members may be interrupted to the extent that a replacement premise would need to be located and another lease be entered into. However, given that such leased properties are not crucial to our operations as they are used for offices and ancillary use only, our directors believe that there will be minimal material adverse impact on the business of the Group should legal issues concerning such leased properties materialize.

RISKS RELATING TO THE PRC REAL ESTATE INDUSTRY

The PRC property market is highly regulated and subject to frequent introduction of new legislation which may adversely affect property developers.

(A) Restrictions on access to the domestic property market by overseas investors

Opinion on Regulating the Access and Management of Foreign Capital in the Property Market《關於規範房地產市場外資准入和管理的意見》

On July 11, 2006, the Opinion on Regulating the Access and Management of Foreign Capital in the Property Market《關於規範房地產市場外資准入和管理的意見》was issued to regulate access by foreign investors to the domestic property market and to strengthen management of property purchases by foreign invested enterprises. It imposes, among other things, stricter standards on foreign institutions or individuals in purchasing properties for purposes other than for personal use.

Our directors consider that this opinion may affect our sales performance as restrictions are imposed on the purchase of properties by foreign institutions or individuals for purposes other than for personal use.

Notice on Further Strengthening and Regulating the Approval and Administration of Foreign Direct Investment in the Real Estate Industry《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》

On May 23, 2007, MOFCOM and SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Administration of Foreign Direct Investment in the Real Estate Industry 《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》. The notice imposes, amongst other measures, controls restricting foreign investment in high-end real estate properties and investments in domestic real estate enterprises through round trip investments. In addition, the notice requires the foreign invested real estate companies to make filings with MOFCOM after its establishment is approved by local governmental authorities. For those companies which fail to complete the filings with MOFCOM or pass the foreign invested enterprise joint annual examinations, foreign exchange management authorities and designated foreign exchange banks shall not accept the purchase and sale of foreign exchange. The notice also provides for measures reinforcing the administrative process for approving and supervising foreign direct investments in the PRC real estate sector.

Our directors consider that the notice may affect our Group when making investments in the PRC real estate market, as our Group is required to comply with additional measures in the administrative process such as obtaining approvals and completing filings with MOFCOM.

Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment That Have Properly Registered with MOFCOM《國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知》

On July 10, 2007, the General Affairs Department of SAFE issued the Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment That Have Properly Registered with MOFCOM《國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知》which stipulates, among other things, that SAFE will no longer process foreign debt registration or application for purchase of foreign exchange for real estate enterprises with foreign investment that obtained authorization certificates from and registered with MOFCOM on or after June 1, 2007. The new regulation prohibits foreign invested real estate companies from raising funds offshore from their foreign shareholder by way of shareholder loans.

Our PRC legal advisers advised that, as a result of this regulation, in order to inject offshore funds into real estate companies onshore, we would need to do so by increasing the registered capital of our current property development companies or by establishing new real estate companies, and that such real estate companies would have to make prior filings with MOFCOM before foreign exchange registration or the exchange of settlement and sales procedures. Our PRC legal advisers are of the opinion that there are no legal obstacles against which the Group may face in completing such filing procedures in accordance with current PRC laws and regulations. Currently, there is no project for which the Group had obtained approval to remit proceeds from the [●] to the Mainland. For further information on the laws and regulations of the PRC, please refer to the section headed "Appendix V — Summary of Principal PRC Legal and Regulatory Provisions".

Because of these measures, we may be unable to use all of any capital that we may raise from the [●] to finance our property acquisitions. The current measures may adversely affect sales of our property units and our operational performance. The PRC Government may introduce further measures to regulate the growth of the PRC property market or to limit, or even prohibit, foreign investment in the property sector or in the PRC generally. The current measures together with any future measures or even the rumours or threat of any new measures may adversely affect our business, financial condition and operational performance.

As a property developer in the PRC, our business is subject to extensive governmental regulations including the relevant policies and procedures of the national as well as the local authorities of the PRC. In developing and completing a property development, we are required to obtain various permits, licences, certificates and other approvals from the relevant administrative authorities at various stages of our property development projects, including injection of capital into our project subsidiaries, land use rights documents, planning permits, construction permits, pre-sale permits and certificates or confirmation of completion and acceptance. Approvals are granted subject to our satisfaction of certain conditions and we may encounter problems in fulfilling such conditions.

(B) Restrictions regarding the types of property development by the Group

Opinion on Duly Stabilizing the Prices of Residential Properties《關於做好穩定住房價格工作的意見》

The PRC Government issued a number of policies and incentives between 1999 and 2003 to encourage property development. These contributed to an increase in speculation and investment in the property market which resulted in a hike in property prices and has prompted the PRC Government to implement measures to discourage speculation and in ensuring the availability of affordable housing. Examples of these measures include (A) the "Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction"《關於加強城市建設用地審查報批工作有關問題的通知》 issued on September 4, 2003, which provides that land use for luxury commodity houses shall be stringently controlled and applications for land use for building villas shall be stopped; (B) the "Opinion on Duly Stabilizing the Prices of Residential Properties"《關於做好穩定住房價格工作的意見》 issued on April 30, 2005, which sets out guidelines for the relevant PRC authorities for stabilizing rapid growth in the residential property market which, includes (i) the main focus of construction of residential housing shall be on medium price range ordinary commodity housing and affordable housing with stringent control on the construction of low density and high class housing; and (ii) as to places where the usage of residential land and the price of residential housing has risen rapidly, there should be suitable enhancement of proportion of residential land supply, increase in the land supply for low to medium price range ordinary commodity housing and affordable housing. The continuous restriction on land supply for villa housing, and there shall be stringent control on the supply of land for high class residential housing. The opinion intends to stabilize the price of residential housing.

Our directors consider that except that the land supply for villa has been stopped, the current restrictions imposed by relevant PRC laws and regulations on the types of property development do not mean we cannot develop high-end real estate. Instead, it only means that we have to go through stricter approval procedures for developing high-end properties than ordinary properties. Our directors consider the opinion has impact on our construction of high-end residential housing but would not affect our business strategies as a whole.

Opinions on Carrying Out the Residential Property Size Ratio in Newly Built Residential Buildings《關於落實新建住房結構比例要求的若干意見》

Frequent introduction of new legislation in the property industry subjects our business to unexpected risks and developments. For example, on July 6, 2006, the Ministry of Construction of the PRC promulgated the Opinions on Carrying Out the Residential Property Size Ratio in Newly Built Residential Buildings《關於落實新建住房結構比例要求的若干意見》to the effect that as of June 1, 2006, any newly approved residential projects and newly commenced residential projects in any city (or a town or a county) must have at least 70% of the annual total construction area comprising units that are of less than 90 sq.m. each. The opinion intends to compel adjustments on the supply ratio of residential housing, and the implementation of requirement on size ratio of newly built residential buildings.

Our directors consider that this opinion may affect our Group on the planning of unit area of our developed and operating residential houses in order to comply with the restrictions which affect a city (a town or a county) as a whole.

Local planning authorities, construction authorities and real estate authorities at the city level (including county and town) will be responsible for the implementation of and monitoring the compliance with the opinion.

With the promulgation of this opinion, local planning authorities jointly with the construction and real estate authorities will include housing construction planning into the planning of the mid-long term local economics, society development and recent construction development. According to the overall requirement of the construction of resource saving and environment friendly society, the local planning authorities jointly with the construction and real estate authorities will reasonably arrange for the proportion of the ordinary commodity housing and affordable housing with unit floor area under 90 sq.m.

The local planning authority shall determine the relevant planning requirements for each proposed commercial residential real estate development project subject to overall planning after adjustment according to the condition of the relevant district. The aforesaid living and housing ratio shall be implemented and other planning requirements including the housing and plot ratio shall be deemed as the pre-condition for the granting of land for relevant projects.

As for projects newly approved and constructed after June 1, 2006, the local planning authority at the city level will consider the relevant specific planning conditions stipulated by this opinion as the pre-condition of issuing the construction planning permits. Since the Company has constructed its newly approved and commenced projects (namely after June 1, 2006) according to the aforesaid planning permits and relevant construction permits, the above projects are all in compliance with the specific planning requirements stipulated by the opinion.

Industrial Guidance Catalogue of Foreign Investments (2007 Revision)

On October 31, 2007, the China National Development and Reform Commission ("NDRC") and MOFCOM promulgated the new Industrial Guidance Catalogue of Foreign Investments (2007 Revision) ("the 2007 Catalog") which became effective from December 1, 2007. The major changes on the real estate industry in the 2007 Catalog are as follows: (1) the development and construction of ordinary residential housing has been removed from the encouraged category; (2) the restricted category has been adjusted as follows: (i) the development of large scale of land lot shall be operated only by sino-foreign equity joint ventures or sino-foreign co-operative joint ventures; (ii) the construction and operation of high-end hotels, villas, premium office buildings and international conference centres have been included in the restricted category; (iii) housing agents, brokerages and the second-tier real estate market have been included in the restricted category; (3) the construction and operation of large scale theme parks has been removed from the real estate industry to the culture, sports and entertainment industries which are in the restricted category, meaning that an enterprise investing in such projects will not be regarded as a real estate development company; (4) the construction and operation of golf courses has been removed from the restricted category to the prohibited category.

(C) Other regulations governing the property development in the PRC

Notice to Further Rationalise and Standardise Transactions in the Property Market《關於進一步整頓規範房地產交易秩序的通知》

On July 6, 2006, the Notice to Further Rationalise and Standardise Transactions in the Property Market 《關於進一步整頓規範房地產交易秩序的通知》 was promulgated to provide that a property developer shall commence the sale of properties within 10 days of receipt of the Pre-sale Permit for Commodity Housing for the project. The Notice intends to strengthen the dynamic supervision and management on the pre-completion sales activities regarding commodity properties. There are risks that we may fail to obtain the Pre-sale Permit for Commodity Housing for any particular project, and according to the notice, without this permit, the pre-completion sale of commodity properties, as well as subscription (including reservation, registration and number-selecting) and acceptance of any kind of pre-sale payments, is prohibited.

Ministry of Finance State Administration of Taxation Notice on Various Issues Regarding Land Appreciation Tax《財政部和國家稅務總局關於土地增值稅若干問題的通知》

On March 2, 2006, the Ministry of Finance and the State Administration of Taxation of the PRC announced the Ministry of Finance State Administration of Taxation Notice on Various Issues Regarding Land Appreciation Tax《財政部和國家稅務總局關於土地增值稅若干問題的通知》that LAT would apply with immediate effect to any transfer of housing property by individuals. The notice has specified the timing of the payment of the LAT regarding transfer of housing property by individuals. The notice has the effect of restraining speculation and the demand for investment in real estate. There is a risk that sanctions may be imposed should we fail to comply with the specified timing for the payment of the LAT. If any tax pre-payment is not made within the advance collection period, overdue fines shall be imposed additionally as of the day following the expiration of the prescribed advance collection period. In any event, our Group has complied with the requirements of the notice thus far.

State Administration of Taxation Circular on Issues Relevant to the Administration of the Levy and Collection of Business Tax on Housing 《國家稅務總局關於加強住房營業稅徵收管理有關問題的通知》and the State Administration of Taxation Circular on Collecting Individual Income Taxes on the Incomes Generated From Individuals' Transfer of Properties《國家稅務總局關於個人住房轉讓所得徵收個人所得稅有關問題的通知》

On May 30, 2006, the State Administration of Taxation promulgated the State Administration of Taxation Circular on Issues Relevant to the Administration of the Levy and Collection of Business Tax on Housing 《國家稅務總局關於加強住房營業稅徵收管理有關問題的通知》pursuant to which, from June 1, 2006, any individual seeking to transfer his residential property within five years from the purchase date shall be liable to business tax calculated by reference to the full amount of the sale income.

On July 18, 2006, the State Administration of Taxation further promulgated the State Administration of Taxation Circular on Collecting Individual Income Taxes on the Incomes Generated From Individuals' Transfer of Properties《國家稅務總局關於個人住房轉讓所得徵收個人所得稅有關問題的通知》pursuant to which, with effect from August 1, 2006, individuals shall be liable for personal income tax chargeable on any balance of income gained from transferring his residential property following deduction of the original value of the property and any reasonable expenses. The two aforesaid circulars intend to restrain speculation and the demand for investment in real estate. Our directors consider that the two aforesaid circulars may impose a risk on our operational performance by affecting our sales performance as individuals may be required to pay business tax and/or personal income tax if they fall within the requirements of the two aforesaid circulars, this may be a deterring factor deterring individuals from purchasing real estate properties.

Several Opinions of the State Council on Solving Housing Problems of Urban Low Income Group 《關於認真貫徹<國務院關於解決城市低收入家庭住房困難的若干意見>進一步加強土地供應調整的通知》

On September 30, 2007, the Ministry of Land and Resources promulgated a Notice on Strengthening Adjustment and Supply of Land for Implementing the "Several Opinions of the State Council on Solving Housing Problems of Urban Low Income Group"《關於認真貫徹<國務院關於解決城市低收入家庭住房困難的若干意見>進一步加強土地供應調整的通知》for strictly strengthening disposal of idle land. The notice may impose a risk on our Group's business and operations should we wish to dispose of idle land.

For further information on the laws and regulations of the PRC, please refer to the section headed "Appendix V — Summary of Principal PRC Legal and Regulatory Provisions".

During development of our previous and existing property development projects in the PRC, we have not experienced any instances of material non-compliance, such as inconsistent land use and lack of permits and certificates. For further information, please refer to the section headed "Business — Compliance". We cannot assure you that we can adapt our business and operations in the PRC expeditiously to new laws, regulations or policies that may come into effect in the future with respect to the real estate industry in general or to the relevant processes with respect to the granting of the approvals. If a building moratorium is implemented at one or more of our project sites, the development and sale of our developments could be substantially disrupted, which would result in a material adverse effect on our business and financial condition. Further, any implementation of new laws and regulations by the relevant authorities, or the interpretation or enforcement of such standards, may lead us to incur additional operating or other costs and may have a material adverse effect on our business and financial condition.

The PRC property market, which is at an early stage of development, is volatile as it continues to evolve. We operate subject to the risks associated with the PRC property industry.

The property market in the PRC is subject to social, political, economic, legal and other factors as it continues to evolve from its early stage of development. The lack of a mature and active secondary market for private properties and the limited amount of mortgage loans available to individuals are examples of factors inhibiting demand for residential properties. Our business depends and shall continue to depend on the growth of the urban middle and upper middle classes in the PRC. A significant downturn in the PRC economy could adversely affect such demand, as well as the demand among corporations and other professional firms for our office properties.

The PRC property market is volatile and may experience undersupply or oversupply and property price fluctuations. The central and local governments frequently adjust monetary and other economic policies to prevent and curtail the overheating of the economy. Such policies may lead to changes in market conditions, including price instability and imbalance of supply and demand in respect of office, residential, retail, entertainment and cultural properties.

In continuing to develop large-scale property projects in the PRC, we depend on the extent and readiness to which we are able to acquire development rights for large plots of land, many of which have existing structures, from municipal and provincial governments of the PRC. This exercise of acquiring development and land use rights and developing land involves significant risks as we are required to commit material financial and managerial resources in acquiring such rights and in constructing the property development infrastructure, which generally takes several years, before the property development project generates any revenue. Similarly, we may pre-sell or sell developed properties at below expected sales prices and may experience delays in selling developed properties due to, among other things, the supply and demand of comparable properties and the cyclical nature of the property industry in the PRC. We may need to delay or change the structure of property developments after we have begun to explore them and may lose deposits paid to participate in the land tender process or fail to recover expenses and construction costs already incurred. We may even be required to pay penalties and/or compensation to the government authorities and purchasers as a result.

Furthermore, any of our development projects may become unprofitable if we incur additional construction and other development costs due to increases in interest rates or material, labor or other costs over and above the market price at which we are able to sell our property projects and pass on such cost increases to our customers. We may fail to complete the construction of a property on schedule or at all, due to a variety of factors including shortages of materials, equipments, technical skills and labor, adverse weather conditions, natural disasters, labor disputes, disputes with contractors, accidents, changes in PRC Government’s policies, changes in market conditions and delays in obtaining the requisite licences, permits and approvals from the relevant authorities.

Any of the above factors could adversely affect our business, financial condition and operational performance and hence the market value for our Shares. We cannot assure you that there will not be over-development in the property sector in the PRC in the future. Any future overdevelopment in the property sector in the PRC may result in an oversupply of properties and a decrease in property prices, as well as an undersupply of available sites for future development and an increase in the cost of acquiring land in our markets, which could adversely affect our business, financial condition and operational performance.

There is fierce competition among real estate developers for land and property

A large number of property developers including overseas and leading Hong Kong property developers have recently begun undertaking property development and investment projects in the PRC. We primarily compete with large property developers for the acquisition of land and property investment opportunities.

In April 2004, the PRC Government imposed a six-month moratorium on conversion of agricultural land into construction land for non-agricultural purposes so as to help reduce land supply and thereby prevent overheating of the PRC property market. In June 2004, the PRC Government issued further policies with the objective of reducing the number of property projects that involve redevelopment or relocation of existing residents. In March 2005, the PRC Government issued a regulation to help stabilize housing prices and to reinforce the administration of land supply. These policies contributed to an increase in competition for land among real estate developers.

Competition among property developers may result in increased costs for acquiring land for development, increased costs for raw materials, shortages of skilled contractors, oversupply of properties, decrease in property prices in certain parts of the PRC, a slowdown in the rate at which new property developments will be approved and/or reviewed by the relevant government authorities and increases in administrative costs for hiring or retaining qualified personnel, any of which may adversely affect our business and financial position. Our competitors may have greater financial resources than are available to us, as well as greater economies of scale and broader brand recognition and may therefore be in a better position than us in acquiring land. If we fail to respond to changes in market conditions as swiftly and effectively as our competitors, our business and financial position will be adversely affected. For details in relation to our existing and potential competitors, please refer to the section headed “Business — Competition” in this document.

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

For our future development projects, either the relevant land authorities or the property developer may be responsible for relocating existing residents and demolishing existing structures on the project sites. Under PRC laws and regulations, where we are responsible for demolishing existing properties on a site for development and removal of existing residents, we will be required to pay resettlement costs to those residents.

On March 16, 2007, the National People's Congress of China adopted the Property Rights Law《中華人民共和國物權法》which expressly provides legal protection of the private right of housing owners. This will increase the difficulties in effecting demolition and resettlement through administrative intervention, and the cost of demolition and resettlement will increase.

Even if we are not responsible for the demolition and removal, if the party responsible for the demolition and removal and the party subject to the demolition and removal fail to reach agreement for compensation and resettlement, either of them may apply for a ruling of the relevant governmental authorities and if a party is not satisfied with the ruling, it may initiate proceedings in a people's court within three months from the date of service of such ruling, which may cause delays to the development projects. Such proceedings and delays, if they occur, could adversely affect our reputation. In addition, any such delays to our development projects will lead to an increase in costs and a delay in the expected cash inflow resulting from pre-sales of the relevant project, which may in turn adversely affect our business, financial position and operational performance. In addition, we cannot assure you that the relevant authorities will not further amend their policies on relocation, the relocation compensation formulae or their rules and requirements on other related matters. If they do so, our construction costs could substantially increase and our relocation timetable could be further delayed, which would adversely affect our business and financial condition.

RISKS RELATING TO THE PRC

Our business may be adversely affected by changes in the PRC's political, economic and social conditions, laws, regulations and policies. Our operations are subject to the uncertainties of the PRC legal system.

Since our assets are generally located in, and our revenue is predominantly derived from, our operations in the PRC, our business, financial condition, operational performance and prospects are subject to the risks of future economic, political and legal developments in the PRC. The PRC economy differs from the economies of other developed countries in terms of structure, government intervention, development, growth rate, control of foreign exchange, and resource allocation. Since the late 1970s, the PRC Government has been implementing economic reform measures in using market forces to develop the PRC economy and has since transitioned from a planned economy to a more market-oriented economy. The PRC Government however continues to play a significant role in regulating industries by promulgating economic policies. We cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, operational performance or financial condition.

Our operations are subject to the uncertainties of the PRC legal system which is essentially a civil law system based on written statutes where, unlike common law systems, decided legal cases have little value as precedents. The PRC Government had, since 1979, begun promulgating a comprehensive system of laws and regulations governing economic matters in general. These laws and regulations are, however, relatively new and are often changing and published cases concerning these laws and regulations are limited. Their interpretation and enforcement therefore, involve a fair amount of uncertainties. We cannot predict the effect of future developments in the PRC legal system, particularly with regard to property rights. We may be required in the future to procure additional permits, authorizations and approvals for our existing and future projects and we cannot assure you that we will obtain these in a timely fashion or at all. For example, pre-sales constitute one of the most important sources of our operating cash inflow during our project development process. Currently, PRC law allows us to pre-sell properties before their completion upon satisfaction of certain requirements and requires us to use the pre-sales proceeds to develop the particular project that has been pre-sold. The amount and timing of cash inflows from pre-sales are affected by a number of factors, including the development schedule of each of our projects, restrictions on pre-sales imposed by the PRC Government, market demand for our properties subject to pre-sales and the number of properties we have available for pre-sales. Reduced cash flow from pre-sales of our properties will likely increase our reliance on external financing which may increase our costs and may impact our ability to finance our continuing property developments.

We make certain undertakings in our pre-sale contracts. These pre-sale contracts, along with PRC laws and regulations provide for remedies with respect to breaches of such undertakings. For example, if we pre-sell a property project and fail to complete the property project in accordance with the terms of the pre-sale contract, we may be liable to the purchasers for their losses. We cannot assure you timely completion and delivery of our projects.

Our business and in particular our ability to remit dividends may be adversely affected by changes in PRC foreign exchange regulations and fluctuation in the value of the Renminbi.

With our business operations based in the PRC, we receive substantially, if not all, our sales payments in Renminbi, which is not readily convertible into other currencies. Under the existing foreign exchange regulations in the PRC, we may undertake current account foreign exchange transactions without prior approval from SAFE by complying with certain procedural requirements. The PRC Government may, however, decide to restrict access to foreign currencies for current account transactions in the future.

As from June 1, 2007, the branch offices of SAFE will not register or approve any foreign exchange settlement in respect of the foreign debts for any foreign-invested real estate enterprises (including those which are newly established or which have a capital increase) which have obtained an approval certificate from a competent department of commerce and have completed recordation procedures at MOFCOM. Meanwhile, the branch offices will not handle any foreign exchange registration (or any change thereof) or any foreign exchange settlement in respect of capital projects for any foreign invested real estate enterprises which obtained an approval certificate from local authorities after June 1, 2007 but which have not completed recordation procedures at MOFCOM.

Any change in foreign exchange regulations may adversely affect our ability in paying dividends or satisfying other foreign exchange requirements. The exchangeable value of the Renminbi is subject to changes in PRC policies and international economic and political developments. Effective from July 21, 2005, the PRC Government introduced a managed floating exchange rate system such that the Renminbi was no longer pegged solely to the U.S. dollar but would instead be pegged against a basket of currencies, as determined by the PBOC, against which the PBOC has currently determined that (i) the fluctuation against the U.S. dollar shall be 0.5%, and (ii) the fluctuation against non-U.S. dollar currencies shall be 3% each day. For example, on July 21, 2005, the Renminbi was revalued against the U.S. dollar to approximately RMB8.11 to the U.S. dollar, representing an upward revaluation of 2.1% of the Renminbi against the U.S. dollar, as compared to the exchange rate of the previous day. On September 23, 2005, the PRC Government widened the daily trading band for the Renminbi against non-U.S. dollar currencies from 1.5% to 3% to improve the flexibility of the new foreign exchange system. Effective from May 21, 2007, the PBOC expanded the floating range of the trading price of the U.S. dollar against the Renminbi in the inter-bank spot foreign exchange market. The exchange rate may become volatile, the Renminbi may be revalued further against the U.S. dollar or other currencies or the Renminbi may be permitted to enter into a full or limited free float, which may result in the value of the Renminbi to appreciate or depreciate against the U.S. dollar or other currencies.

Fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars or Hong Kong dollars (which are pegged to the U.S. dollar), of our net assets, earnings or any declared dividends. Any unfavourable movement in the exchange rate, to the extent that we need to convert foreign currencies into Renminbi, may lead to an increase in our costs or a decline in sales or increase in our loan liabilities, which could materially affect our operational performance.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any agreements to hedge our exchange rate exposure. In any event, to the extent such hedges are available, their effectiveness may be limited and we may be unable to hedge our exposure successfully, or at all.

Judgments obtained from non-PRC courts may be difficult to enforce in the PRC.

Our assets are predominately situated in the PRC. Furthermore, most of our directors and officers reside in the PRC and the assets of our directors and officers may also be located in the PRC. As a result, it may be difficult to effect service of process outside the PRC upon most of our directors and officers, including with respect to matters arising under applicable securities laws. A judgment of a court of another jurisdiction may be reciprocally recognized or enforced in the PRC if that jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of any other requirements. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and most other western countries. Therefore, it may be difficult for you to enforce against us or our directors or officers in the PRC any judgments obtained from non-PRC courts.

On July 14, 2006, the Supreme People's Court of the PRC and the Hong Kong government signed the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil or Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned" «最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排». Under this arrangement, which came into effect on August 1, 2008, whenever a designated People's Court of the Mainland or a designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to any written agreement between the parties on choice of forum for dispute resolution, the party concerned may apply to the relevant People's Court of the Mainland or Hong Kong court for recognition and enforcement of the judgment. However, we are given to understand that the rights under the arrangement are limited and the interpretation of and cases decided under the arrangement have not been fully developed, therefore the outcome and effectiveness of any action brought under the arrangement are unclear.

We have not independently verified any of the facts and statistics obtained from official government publications in this document, which may be inaccurate.

Facts and statistics in this document relating to the PRC, the PRC economy and real estate industry and related industry sectors in the PRC are obtained from official government publications that we believe are reliable. In any event, we cannot guarantee the quality or reliability of official government publications. Neither we, the [●] nor the affiliates and advisers of the parties have verified the facts and statistics nor ascertained the underlying economic assumptions relied upon in those facts and statistics obtained from official government publications. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this document relating to the PRC economy and the real estate industry and related industry sectors in the PRC obtained from official government publications may be inaccurate or may not be comparable to statistics produced for other economies. As such, we do not give any representation as to the accuracy of such facts and statistics obtained from official government publications and more importantly, while we are not aware of any misstatements regarding our industry data presented in this document, such facts and statistics involve risk and uncertainties and are subject to change based on various factors and should not be unduly relied upon. In all cases, investors should consider how much weight or importance they should attach to or place on such official government facts or statistics.

Acts of God, natural disasters and epidemics, such as earthquake or the outbreak of severe acute respiratory syndrome, avian influenza or A/H1N1 influenza, and other disasters could adversely affect our business.

Our business is subject to general and social conditions. Natural disasters, epidemics, acts of God and other events and disasters that are beyond our control may materially and adversely affect the economy, infrastructure and livelihoods of the people in the PRC and in particular the regions or cities where we operate. Some cities in the PRC are under the threat of flood, typhoon, earthquake or drought. For example, a destructive earthquake measured at 8 on the Richter scale took place in the Sichuan province of the PRC on May 12, 2008. Certain areas of the PRC have experienced epidemics such as A/H1N1 influenza. There is no assurance that such epidemic will not intensify, or that other similar outbreaks or epidemics, such as severe acute respiratory syndrome or avian influenza, will not occur, in Asia or the PRC. Our business, financial condition and results of operations may be materially and adversely affected if such natural disasters or epidemics occur. Any natural disasters and epidemics occurring in areas in which we operate, or even in areas in which we do not operate, may materially and adversely affect our business, financial condition and the results of our operations.